



Main findings of the Study on Social Economy in Romania. The way ahead

Giulia Galera

Euricse

29 August 2013

Bucharest, Romania

Main issues

- **The Social Economy: Romanian Landscape**
- **Why is social enterprise regulation important?**
- **Discussing possible alternatives for Romania**



The Social Economy: Romanian Landscape



Preliminary considerations

- Different terms – Social Economy/Social Enterprise
Social Entrepreneurship used interchangeably
- Rumania laboratory where different traditions, approaches meet and nourish the multiplication of perspectives on social economy and/or social enterprise
 - ✓ Income-generation approach
 - ✓ European social inclusion policies
 - ✓ Social entrepreneurship/CSR perspective
 - ✓ Legacies from past experience
- Consequences: differing interpretations, reflected also by the draft Law on Social Economy

Landscape of the Social Economy in Romania

- EU social economy tradition vs Romanian social economy perspectives
 - Associations/foundations: OK
 - Mutual help associations of pensioners and employees: OK
 - Cooperatives: in or out?
 - In because their aim is not to maximize profit, but to “meet the associate members’ common economic, social, and cultural needs”.

Romanian social enterprise

KEY QUESTIONS:

- **Are there any social enterprises in Romania?**
 - *Legal versus operational* definition of social enterprise
 - Reference to operational definition worked out by EC Social Business Initiative
- **Drawing on the definition of social enterprise shared at EU level, what legal entities can be qualified as social enterprises in Romania?**



Potential social enterprise entities

Legal entities	Ass/found	Coops	Mutual help Ass	Sheltered workshops
Entrepreneurial dimension	Open Conduct economic activity directly or indirectly	Strong Are by definition business operators	Strong Sell welfare services at production costs to members and non members	Open Are not a separate legal entity: either part of non-profits and limited liability companies
Social dimension	Strong Explicit social aim pursued	Weak Purpose meet members' economic, social, and cultural needs.	Strong Aim support and mutually assist members by providing mainly loans and carrying out social, cultural, recreational, activities.	Strong Aim integrate people with disability
Ownership/ Governance dimension	Weak Comply with an asset lock and profit distribution constraint Are not always democratic and inclusive	Weak Comply with an asset lock, but can distribute profits Are democratic	Strong Comply with asset lock and profit distribution constraint	Open Must comply with an asset lock and profit distribution constraint
Legal entities that can be qualified as SE	YES	NO	YES	YES, when NGO is running workshop



Associations/foundations

- **Associations and foundations carrying out economic activity** (social services and/or work integration) **can be qualified as social enterprises**
- Law articles 46, 47 and 48 Ordinance 26/2000:
 - ✓ associations are allowed to carry out economic activity directly or indirectly
 - ✓ direct economic activity must have an auxiliary character
 - ✓ separate accounting must be provided for direct economic activity
 - ✓ associations and foundations may establish commercial companies,
 - ✓ no data on subsidiary companies is available
- **Trends: 2000-2009:** increase of incomes from economic activities, including direct sales of services and contracts from public sources.

Cooperatives

- Under current conditions, **in principle cooperatives cannot be qualified as social enterprises**, because oriented towards the promotion of the interests of members
- However, the Romanian Law 1/2005 does not exclude the creation of cooperatives with an explicit social goal (See Art 7, par 1: “social needs of members”)
- **Trends**
 - 1990-2000: substantial decrease; 2000-2010: relative stability.

Mutual help associations

- ***De facto* mutual help associations can be qualified as social enterprises** as they supply services at production prices to members and their families, and are allowed to sell services also to non members
 - Law no. 540 2002
 - Art. 1 regarding pensioners' mutual aid funds allows for the conduction of activities with charitable purpose
 - Art. 8 allows for the conduction of “other actions and forms of social assistance”
- **Trends**
 - Mutual help associations are social economy entities with the highest number of members and most dynamic trend

Sheltered workshops

- **Only NGOs running sheltered workshops can be qualified as social enterprises**
 - ✓ Law 448/2006
 - Art. 5 states that at least 30% of the workforce employed must be represented by people with disabilities
 - Art. 81 sheltered workshops are granted exemption from the payment of the profit tax provided that at least 75% of the fund obtained through the exemption is reinvested in the enterprise



Social enterprise – Social Economy regulation across Europe

Main considerations

- Social enterprises exist also where the legal environment is not fully enabling
- Regulation is an essential but not sufficient condition for boosting the multiplication of SEs
- Evidence from EU countries corroborates that law is a pre-condition for the adoption of other policy measures
- Importance of legal regulation highlighted by EC
 - “Improving legal environment” among the actions to be taken to promote social enterprises, COM(2011) 682 final, Social Business Initiative



Why is a law on social enterprise important?

- Organizational law is essential to distinguish social enterprises from business organizations
 - It recognizes the specificity of social enterprise and contributes to giving them a clear, precise and easy-to-convey identity
- Defining the identity of social enterprise by law permits to:
 - Design and implement specific public policies for SEs, including measures under tax and public procurement law
 - Protect social enterprise's stakeholders
 - Avoid abuses of the social enterprise brand
 - Set clearly the boundaries between social enterprise and other concepts (e.g. CSR)



Why a law on social enterprise is important for Romania?

- In Romania, a **specialized law could contribute to:**
 - enlarging the supply of services
 - creating new employment
 - rebuilding the image of cooperatives
- Specialized law could highlight some key issues:
 - voluntary nature
 - autonomy
 - social aim pursued

Why is law on social enterprise important for Romania?

- **A specialized law could:**
 - **Contribute to increasing the visibility of** associations and cooperatives in a country characterized by a history of lack of trust and low levels of social capital and participation
 - **show that there are valid alternatives to** the mainstream model of **for-profit enterprises**, which are often viewed as the sole possible manifestation of a free market in former communist countries

How are social enterprises regulated across Europe?

- Social enterprises can be regulated in one or more of the following ways:
 - **Existing legal forms** (e.g. Romania now)
 - **Adaptation of existing legal forms**
 - Introduction of *social enterprise* legal brands
 - Introduction of **specific types of non-profit organizations** (e.g. non-profit institute in Slovenia)
- A few countries have introduced a **general legislation** on *Social Economy*

Social enterprise recognized through an *adjustement* of existing legal forms

Country	Legal form	Law/year	Activities
Italy	Social cooperative	381/1991	Social services (a-type); Work integration (b-type)
Spain	Social coop society Labour integration coop society	National law 27/1999 and regional laws in 12 autonomous regions (1993-2003)	Assistance services in the fields of health, education, culture, or any activity of a social nature Work integration
Portugal	Social solidarity cooperatives	Cooperative Code (Law N° 51/96, 1996) and legislative decree N° 7/98 1998)	Work integration of vulnerable groups
Poland	Social cooperative	Law on social cooperative 2006	Work integration of a wide category of disadvantaged workers
Greece	Social cooperative	Law 4019/30-9-2011 on Social Economy and social enterprises	Engagement in three fields: i) work integration; ii) social care; iii) services that satisfy collective needs/local development
Hungary	Social cooperative	Law 2006. X.	Create work opportunities and improve other social needs of disadvantaged members

Social enterprise recognized through *legal brands*

- **Social enterprise legal brands** have been introduced in selected countries (e.g. may be adopted by selected companies in **Belgium, UK** or all companies in **Italy**)
- several/all legal forms can become social enterprises provided that they comply with key criteria
 - *social enterprise* in Italy;
 - *community interest company (CIC)* in UK;
 - *société à finalité sociale* in Belgium,
 - *social enterprise* in Slovenia etc.



General recognition of the *Social Economy*

- Few EU countries have introduced a *Law on Social Economy* (Spain and Portugal)
 - both laws are rooted in a particular cultural context
 - neither create, nor regulate a new legal entity
 - presuppose that each entity is well regulated by other laws
 - group various entities together for identification and promotion purposes “Poster Law”
- In principle, usefulness of both laws is questionable
- In France a draft *Law on Social and Solidarity Economy* is currently under discussion
 - Aim different: strengthen solidarity of cooperatives

Possible alternatives for Romania

- **Is a specific legislation addressed to social enterprises necessary in Romania?**
 - are current pieces of legislation regulating associations/foundations, associations of pensioners and employees fully satisfactory?
- **Are improvements/*adjustments* of existent legislation envisageable** so as to boost the development of social enterprises further?
 - What adjustments would be necessary to promote the development of social enterprises via cooperatives?

Possible alternatives for Romania

- **Would a legal brand for social enterprise promote the development of social enterprises?**
 - What organizations could be entitled to register as social enterprise?
 - What key characteristics should a social enterprise law incorporate?
- **Would be a law on social economy -grouping coops, foundations/associations and associations for pensioners and employees together- useful?**
 - Is there a consolidated social economy sector in Rumania?
 - What entities should be grouped under the social economy?
 - Are laws regulating associations/foundations, cooperatives and associations for pensioners already well-developed?



Main conclusions

- Social enterprises exist in Romania, but they are not fully visible
- Specific models of social enterprise currently enjoy greater visibility and support than others (e.g. WISEs versus associations supplying social services)
- Various obstacles prevent a full exploitation of social enterprise potential
 - Poor recognition
 - Lack of a market of social services
 - Low civicness and low stocks of social capital
 - Insufficient entrepreneurial skills
 - Negative legacies from past

Main conclusions

- New research needed to better understand aspects of strength/limitations of each “social enterprise model” operating in Romania
 - subsidiary companies owned by NGOs
 - governance aspects concerning the different legal entities (e.g. coops, associations, associations of pensioners/employees)



Thank you very much!

giulia.galera@euricse.eu