

# STRATEGIC SUSTAINABLE DEVELOPMENT OF SOCIAL ECONOMY IN ROMANIA

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## Abstract

In order to reach its economical and social potential, social economy must have a favorable environment, created through: establishing a strategic framework for development, fiscal and non-fiscal benefits, promoting it as the third sector between public and private, with its own dynamics. Since we are talking about a social business, financing sources are very important for starting or developing investment in the field. Through the article, the authors aim at making an analysis and recommendations for improvement of mechanisms of two financing sources – structural funds and bank loans. We wish to present a practical vision on strategic sustainable development of social economy in Romania, starting from the experience in the field the “Alaturi de Voi” Romania Foundation has had for the past seven years. Our foundation has managed to implement through the European Social Fund two strategic structural funds and to access a bank loan for the development of businesses of social enterprises from Romania.

**Keywords:** *social economy, Social Enterprise, social business, structural funds, bank loan, strategic development, fiscal benefits*

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## 1. STRATEGIC DIRECTIONS FOR THE DEVELOPMENT OF SOCIAL ECONOMY IN ROMANIA

Social economy (SE), despite seeming to be a well anchored concept, is a relatively new phenomenon which appeared only a few decades ago. It originated in social communities and groups and was not imposed by political patterns. Initially, it was a support mechanism for groups with similar lines of work (cooperatives), with similar needs (mutual societies) or with similar social goals (associations and foundations). In the 80' and 90', at European level and especially in the EU15<sup>[1]</sup> group, which includes countries with a strong social tradition, social economy was perceived as relatively marginal phenomenon, since the government had the capacity and resources to ensure adequate and diversified social services. The social system supported by the state is currently confronted with important challenges. Consecutive economic crises, an aging population, the diversification of needs and social expectations, environment pollution – all placed important pressure on the classic systems of social protections and have shown the need for diversity and creativity.

In this respect, SE is starting to become more and more relevant as one of the innovative and creative solutions to contribute to approaching social issues and even environmental issues.

In order to reach its social and economical potential, social economy must have a favorable environment including at least the following priority areas in the European Union and in Romania:

■ *Promotion of social economy.* It is important to create at European level a common definition of social economy, standardized criteria, data and studies in the field, public policies and a legislative framework favoring development. Efficient promotion of the sector implies using modern techniques such as: social marketing specific to the field, online platforms for promoting and developing partnerships, organizing competitions and award granting for the best social enterprises, case studies on performances and successes in the field. It also implies involv-

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[1] EU15 – Belgium, Denmark, Germany, Finland, France, Greece, Great Britain, Ireland, Italy, Luxembourg, the Netherland, Portugal, Austria, Sweden, Spain.

ing VIPs as “ambassadors” of the field, capacity building in the field of social economy for mass-media representatives, establishing networks of researchers and social actors in the field, organizing events such as fairs, seminars, conferences to bring forth social economy. It is also necessary for social economy to be acknowledged as a third sector, equal to the public and private sector;

■ *Development of a system for support and financing of social economy businesses.* The field may include the development of centers for creating businesses, for education and continuous training, granting subsidies for start-ups or for covering the difference in work capacity of people with disabilities employed in social integration enterprises. At the same time must be developed investment funds for social enterprises, systems for loans and benefits when it comes to public procurement. The European Social Fund may support and develop social enterprises and innovation in the field. On the other hand, it is important for social enterprises not to activate on their own, but to become parts of networks, sharing experience and participative management, ensuring sustainable promotion in the community and having an active role in lobby and advocacy. In order to constantly maintain in public attention the role social economy structures have, it is recommended they involve members and representatives of the business community, decision-makers, the mass-media, clients, people from the community, representatives of groups at risk, etc.

■ *Development of public policies in the field and a system of co-governing.* Especially during crisis moments, social economy has shown that, apart from being a sustainable business, it answers important community needs, being a viable solution to creating and maintaining workplaces, especially for socially disadvantaged groups or at risk of exclusion. Measures must be investment-oriented and must include sector development through multi-sectorial coordination on several levels: horizontally – between different ministries and agencies and vertically at international, national, regional and local level. These measures must be included in a multi-sectorial strategy on social economy, according to which legislation must include similar aspects. In addition, juridical aspects must also be settled. At the same time, people from different institutions must be trained in order to ensure a correct and

relevant approach for the field of social economy. Formulating relevant public policies requires a continuous process for inventorying social economy business (best practices, financial value of the businesses, the workplaces established, taxes and financial benefits, etc.). It also requires gathering data from within the sector, including the registration and certification of social economy structures, creating an electronic database accessible to the public, both at local and European level. Such a database would also be a support for allocating funds for the development of the field, both through structural and through governmental funding.

## **2. ANALYSIS FROM THE PRACTICAL PERSPECTIVE OF FINANCIAL INSTRUMENTS FOR THE DEVELOPMENT OF SOCIAL ECONOMY IN ROMANIA**

This article aims at making an inventory of financing resources for social economy available in Romania from the point of view of an NGO – The “Alaturi de Voi” Romania Foundation – activating in the field since 2006. The organization has experienced at least two instruments in developing its social business: European Funds and a bank loan.

### **2.1. European funding for developing social economy**

For the field of social economy, European funds could be an important financing resource at least until 2020, the reference year for different strategic build-ups, including the Europe 2020 Strategy. For real impact in developing the social economy sector we must have in mind, on the one hand, the aspects which have not worked during the programming period (2007-2013) and identify solutions for not repeating mistakes made before. On the other hand, we must re-prioritize as the next step to be made in the field, with a special focus on strategic planning, development, innovation and promotion. Below are listed some of the aspects which have not worked and were system-related:

- 1.** The lack of a multi-sectorial strategy in the field, backed-up by a legislative framework and a budget for financing;

2. Lack of correlation between indicators and terms used in the field of social economy in framework implementation documents, in the guidelines for defining indicators on the program, financing guidelines, the order on eligible expenses and other documents used in the financing process – all these have lead to problems in project implementation;

3. The lack of training of officers monitoring the field of social economy (being a relatively new field, it would have been absolutely necessary for the technical assistance to have included such a component) – this lead to blocking or even not accepting different costs in the field;

4. Evaluating and granting financing for an application that did not contain a certain set of information specific to a business plan, absolutely necessary for establishing or developing social economy structures and for ensuring sustainability after the financing has ended.

5. Small percentage allocated to expenses from the European Fund for Regional Development (ERDF) (a maximum of 15% of the total eligible value of the project), having in mind that the issue of financing investments is one of the challenges of entrepreneurship. Since we are preparing for another period of financing, other than the aspects mentioned above, proposals from practitioners in the field include financing social economy from other sectorial operational programs, not just the European Social Fund (ESF). Other financing possibilities include the Regional Operational Program (ROP) – to stimulate investments in social economy – or the Operational Sectorial Programme Increase of Economic Competitiveness (OSPIEC) – to support research and innovation in the field and the development of state-supported and minimis programs, such as are available at this point for small and medium enterprises (SME).

In order to ensure efficient absorption, these proposals must be correlated with equal chances to loans for all types of institutions, through including NGOs alongside SMEs in the guarantee fund of the government. NGOs are the most interested in the social economy field because they can generate income with which to support their approach in reaching their mission statement and not only.

Since social economy is only starting out in Romania, we must have in mind some very important aspects of European financing:

1. We maintain the balance in the economic market in that the financing can be assimilated to subsidies for business development, which may lead to lack of equilibrium between offer and request in comparison to other companies that do not access European financing;

2. We do not continue the bureaucracy in financing and the delays in reimbursement which may lead to bankruptcy of social economy structures with positive evolution before having accessed structural funds;

3. We do not create negative patterns in that we offer financing for unsustainable businesses or to businesses with major risks in implementation;

4. We include in the financing request a business plan for the social enterprises to be developed or established through structural funds;

5. Program indicators should be focused on the number of workplaces created and not on the number of newly established social enterprises, as has been mentioned in the specific guidelines for financing, currently under debate<sup>[1]</sup>;

6. The financing guidelines must include, other than quantitative indicators (number of social enterprises, number of workplaces created), qualitative indicators pertaining to social and economical principles that govern social economy. One of the most successful essays to conceptualize social economy belongs to the EMES European Research Network. They propose 4 economic criteria and 5 social criteria to define social enterprises<sup>[2]</sup>, which might be the starting point in defining qualitative indicators according to the strategy proposed for sector development.

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<sup>[1]</sup> Guidelines of specific conditions for the request for proposals for strategic projects, Priority Axis 6 „Promoting social inclusion”, Major intervention field 6.1. „Development of social economy”, August 2013.

<sup>[2]</sup> European Research Network – EMES, Social Enterprise in Europe: Recent trends and developments, 2008. Economic criteria: Continuous activity producing goods or supplying services; highly autonomous; significant level of economic risk; a level of paid work. Social criteria: a specified goal to the social benefit of the community; initiative of a group of individuals; decision-making in social enterprises is not linked to or based on the amount of capital invested; participative management, which involved both suppliers of services and products and beneficiaries; limited distribution or profit redistribution.

Unfortunately, within the current context proposed for juridical improvement of the sector and for the financing through the European Social Fund of social economy, there is no differentiation with respect to fiscal or financial support of entities employing people from groups at risk. Without a national strategy in the field of social economy when it comes to employment policies addressing groups at risk and without clear differentiation of fiscal advantages of working with different categories, social economy structures will be tempted to employ more people from the categories at lower risk (such as single mothers or unemployed people) to the disadvantage of people with disabilities, drug users, convicts, etc. In addition, the lack of subsidizing the difference in work capacity for the person with disability, having in view their disability degree and the period of employment, will lead to marginalization and diminish chances for finding a workplace. Thus, it is not enough to have legislation in the field of social economy, but rather a strategy, an action plan and a correlation and improvement of on-going specific legislation. All these aspects must be developed at the same time and those working on such laws should include these elements in the norms of a possible law in social economy.

## **2.2. The role of the banking system in developing social economy**

Despite the fact the Romania does not have a legal framework for social economy, banks may use work instruments and the experience gathered in other countries concerning customer relation, because the principles of loaning are similar. The big challenge for the Romanian banking system is, in fact, the creation of loan packages specific to the field of social economy that they agree on with the National Bank of Romania (NBR) and put on the market. This would also include adapting the electronic banking system by eliminating certain evaluation indicators which are not applicable to the field of social economy and including others that would, for instance, identify the social dimension of the business financed, the redistribution of profit, etc. Another challenge is related to the profit share of banks in loaning social economy businesses, because, in comparison to other countries,

the fees for demand processing, other taxes and interests should be smaller than the financing granted for classic businesses, or even inexistent. Bank risk is not to be neglected, as long as many social economy initiatives can't be guaranteed with goods or actives and maximizing profit is not the only objective they have. Under the circumstances, the natural question is if indeed the bank system would be interested in supporting social economy, since financial advantages are a lot smaller than other loan packages currently on the market.

Nonetheless, in 2011, the Commercial Bank of Romania (CBR) launched a pilot program through which, based on a business plan and a set of indicators, businesses in the field of social economy were approved loan packages. The "Alaturi de Voi" Romania Foundation is among the beneficiaries of this program. The foundation received RON 600.000 for expanding the document archiving service to electronic archiving and storage. The money has been used particularly for building the document storage facility according to international standards in the field, being the only accredited facility in the Moldova region. The financing was given without security interest in real property, 0% interest and a reimbursement period of 10 years agreed on by both parties. During the first three years, this business will allow the creation of 12 workplaces, of which half will be for people with disabilities. Further information is posted on the site [www.depozitarhivare.ro](http://www.depozitarhivare.ro). According to the outcome of the businesses financed, the bank will decide if they will go from the pilot program to a financing program.

### **III. RECOMMENDATIONS ON THE FINANCIAL FRAMEWORK OF STIMULATING THE DEVELOPMENT OF SOCIAL ECONOMY**

The financial framework for the social economy sector could be constituted from at least four sources:

- 1) The state budget through: development of state-supported and minimis programs and for start-up; the establishment of a guarantee fund, accessible to those who need co-financing or cash flow for



European projects or simply for accessing loans for establishing / developing social economy businesses;

2) The bank system through: development of loan packages specific to the field of social economy, with fees and interests a lot smaller than usually; development of a coaching service for drawing a business plan and implementing it; development of a system to establish and certify banking institutions to give loans only to social economy and which, in their turn, would have financial / fiscal benefits from the state;

3) European funds, through including social economy in other operational programmes, not just the European Social Fund – ERDF, The European Agricultural Fund for Rural Development (EAFRD), etc.

4) Voluntary contribution of associate members and of people from the community through fiscal stimuli – the donation made by an individual should be deducted from the tax on annual income, etc.

Another source of financing, at least for social integration enterprises which employ people with disabilities, currently included in the Law 448/2006<sup>[1]</sup> under the name of authorized shelter units, could be the *Disability Fund*. This fund is not a new idea, it functions very well in other countries, and being fueled from the tax employers with over 50 employees must pay to the state if 4% of the number of employees is not people with disabilities. Each month, they must pay the state half of the value of the minimum raw wages for each unoccupied position. For three years, the “Alaturi de Voi” Romania Foundation has requested the National Agency for Fiscal Administration (NAFA) official information on the amounts gathered each year from this tax. The answers from NAFA no. 943006/ 30.01.2012, no. 943102/25.10.2012 and nr. 1090480/19.04.2013 stated the following amounts have been gathered:

YEAR	TOTAL STATE BUDGET/RON
Sem. II - 2010	86.256.129
2011	186.342.727
2012	163.463.809

<sup>[1]</sup> The Law 448/2006 on the protection and promotion of the rights of people with disabilities.

Thus, there would be at least one financing source for social integration enterprises for people with disabilities through using the money collected by the state, which is currently included in the general budget, disrespecting the goal for which it has been gathered.

It is obvious there are several possibilities to finance the sector; unfortunately, the funds allocated to the field come strictly from projects with structural funding. In order for the impact to be important to the community and to be able to ensure sustainability of such structures, it is vital to develop a multi-sectorial strategy on social economy, with annual action plans, with a system of periodical monitoring and evaluation. It is also very important to include social economy on national, regional and local public agenda.

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