

# Social Economy a Potential Solution to the New Problems in the Social Field

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## Abstract

*The paper presents the context in which social economy appeared as a topic of interest and a priority on the public agenda in different countries around the world and the incipient stages in which it exists in Romania, especially with respect to development and legislation in the field. Despite the fact that social economy in Romania is not a priority for the development, several private initiatives have begun to take shape and to create patterns for compensating the need for financing of the social sector and especially for creating workplaces for deprived categories. We hope that these patterns, constituted and financed especially through the European Social Fund, will constitute the practical and professional experience necessary for creating a correct and “friendly” legislative frame for the sector. Considering the economical, social and political crisis that Romania is going through, we need more than ever that social economy becomes a topic for discussion on the public agenda. There is urgent need for a national strategy in the field, a coherent legislative framework allowing sustained and durable development through fiscal benefits; social economy needs to be financed / subsidized by local authorities, it needs to allow access to public agreements and to be the object of the public – private partnership. There are samples of best practices, but they need to be supported and replicated in order to create as many chances as possible in the process of insertion, especially for creating workplaces for deprived categories of people. The “Alături de Voi” Romania Foundation developed such a pattern in its centers in Iasi, Constanta and Tg. Mureș. The foundation’s activity in the field of social economy can be viewed on the online store [www.utildeco.ro](http://www.utildeco.ro)*

**Keywords:** *Social Economy, Social Entrepreneurship, Social Enterprises, Employ Vulnerable Persons, Social Reintegration, Profit, Sustainability.*

### *1. The general framework of social economy*

Social economy is not a relatively new phenomenon. It has been a topic of interest throughout the 19<sup>th</sup> century. Then, for a short while, it reappeared in public

speech at the end of the 1940s. For the third time in the last decades, we notice an increased interest for social economy. History shows that social economy is an issue which appears again whenever economy does not fulfil people's expectations or when there is lack of balance from the social and economical points of view.

Modern social economy, many times defined as new social economy, has been present in many European countries starting with 1980 (for instance in Italia, Great Britain, France and Germany), as well as in countries such as the United States and Canada. In 1990, social economy drew the attention of two key international organizations: the European Union and the Organization for Economical Cooperation and Development (OCDE). They both saw this field as a way to approach current issues and to prevent future ones. Social economy also brought together several non-governmental organizations in national and international networks.

There have been other important circumstances which brought social economy back to public speech after decades of marginal interest. The first were the issues connected to unemployment, or social exclusion in a broader sense, which resulted from prolonged absence of people from the labour market. We should notice the fact that unemployment and exclusion are elements of a broader process of increasing lack of economical equality. On the one hand, a small group of people become rich, while on the other, there is spread of poverty among excluded groups or in areas threatened by exclusion and by a lowering middle class. The cause of this process is transformation into modern capitalism which started in the 1970s and intensified until the present. This transformation accompanies two phenomena: 1) technological revolution (especially for developing informational technologies), which is responsible for the decrease in man-made labor, and 2) globalization, which changed the patterns of work division, the profits, as well as the social costs (wealth / poverty distribution in the social) and territorial (geographic) distribution.

The second factor which increased the interest in social economy is the issue of exhaustion of the ability of the national state for efficiently regulating and preventing the issues generated by market mechanisms, such as unemployment. This exhaustion of powers is both financial (meaning that wellness costs are becoming too big for national economies to handle) and structural (the world market cannot be efficiently lead by the state).

The tiredness of socio-economical pro-request of policies, which dominated in the 1970s, forced member states to search for new management styles and for innovative ideas for social and economical policies. There are two effects of these

processes, which are very important for social economy. One is the re-birth of the entrepreneurial spirit, the other is the basic re-orientation of social economy in the field of employment and of the labour market (the so-called employment active policy).

The third factor generating discussions about social economy is a result of the previous two. Generally speaking, the fall of the old order implies the need for new solutions for creating a new institutional order, which could diminish / lower the unsolved issues and lead to a balanced and permanent development according to an axiology of equality and social rightness.

Modern social economy is a reaction to common issues and to the challenges that societies from developed countries have been confronted with. Nonetheless, national and regional diversity of these societies (such as social order, civic commitment traditions and the estate level) makes these processes take different forms in different countries. As a consequence, social economy in different countries and regions has individual characteristics and differentiated social policies.<sup>1</sup>

In this context, social economy is starting to become more and more relevant as one of the innovative and creative solutions which can contribute to approaching social issues and even environmental issues. Although there is no short and widely accepted definition of social economy, there are defined, both at academic and political levels, the minimum criteria that this borderline field must accomplish. Progress in the field is not as spectacular as expected, but at European level there are several countries which have made significant progress in defining and operating social economy.

There is no definition or unanimously acknowledged and accepted criteria for the definition of this concept, which reflects, on the one hand, its relatively short existence and, on the other hand, the fact that it appeared relatively simultaneously in several countries, following similar processes, but not necessarily congruent ones.

In order to develop this concept, there are a few interconnected elements and ingredients, starting with:

- *social entrepreneurship* defined as the type of private initiative leading to the occurrence of new activities, with social impact and / or social mission, but whose organisation and development is made in an entrepreneurial manner in

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<sup>1</sup> Final transnational report – Social Economy and territorial networking in Belgium, Italy, the Netherlands.

what the innovative practices, leadership, dynamism and efficiency are concerned.

- *social enterprises*, which might be considered the result of implementing the social entrepreneurship. They started operating ever since the '80s, especially in fields such as work integration of socially excluded persons and in social services related to the rapid change of a demographic context or of the needs of a certain community.

- *social economy* which must be regarded as a sum of the social enterprises and which is considered increasingly during the recent period, as a third economic sector with own dynamic, relatively different from that in the public and private sectors, but combining elements from this two sectors to finally generate the fulfilment of the social needs using economic market instruments.

Although the definitions are different among countries and structures, the goals of SE are also seen differently, there are a few elements which exceed the limits and in relation to which a general agreement seems to exist:

- social economy is the result of a series of private initiatives, whose goal is to meet the social needs by economic methods, and where the maximization of investors' profit does not prevail;
- the social economy forms activate on the real market, but at the same time seek for the support of public policies, because they fulfill a social mandate, which the state either can't fulfill or, if it can, not with the same efficiency and impact as the social economy.

One of the most successful attempts to conceptualize SE belongs to the European Research Network - EMES, which proposes a set of 4 economic criteria and 5 social criteria to define social enterprises<sup>2</sup>.

#### ECONOMIC CRITERIA

1. A continuous activity for the production of goods and the provision of services. Social enterprises, as opposed, maybe, to the traditional non-profit organizations, are involved in producing something, be it products or services, and this is their reason to exist, as well as their sustainability mean.

2. A high degree of autonomy. Social enterprises are created and regulated as private initiatives. They are not subject to public authorities, although they can benefit from facilities granted by the latter.

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<sup>2</sup> European Research Network – EMES, *Social Enterprise in Europe: Recent trends and developments* (2008).

3. A significant degree of economic risk. The founders of such enterprises undertake the ancillary risks, and the existence thereof depends on the ability of the members / initiators to assure the resources necessary for the operation thereof.

4. A level of paid labor. These require a certain level of paid labor, to which, as in the case of the other traditional non-profit organizations, voluntary or non-paid labor may be added.

SOCIAL CRITERIA:

1. A legitimate purpose for the social benefit of the community. Social enterprises must serve a group or a community, from a social perspective and must promote the social approach.

2. An initiative launched by a group of individuals. Social enterprises are the result of collective processes, which involve people belonging to a community or a group with well-defined needs and purposes.

3. The decision power within SE is not related to or based on the amount of invested capital. That means the votes or the decision method regarding the activity does not depend on the number of shares or parts owned by each member from the capital of the relevant enterprise.

4. A participatory management, which involves both the services and products suppliers and their beneficiaries.

5. Limited distribution or non-distribution of profit. The generated profit is generally reinvested for development or for other social actions and is rarely distributed, and in such cases it happens in a very small degree, so that the classical approach of maximizing the profit, characteristic to the market economic sector, could be avoid.

The above-mentioned criteria must not be regarded as conditionality, but rather as an ideal list of criteria which, once achieved, would illustrate the social enterprises example. In reality, the social economy actors meet these criteria only in part and differently.

At European level, a definition based on the traditional French concept was also imposed. According to this definition, adopted in 2002, “The social economy organizations are economic and social actors active in all sectors. *They are characterised principally by their aims and by their distinctive form of Entrepreneurship.* Social economy includes organizations such as mutual cooperatives, societies, associations and foundations. These are especially active in fields like social protection, social services, health, bank services, insurance, agricultural production, partnership work, handicrafts, construction of homes,

supply, proximity, education and training services in the field of culture and sport and spare time activities.”<sup>3</sup>

The definition, although it seems to be comprehensive, is in fact limitative, and the records of various European countries indicate that there are more fields of activity in which social economy activates. It is probably important, within this chapter of definitions, to also mention the fact that another classification form of the social economy, which should correspond to reality, might be formulated as follows: social enterprises could be those which:

a. employ vulnerable persons in view of social reintegration. To this end, their field of activity can be basically any field and the perspective from which are seen is the perspective of reintegration on the labour market;

b. fully reinvest the profit in social activities. Moreover, their field of activity can be any, but they are intrinsically connected by the generation of resources in order to support a social goal;

c. enterprises, which provide social activities, identified as needs within a certain community and which, otherwise, could not be satisfied. To this end, the field of activity is and must be limited by correctly identified and prioritized needs of the community and, from this perspective, the activity of such social enterprises must be coordinated and supported by the authorities of such communities;

d. any combination of the 3 above mentioned items. This last proposed category widens, in its turn, the framework within which social economy can impose itself and contributes to the identification process of synergies and impact maximization.

All these 4 categories of social enterprises above mentioned could be identified in most European countries, including in Romania.

In 2007, the European Commission released a Communication called “*Services of general interest, including social services of general interest: a new European commitment*”. Expected to bring clarifications regarding the definition of these services of general interest, the communication in question reads as follows: “Social services can be of an economic or non-economic nature depending on the activity under consideration.” Although they are not defined, the 2006 Communication identified two broad types of social services: firstly, “statutory and complementary social security schemes, organized in various ways (mutual or occupational organizations), covering the main risks of life, such as those linked to health, ageing, occupational accidents, unemployment, retirement and disability; secondly, other services provided directly to the persons such as

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<sup>3</sup> European Standing Conference of Co-operatives, Mutual Societies, Associations and Foundation.  
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social assistance services, employment and training services, social housing or long-term care. These services are typically organized at a local level and they are heavily dependent on public funding”. The communication does not refer to the role of the social economy or of the social enterprises in covering the need for services of general interest and does not clarify the possibility that such might benefit from a special treatment in what taxation or access to contracts awarded by public entities are concerned. Again, the lack of explicitly provisions in the founding treaties of the EU is invoked.

At national level, there is no official definition of the Social Economy. The framework draft of a law for SE, under public debate at the date when this research was conducted, proposes the following definition:

Social economy represents the assembly of activities performed by those enterprises, legal persons, who perform social and economic activities and who observe, in a cumulative manner, according to the incorporation and operation deeds, the following principles:

- a) priority granted to the general interest, to the interests of a collectively and / or to certain personal non-patrimony interests, as related to profit maximization;
- b) free and open association, except for the foundations which perform economic activities;
- c) equal right to vote for the members, irrespective of the contribution to capital or of the value of participations, except for the foundations which perform economic activities;
- d) decision-making autonomy, by full capacity of electing and revoking the management bodies, of implementing and controlling own activities;
- e) autonomous organization, by the statute of legal person;
- f) independence in relation to the public domain, by the statute of legal persons governed by private law;
- g) in case of profit distribution to the members, the achievement thereof proportionate to their activity within the organization, and not with the capital contribution or the value of the levies, except for the 1st degree cooperative societies and the credit cooperatives.

(2) Social economy is based on the values of democracy and active participation of different categories of persons to activities with social nature, as well as on the principle of solidarity and responsibility.

## *2. Social Economy, perspectives at national level*

From a conceptual point of view, at national level, the debate on social economy is recent, and it is stimulated, first of all, by the promoting measures included in the projects financed by the European Social Fund, especially by the Operational Program for Human Resources Development 2007 - 2013. The debate concerning the generation of revenues by the organisations with social goals is older and started immediately after year 2000. At that time, the perspective of European integration determined the traditional international donors, either public or private, and the beneficiaries thereof, especially those who developed social services, to approach the issue of sustainability on a long-term base.

If, traditionally, across developed Europe, the debate started especially at the level of cooperatives and mutual societies, in Romania, although such entities existed and still exist, they were not the ones that generated the debates on social economy. It was the non-governmental, non-profit sector that started such debates, especially from the perspective of social services provider confronted with the public sector incapacity, on one hand, to cover the need for social services and, on the other hand, to finance or facilitate the private, non-profit initiatives in this field.

SE promoting is mentioned as main strategic element within the National Strategic Report on Social Protection and Social Inclusion 2008 - 2010 of Ministry of Labor, Family and Social Protection. It is the main measure, which could lead to the achievement of 1st Priority objective - Increase of the employment degree of disadvantaged persons.

Although SE is for the first time conceptualized in a national document, it is not present as a crosscutting element within all major objectives related to the social situation, as one would expect. The presence thereof only in the area of increasing the employment degree of disadvantaged persons also influences the profile of aid measures and support of SE in the future. No direct connection is made however between the social economy and the need to continue the development of integrated and high quality social services programs, as main way to avoid social exclusion. Neither the 3rd priority objective - Continuation of efforts to improve the living conditions of Roma citizens - makes reference to measures of using the social economy to achieve this. Another major objective of the report is related to health care. Nevertheless, there is no indication to the possible use of social economy mechanisms to assure the achievement of the main targets within this objective. A field with high potential where SE could play a decisive role is that of community services and residential or home long-term care.



Another important strategy, respectively “2011 - 2013 Reform in the field of social services”, recently adopted by the Ministry of Labour, Family and Social Protection, encompasses a rationalization of the social assistance system, assuming that it is the “*last safety net of the social protection system and has as goal the protection of persons who, for economic, psychical or social reasons, do not have the possibility to support their social needs, to develop own capacities and competencies for social integration*”. Among the problems of the system, which<sup>4</sup> must be approached, the following are mentioned:

- High fiscal cost: expenses with social services of MMFPS and of the local public administration authorities increased from 1.4% of GDP in 2005 to 2.86% in 2010, including social pensions and other benefits, without leading to a visible improvement of indicators measuring life quality;

- Deterioration of equitable distribution and of the percentage of amounts received by families with low incomes, from around 48% in 2005 to 43% in 2009;

- The high degree of fragmentation and complexity, which artificially increases access costs for beneficiaries, high system administration expenses, the level of errors and frauds; thus, the level of irregularities within the social assistance programs and allowances for people with disabilities, in year 2010 amounted to 12% and respectively to 14%;

- A high dependency level reducing the aggregate labour offer; out of the approximately 11 million adults capable to work belonging to the families which benefit from social services, 20%, i.e. 2.2 million persons, do not work and are not included in the educational or professional system.

The results expected from the implementation of this strategy are almost exclusively focused on reduction of costs, reduction of the number of beneficiaries and strengthening of control, and less on increasing access, quality and efficiency. None of the 6 major objectives refers, directly or indirectly, to instruments related to social economy, although in the case of some of them (improvement of quality, increase of the activation and participation degree of beneficiaries, efficiency of use of social assistance system funds) the promoting of social economy could be one of the innovative and efficient solutions.

The term of social economy is not even once mentioned in the strategy and, moreover, is not mentioned in the project of the “Social Assistance Law”, a framework law, under public debate at the date when this research was conducted. It seems that there is no coordination between the parallel processes of developing the laws in the field of social assistance and those in the field of social economy,

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<sup>4</sup> Strategy on the Reform in the field of Social Assistance in Romania, 2011-2013, March 2011.

both processes being in a final stage, respectively under public debate of drafts of laws, at the date when this research was conducted. The framework social assistance law makes however a significant progress in defining the planning and budgeting method of the social assistance system, at central and local level. It is difficult to foresee if an expected system with clear funding thresholds and with a multiannual perspective will lead to a clarification of resources within the system, but one may say that it could constitute the foundation of a significant progress in services subcontracting. It is exactly in such a moment when a legislation, which would promote the social enterprises on the social services component, could lead to an explosive development thereof.

Romania records a severe deficit as compared to EU25 in the field of the capacity to provide social, education and health services. Also, Romania has a severe deficit in the field of environment protection, especially in what the collection, recycling and storage of waste and management of protected areas is concerned. This entire deficit should be regarded as a normal and necessary area where the development of SE should be supported. For now, SE and non-social economy, if we may attribute this term to classical economy, are stimulated to cover the above-mentioned deficit only to a small extent. In the social field, the state, at central and local level, seriously restrains itself from subcontracting non-governmental partners for the provision of social and environment services. Also, there is no clear strategy to approach activities in the field of environment protection as potential generators of resources and economic growth.

SE is often active and present in economic fields where capacity and competition are already present (production and general services), where certain constraints related to the social character may influence the SE competitiveness as compared to classical economy.

SE can also be defined and considered as the initiation of an activity, which answers to a social need identified at local or national level, trying to address such need based on several social principles:

- access,
- non-discrimination,
- identified need,
- non-profit,
- but also based on several economic principles:
- cost efficiency,
- sustainability,
- flexibility,

- quality.

Regarded from this perspective, SE can be implemented by any type of legal entity, which can perform economic activities. The role of an active strategy would be yet to identify which of the legal entities that can perform economic activities are the most appropriate in order to be supported by SE: is it those which know how to operate in the economic competitive environment or those which know how to operate social interventions? It is not easy to answer this question. To simplify, we may say both entities, as long as they adhere to the set of above-mentioned principles.

The state proved to be a weak administrator of classical economic units under its subordination. That's precisely why a large part of the structural reforms was focused on the privatization of the economic structures. However, up to now, no one seriously asked the question: is the state of the social, health and education services benefic for an administrator? Considering the satisfaction level of citizens, the answer is probably the same: the state is a poor administrator of those too. In this field, the state or rather its administrators, assumes the constitutional role of services organizer and bidder, without mentioning where does the so-called "client satisfaction" appear and how are the impact and efficiency measured.

SE promoting must be regarded as cross and main method to address in parallel two issues: the social inclusion and the provision of social services (including health and education services), to which a less mentioned field of action of social economy, respectively environment protection, can be added.

A sample of Romanian success in the field of social economy can be considered the best practice of ADV Romania – the first non-governmental organization in Romania to have established three shelter units under the logo Util Deco, specialized in manual book-binding and multiplication, painting, arts and crafts, making decorative candles and tailoring, archivation and document storage, including electronic archivation, typographic and related services, personalization through serigraphy, thermal transfer, collation and tampo printing, tailoring (work and protection equipment, equipment for hotels / bed and breakfasts, etc.), manual book-binding services, event organizing (conferences, trainings, etc.), services for product mediation: stationery and office articles, cleaning and maintenance products, protection equipment, promotional materials. The entire offer of products and services can be viewed on the site [www.utildeco.ro](http://www.utildeco.ro).

Through Util Deco were created 70 workplaces, of which 30 for disabled people, especially young people, including individuals having left the system of child protection.

ADV Romania is one of the promoters at national level of the concept of social economy, with three resource centers in the field in Iasi, Constanta and Tg. Mures and an online resource center [www.ropes.ro](http://www.ropes.ro) (social economy product made in Romania). So far, the foundation developed 2 editions of the National Fair of Shelter Units which were attended by over 400 people; 3 trainings in the field of social economy attended by 125 people from Romania. In addition, ADV edited the first edition of the Catalogue of Shelter Units from Romania which was sent to the first 1000 companies from Romania according to the number of employees and organized study visits in its own shelter units, facilitating access in these locations to over 1000 people from Romania and from abroad. ADV developed the site [www.unitatiprotejate.ro](http://www.unitatiprotejate.ro) for presenting and initiating auctions for procurement of products and services from shelter units, expanded the site dedicated to shelter units creating the European platform [www.socialeconomyeurope.eu](http://www.socialeconomyeurope.eu); replicated in Chisinau – the Republic of Moldova 2 shelter units – IT and manual book-binding - and established a Youth Club following the pattern we have developed in the three counties in which the foundation is developing activities.

Four years ago, ADV Romania developed the first site with workplaces for disabled people - [www.jobdirect.ro](http://www.jobdirect.ro) .

Other than the services in the field of social economy, ADV Romania offers:

- Direct services – psychological and social assistance; foster care; juridical assistance, school integration, social and professional integration; development of independent life skills at the Youth Clubs;
- Services of prevention of the HIV transmission in the community;
- Services for promoting and defending the rights of disabled people, including of HIV-infected people;
- Lobby and advocacy in the field;
- Services of professional development – trainings, symposia, summer schools, conferences, debates, fairs of shelter units from Romania, etc.

Details can be found at [www.alaturidevoi.ro](http://www.alaturidevoi.ro).