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Evaluation of the need for development of social enterprises. 
Case study in the Arges County

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Abstract

Social economy enterprises are characterized by a strong involvement of their members in the company management and by the absence of the fundamental purpose of traditional economic organizations: the remuneration of shareholders’ capital. Due to their specific way of doing business which associates economic performance, democratic operation and solidarity amongst members, they also contribute to the implementation of important Community objectives, particularly in the fields of employment, social cohesion, regional and rural development, environmental protection, consumer protection, and social security policies. Due to their specific way of doing business that associates economic performance, democratic functioning and solidarity amongst their members, these organizations contribute to the application of important community objectives, especially in the employment, social cohesion, regional and rural development, environmental protection and social security areas.

Keywords: social economy; social enterprise; nongovernmental organization; protected unit; vulnerable persons.
Introduction

The European Union has been committed, since its constitution, in taking all the necessary steps to fight against social marginalization and discrimination based, in particular, on the sex or the sexual orientation of the person, on the race or ethnic origins, on religion or beliefs, on one particular handicap, on age. Social enterprises can play a major role in attaining of these objects. Social enterprises are nonprofit organization whose mission it is to pursue the promotion of sustainable development objectives and social and/or economic integration of citizens. They activities consist of the provision of services related to the protection of children and youth, assistance to the disabled, single parents, abused persons, ethnic minorities, ex-convicts, alcoholics, drug addicts, prevention of delinquency and any other services aimed at groups that suffer any type of social dislocation or marginalization, for the purpose of their eradication. It is very important to specify that the most of their financial resources come from businesses, but these businesses are encouraged by the public authorities and/or the big companies.

The paper was structured on two levels: (1) the theoretical level in which the concept of social enterprise was described (as viewed in the European Union member states), the Romanian organizations having the characteristics of social enterprises were identified and the main support measures for the development of social enterprises that were proposed/adopted at the European level as well as in our country; (2) the analytical level in which statistical information related to the categories of disadvantaged persons was processed (with the purpose of avoiding the development need of social enterprises) and the main opportunities and difficulties related to the development of social enterprises were identified. For this purpose, a bibliographical documentation was made and a questionnaire was elaborated and applied to non-governmental organizations in the Arges County. In the first stage, a data base was gathered with all the non-governmental organizations in the Arges County that are registered with CSDF (the Civil Society Development Foundation) and CENTRAS (the Assistance Centre for Non-Governmental Organization), irrespective of their field of activity. In the second stage 32 non-governmental organizations were identified which meet the requirements of the general objective of the study from the perspective of our purpose. In order to ensure the dissemination in the Arges County and in order to ensure a higher response rate within a limited period, the questionnaire was sent electronically and filled in by the organizations. 19 filled-in questionnaires were returned (the response rate was 60%), the respondent organizations covering 8 fields of activity.
The concept of social enterprise. Perspectives of social enterprise development

Social economy includes all the organizations situated between the public and the private sector from the perspective of their organization, functioning, statement of final goals. Over the past three decades the practice of social enterprise has increased significantly in many regions of the world. Broadly defined as the use of nongovernmental, market-based approaches to address social issues, social enterprise provides a “business” source of revenue for many types of socially-oriented organizations and activities (Kerlin, 2007). Social economy enterprises are usually small and medium enterprises (SMEs) that contribute to the creation of a durable economic model in which persons are more important than capital. There is no unitary legal pattern for these enterprises. Many social enterprises are registered as private companies, others are in the form of social co-operatives, associations, voluntary organisations, charities or mutuals, and some organisations are unincorporated. Many social enterprises are registered as private companies, while others are registered as social cooperatives, associations, volunteer organizations, and charitable or mutual organizations. Basically, social enterprises activate in the following field: (1) integration on the labour market; (2) social services; (3) local development.

In Europe, with the exception of the United Kingdom, social enterprise has generally come to mean a social cooperative or association formed to provide employment or specific care services in a participatory framework. In the United States, it generally means any type of nonprofit involved in earned income generation activities. In Europe, most social enterprises operate under the legal form of either a nonprofit association or a cooperative. Social enterprises are established as associations in those countries where the legal definition of association allows a degree of freedom in selling goods and services on the open market. In countries such as Sweden, Finland, and Spain where associations are more limited in this regard, social enterprises tend to be created under the legal form for cooperatives (Kerlin, 2006).

According to the European Parliament Resolution on Social Economy from 19 February 2009 (2008/2250(INI), social economy represents 10% of all the European enterprises, i.e. 2 million enterprises and 6% of all the jobs, and has a high potential of generating and maintaining stable jobs, mainly because of the nature of its activities that cannot be delocalized.

The characteristics of social economy enterprises, according to the report concerning the social economy from 26 January 2009 drawn up by the Employment and Social Affairs Council within the European Parliament are: (1) the
fact that they are part of the private sector; (2) management autonomy and independence in relation to public authorities; (3) voluntary and open adhesion of their members to the principles governing the activity of the organization; (4) democratic control exercised by its members; (5) mobilization of the bulk of surpluses in pursuit of the aims of sustainable development, and of service to its members in accordance with the general interest; (6) the support by the public authorities of the economic organizations created for the purpose of social utility by creating specific political, legislative and operational conditions.

The principles governing the activity of social economy activity are: (1) the primacy of democracy, the participation of social stakeholders, the individual and social objectives, over gain; (2) the conjunction of the interests of its user members with the general interest.

Given the importance of social economy enterprises, various community policies and specific measures are in place to support their development. The performance of social enterprises is measured both by economic indicators, as well as by indicators reflecting the contribution of such organizations to the development of solidarity, social cohesion and territorial (regional) connections.

By the Resolution on social economy (2008/2250(INI) from 19 February 2009, the European Parliament recommends to the governments and local authorities of the Member States, as well as the market participants in this area to encourage and support potential synergies that could be generated in the service sector by the parties involved in the social economy and by their users, by expanding the participation field, by consultations and joint responsibility;

By the same Resolution, the European Parliament recommends to the European Commission: (1) to take into account the realities of the social economy when reviewing the social security policy, taking into account the fact that small enterprises and organizations activating at the local level face important difficulties in accessing financing, especially during the current economic and financial crisis; (2) to make sure that the characteristics of social economy (objectives, values and methods) are taken into account when the European policies are elaborated and, most importantly, to include the social economy into its social, economic and enterprise development policies and strategies; (3) to ensure that impact assessments are made when social economy is affected, and that the interests of social economy are observed and prevail; (4) to review the possibility if setting up a social economy inter-service unit linking the relevant directorates-general; (5) to ensure that the Observatory of European SMEs systematically includes social economy enterprises in its surveys and to make recommendations for measures to assist their functioning and development; (6) to take the necessary measures to enable social economy enterprises to be linked together and promoted by the European e-business support network; (7) to participate in strengthening the structures for representation of the social economy at regional, national and
Community level and to create a legal framework designed to promote active partnership between local authorities and social economy enterprises; (8) promote dialogue between public agencies and representatives of the social economy at national and Community level and thus foster mutual understanding and promote good practices; (9) to look into reactivating the budget heading specifically for the social economy; (10) to devise a European legal framework enabling territorial partnerships to be established and maintained between the social economy sector and local authorities and to lay down criteria for the recognition and consolidation of the social economy, fostering sustainable local development, and promoting the general interest; (11) to create conditions which will facilitate investments in the social economy, in particular through investment funds, the granting of guaranteed loans and in the form of subsidies; (12) to re-evaluate its Communication on promoting cooperative societies and EC Regulation No. 1435/2003 on the statute for a European Cooperative Society, in compliance with their provisions and its Communication from 1997 on the promotion of the role of volunteering organizations and foundations in Europe.

Because the social enterprises are a powerful factor in local development, sustainable and participated the Member States must: (1) to develop programmers directed towards potential and existing social enterprises offering financial support, information, advice and training and to simplify the process of establishment (including reducing the initial capital requirements for companies), order to help them cope with an economy which is increasingly global and which is currently affected by a financial crisis; (2) to include a social economy dimension in the establishment of national policies and in EU programmers for enterprises in the fields of research, innovation, finance, regional development and development cooperation; (3) to support the establishment of social economy training programmers for EU, national and local administrators; (4) to ensure the access of social economy enterprises to programmers and actions for development and external relations; (5) to provide for training projects involving higher education, university and vocational training courses designed to create awareness of the social economy and of business initiatives based on its values; (6) to support the development of skills and professionalism in the sector, in order to enhance the role of the social economy in labour market integration; (7) to support social economy small and medium enterprises that wish to decrease their dependency of subsidies and to increase durability.

With the right support the social economy can contribute in a more efficient way to the enlargement of the labour market and the creation of new possibilities for low qualified workers or with their abilities reduced so that they can use their skills and is fully active in their professional life. Italy, France, Belgium, Luxembourg and Sweden develop the social economy as a source of employment for low qualified workers, as a potential production tool via measures aiming at simplifying the legal framework; facilitate the access to public services and working
as a network for the public administrations (Spear and Bidet, 2003). The main benefits of social enterprises stem from the way they challenge traditional models of top-down, command-and-control public service, in which users are often seen as passive recipients of a service delivered to them (Leadbeater, 2002).

In Romania, the social economy initiatives are still at the beginning, and thus the development of a specific legal framework, the coordination of the responsible institutions, the support and promotion of this type of initiatives are required. Within the Government Strategy for Social Protection and Social Inclusion, the following actions for the promotion of social economy were identified that are planned to be implemented in the period 2008-20101: (1) developing a coherent legal framework adequate to the national specificities but harmonized, at the same time, with the European legislation, meant to ensure the bases required for the creation of the “Romanian social economy” sector; (2) developing pilot social economy projects that can subsequently be replicated at the national level, in the areas with identified social problems; (3) training professionals in the social system as well as social enterprise managers and persons in the disadvantaged group in the area of social economy; (4) promoting a national information campaign and promoting social economy in Romania, as well as increasing the awareness of trading companies concerning their social responsibilities; (5) developing a National Resource Centre with the purpose of providing consultancy and support to new social economy initiatives.

The first Romanian social economy strategic project was launched on 26 March 2009 by the Ministry of Labour, Family and Social Protection under the title of “Social Economy – an innovative model for the promotion of the active inclusion of disadvantaged persons”, financed from the European Social Fund through the Sector Operational Programme for the Development of Human Resources (POS DRU). The generic objective of this project is the development of a unitary, efficient and modern social economy system meant to contribute to the increase in the quality of life of the Romanian citizens by promoting the active inclusion of vulnerable groups both on the labour market as well as in the social life.

Identification of the Romanian legal framework related to social economy

In Romania, the organizations having most of the characteristics of social enterprises, as described in the Report on social economy from 26 January 2009 drawn up by the Employment and Social Affairs Council within the European Parliament, are organizations without patrimonial purpose and protected units. The Romanian organizations without patrimonial purpose are, for the moment,

the most important social development and community stakeholders due to their number as well as to the diversity of the services provided by them.

The specificity of the activity of these organizations makes them the most qualified to be considered social enterprises: (1) they are involved in supplying social services either to groups of persons in distress or to members of their communities; (2) they have a participative and consultative approach in planning and performing their activities; (3) they benefit by independence in relation to public authorities, setting their own priorities, even if part (or all) of the necessary funds come from public authorities; (4) they are established as non-profit organizations. If the organizations without a patrimonial purpose perform profit generating-activities, the surplus is used in order to fulfill the purposes of the organizations.

The national legal framework stimulates associations/foundations to establish trading companies by exempting from profit tax the dividend incomes due to these organizations, as shareholders (the Fiscal Code of Romania, art. 15, paragraph 2). Moreover, for their business activities, the non-profit organizations are exempt from profit tax, up to the equivalent in lei of 15.000 Euros, in a fiscal year, but within the limit of 10% of the total incomes exempt from profit tax. An example of social enterprise is Hercules Association – Costesti, Arges. In 2007, this organization has started a business: a pastry shop under Fornetti franchise. The initiative of Hercules created three jobs (salesmen and pastry cook). The person who was employed did not have a job and came from a vulnerable social category: women who raise their children on their own. The profits made from the activity of the Fornetti pastry shop were used to support the activities performed for the provision of social and community services.

In United Kingdom franchising is currently being developed within the ‘Fifteen’ chain of restaurants, inspired by Jamie Oliver and managed via Liam Black, aimed at training disadvantaged young people. The franchised restaurants agree to certain national standards and conditions in return for branding and expertise (Aiken, 2007).

The protected units are public or private organizations that can be established by any natural person or legal entity, which employ handicapped persons. In compliance with Government Resolution no. 268/2007 for the methodological norms for the application of Law 448/2006 on the protection and promotion of the rights of handicapped persons, article 44, the following are considered protected units: (1) 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; (2) 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; (3) a handicapped physical person authorized in compliance with the law to perform independent business activities, including a family enterprise with a handicapped employee. This category includes handicapped persons authorized based on special laws, who activate both individually as well as under on of the forms of organization of their profession. It can be noticed that no reference is made to the finality of the business activity performed by the protected unit. The surplus earned by the unit may be used for any purpose, according to the shareholders’ decision, whether employees or not.

Due to the fact that the establishment and operation of the protected units may generate extremely important social effects (creating new jobs, decreasing the social exclusion of handicapped persons and strengthening social cohesion), the Romanian state supports these organizations by (art. 81 from Law 448/2006): (1) exemption from the payment of the authorization tax at the registration and the re-authorization tax; (2) exemption from the payment of the profit tax, provided that at least 75% of the fund obtained by such exemption is reinvested for restructuring or for purchasing technological equipment, machinery, tools, work installations and/or fitting out protected work places, in compliance with Law no. 571/2003 on the Fiscal Code, with the subsequent amendments and completions. This facility was valid until the end of 2006; (3) other rights granted by the local public administration authorities financed from own funds.

Moreover, the Romanian Government encourages the economic activity performed by the protected units by stipulating the obligation of the authorities, public institutions and legal entities, public or private, with at least 50 employees that have not employed handicapped persons in a proportion of at least 4% of their total number of employees\(^2\), to purchase products and services made by handicapped people within their independent activities (in compliance with Law 448/2006, art. 78, amended by GEO 86/2008\(^3\)) or to pay to the Government budget the equivalent value of such products or services. This equivalent value is calculated with the following formula:

\[ V = 50\% \times (\text{minimum gross base salary at the level of the country} \times \text{the number of jobs that were not occupied by handicapped persons}) \]

\(^2\) With the exception of national defence, public order and national security public institutions

\(^3\) GEO 86/2008 was issued because it was found that, in the absence of an express provision on the contribution of handicapped persons to the production of finished products or services provided by the protected units, protected units were established the object of activity of which is usually trading in food or non-food products and intermediations, in which the only purpose of handicapped persons was to be on the list of employees of the respective units.
From the perspective of the concept of social enterprise, the protected units can be assimilated to social economy enterprises only insofar as they are established by non-profit organizations. In this way, one of the essential conditions related to the existence of social enterprises is fulfilled: the profit made is used to supply general interest services or social services in favor of groups of persons in distress.

**Evaluation of the Need for Development of Social Enterprises in the Arges County**

When the problem of social integration was approached from the perspective of the active participation on the labour market and in the society, the following groups with more difficult access for which jobs could be created by developing social enterprises in the Arges County: (1) long-term unemployed; (2) handicapped persons; (3) Roma persons; (4) Institutionalized young people; (5) persons with drug-addict risk; (6) persons who were sentenced to prison; (7) homeless persons. Part of the persons belonging to these groups tends to be excluded from society ad from equal access to goods and services, and thus forced to depend on welfare.

*From the point of view of the categories of persons in vulnerable situations*, social enterprises represent: (1) a fundamental social cohesion and social inclusion element; (2) an important job pool. The potential labour capacity of social enterprises from the Arges County, at the middle of 2009 was of approximately 37,000 persons, out of which: (1) 6,700 long-term unemployed (according to the records of the Arges County Employment Agency); (2) 19,649 handicapped persons (only non-institutionalized adults with severe, medium and light handicap were taken into account: 20,815 persons, while 1,199 persons were ruled out from the employed handicapped persons; (3) approximately 1,500 Roma people (the estimation was made starting from the results of the population census taken in 2002 and from the level of participation of the Roma population on the labour market); (4) 9 young people who left the child protection system (according to the records of the Arges General Directorate of Social Assistance and Child Protection); (5) 10,000 elderly people with incomes under the minimum subsistence level (according to the studies made by the National Council for Elderly People, with the exception of persons retired due to invalidity and retired persons over 65). According to statistical information, handicapped adults (with severe, average and light handicap) represent the largest available labour force from the category of vulnerable persons.

*For the public authorities*, creating jobs for persons in vulnerable situations, by developing social enterprises, will generate the decrease in the public financial
effort related to a significant part of the social assistance expenditure, on one hand, and will create the prerequisites for the increase in the budget revenues by increasing the aggregate demand, on the other hand.

*From the perspective of nongovernmental organizations,* the diversification of income sources by establishing social enterprises represents a method of providing for financial sustainability. The outcomes of the administrative and financial evaluation of the Arges County non-governmental organizations allows us to draw the conclusion that approximately one third of the total questioned organizations/associations has the administrative and financial capacity required in order to start a business activity.

*The administrative capacity was evaluated* based on the following indicators: number of employees and pattern of spending made in 2008.

**The number of employees**

From the total questioned non-governmental organizations, 22% stated that they did not have any employees, 61% stated that they had between 1 and 10 employees, 6% stated that they had between 11 and 20 employees and 11% stated that they had over 20 employees. We appreciate that most of the questioned organizations have an average administrative capacity that allows for the initiation of economic activities.

*Fig. no. 1 The evaluation of administrative capacity by number of employees*
The pattern of spending

From the point of view of the pattern of spending, 47% of questioned non-governmental organizations stated that most of their spending was made for paying the rights due to their personnel, 37% stated that most of their spending was made for purchasing the materials necessary in order to perform the activity of the organization and 16% stated that most of their spending was made for paying the utilities. The high proportion spent in order to pay salaries is due to the existence of a large number of organizations that provide counseling services, educational support and habilitation – rehabilitation of disabled people (supplying services for these people involves a large number of employees). We appreciate that the organizations which use more than 50% of their resources to pay utilities have a weak administrative capacity.

![Fig. no. 2 The evaluation of administrative capacity by pattern of spending](image)

The **financial capacity** was evaluated based on the following indicators: the volume of incomes and the source of the financial resources in 2008.
**The volume of incomes**

From the total questioned non-governmental organizations, 37% stated that, in the course of 2008, they had incomes below 50,000 lei, 26% had incomes between 50,001 and 200,000 lei, 16% had incomes between 200,001 and 500,000 lei, and 21% had incomes exceeding 500,001 lei. We appreciate that most of the questioned organizations have a low financial capacity that affects the performance of their activity.

![Pie chart showing the distribution of incomes among non-governmental organizations](chart.png)

**Fig. no. 3 The evaluation of administrative capacity by volume of incomes**

**The source of the financial resources**

From the perspective of the pattern of spending, 53% the total questioned non-governmental organizations stated that most of the available financial resources come from donations from natural persons and legal entities, 21% stated that most of the available financial resources come from project financing, 10% stated that most of the available financial resources come from subsidies from the public authorities, and 16% stated that most of the available financial resources come from their members’ contributions.
Fig. no. 3 The evaluation of administrative capacity by source of the financial resources

In 2008, the business activity is merely an additional source of income, but a significant part of the representatives of the questioned associations/foundations stated that, due to the current economic and financial crisis, they are considering diversifying their sources of incomes.

The main difficulties in social enterprise developing are: (1) lack of current capital at the level of the individual associations and foundations; (2) absence of cooperation between associations and foundations, with the purpose of overcoming the financial or administrative difficulties occurred when a social enterprise is established; (3) insufficient incentives for the social enterprises developed by the government; (4) absence of a functional public-private partnership; (5) weak development of entrepreneurial spirit at the level of the management of the associations and foundations.

Conclusions

The interviews achieved in the organizations from Arges County, which acts in the social area, allowed identification of few organizations that fulfill the requirements of social enterprises. They take the form of companies or protected units created by the associations and foundations providing services for meet interests.

The established social enterprises in the Arges County are small units, with a low impact on the labour market (the number of created jobs was approximately
0.05% in the global number of jobs required in the Argeș County). Their capacity to generate incomes is low, thus contributing to the total incomes of the organizations by less than 5%.

Due to the fact that the Romanian social policy is largely focused on passive measures (social services and goods dedicated to the persons or families in difficult vulnerable or dependence situations), the development of social enterprises in the Arges County would generate undeniable benefits, among which: (1) creating new jobs; (2) facilitating the functioning of a labour market favorable to the active inclusion of vulnerable groups; (3) increasing social cohesion and inclusion; (4) decreasing public expenditure for social assistance; (5) stimulating the aggregate demand by increasing actual incomes.

In the current legal context of Romania, to encourage the specific activities of the social economy, can be made a series of recommendations to both public authorities and NGOs. In this respect, we recommend to the public authorities: (1) to offer advice to the NGOs representatives to start a business or to implement the assistance activities in supporting proceeding with business; (2) to organize some training programs for persons in vulnerable situations in areas of social enterprises activity; (3) to promote and to develop activities oriented to the partnership between corporations and non-profit organizations to facilitate the initiation of business; (4) to promote the concept of social responsibility; (5) to stipulate some social clauses in the public procurement specifications.

We recommend to the NGOs: (1) to develop the cooperation and the partnership at local and national level; (2) to access the funds available through the Sectoral Operational Program: Human Resources Development, Priority 6 – Promotion of the social inclusion; (3) to promote information campaigns through which community members to be solidary with the goals of the organization.

The actions and activities which will be made to support the development of social enterprises will be targeted, mainly, non-governmental organizations accredited to provide social services or recognized as having public utility, because they are subject to higher levels of transparency and accountability.
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