

# Cooperatives – Promoters of Social Economy in Romania<sup>1</sup>

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## Abstract

*The present article makes an analysis of cooperatives in Romania in terms of their role in the context of socio-economic development of society by generating new jobs and social integration, by eradicating poverty and by inclusion of vulnerable groups and categories. Since the cooperative phenomenon has become a highly visible and present one in the European and Romanian public life, through this paper we want to answer a series of questions related to the occurrence and evolution of cooperatives at national and international level, the approaches to this phenomenon which have emerged at European level and which are the regulations governing their organization and operation in the Romanian space.*

**Keywords:** *Social Economy, Cooperatives, I and II Degree Cooperatives.*

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## 1. Introduction

The dynamics and transformations of the society in recent years have led to the emergence of a new concept, the one of Social Economy (SE), which contributes to the sustainable and stable economic development and to the resolution of social problems (by numerous positive transformations determined in the communities around the world). This new term makes reference to a series of

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collective initiatives which have a social purpose and which take place within the boundaries of the public, private and business sector.

With reference to Social Economy we can state that in Europe there is no uniform and universally accepted definition, but the term was tried to be explained by taking into account both the forms of organization it promotes, as well as its underlying principles.

A comprehensive definition is that given by the Walloon Council of Social Economy in Belgium (1990) according to which SE *“consists of economic activities undertaken by companies, especially cooperatives, mutual associations and other associations within which ethics is consistent with the following principles: the ultimate goal is rather in the members’ or collectivity’s service than in the service of profit, management autonomy, democratic decision making, priority in the distribution of income given to people and work over capital.”*<sup>2</sup>

In the Romanian legislation, the notion of social economy first appears in 2002 in a bill approving the National Anti-Poverty and Social Inclusion Plan (PNAinc) and is defined by two types of interventions: the first type refers to *“economic activities which, subsidiary and provided sustaining economic performance, include social objectives (this definition is closer to the European sense of the term, but excludes activities of associations and foundations recognized at European level as key actors of social economy), and the second type of social economy activities is “launching large infrastructure, territorial arrangements and including environmental programs. The investments in these fields may be both economic (part of the economic development of the country) and also actual social investments in the quality of life infrastructure (schools, hospitals, etc.)”* (HG 829/2002) (this definition is general and incomplete because programs or investments can be made in a large variety of forms, with only economic or only social objectives, thus excluding them from the sphere of social economy). Nationally, the tentatives to define Social Economy got attention again in 2008, with its inclusion as an eligible field for funding by the European Social Fund through the major area of intervention of the Human Resources Development Sectorial Operational Program in the Framework Implementation Document. Thus, SE is defined as *“the generically used term to make reference to a group of people who come together to take an active economic role in the social inclusion process, such as cooperatives, social enterprises, NGOs (foundations and associations) and other nonprofit organizations that have an important role in managing and consolidating activities”* (Minister Order 254/1169/2008). This

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<sup>2</sup> [http://www.encycopedie-enligne.com/e/ec/economie\\_sociale.html](http://www.encycopedie-enligne.com/e/ec/economie_sociale.html).

definition covers only those activities that directly contribute to social inclusion, thus representing a limitation of the term used at European level where SE also broadly includes social activities.

Based on the definitions formulated at national and European level, we can emphasize that Social Economy is a fundamental factor for the development of a homogeneous society, of a participation spirit of citizens (who hold an essential proactive role in this context), and also a dynamic, very popular framework at international and national level that includes “entities which are different both from the public and private sectors of the economy.”<sup>3</sup>

#### FORMS OF ORGANIZATION OF SOCIAL ECONOMY

Many of the forms of organization of the Social Economy have emerged in recent years as a result of the insufficient involvement of the public sector and its institutions in solving social problems. In this respect, the main characteristic of Social Economy forms is that such activities are aimed at addressing the needs of people and not paying the investors. In other words, they are based both on the voluntary work and also on the paid work and dispose of a series of financial resources that were generated by the sale of the produced goods and provided services.

One of the most popular forms of Social Economy at European level is represented by cooperatives, mutual aid enterprises (mutual enterprises), foundations and associations and social enterprises.<sup>4</sup> There are some differences among the organization forms of Social Economy and the organization forms characteristic to the business sector, both with regard to the pursued mission and to the profit allocation principles (which are based on solidarity and reciprocity), the manner of participation in the democratic decision-making process and the multitude of resources.<sup>5</sup>

In this paper we will only refer to cooperatives, which represent the only form of social economy which benefits from official recognition in the European Union, on the basis of “The European Status of Cooperatives”, which was adopted in 2003<sup>6</sup> and are defined as those “*organizational forms capable of adapting to*

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<sup>3</sup> J. Defourney, *De la coopération à l'économie*, in Congreso de Co-operativismo (University of Duesto and the World Basque Congress, 1988), 71-88; J. Defourney, Campos J. Monzon, *The third sector: Co-operative, mutual and nonprofit organizations* (Belgium: CIRIEC, DeBoeck University, Brussels, 1992).

<sup>4</sup> <http://ec.europa.eu/enterprise/policies/sme/promotingentrepreneurship/socio-economy>.

<sup>5</sup> Antonella Noya and Emma Clarence, *The Social Economy Building Inclusive Economies*, OECD, (Paris, Franc, 2007).

<sup>6</sup> MMFPS (2010), 24

*economic, social, cultural and political changes, due to their ability to reduce specific costs of trading caused by market failures in several sectors.*"<sup>7</sup>

#### THE EMERGENCE OF THE COOPERATIVE MOVEMENT

The cooperative movement emerged in the second half of the nineteenth century in Western Europe, North America and Japan, by the association of several groups of workers and farmers as small local organizations. The one who founded this form of association, also considered the father of the movement, was Welshman Robert Owen who has experienced some early ideas of cooperation in the cotton mills of New Lanark, Scotland, which led to the opening of the first cooperative store. Following Owen's philosophy, the main objective of the first cooperatives was generating welfare and wealth without creating individual profits. The cooperative movement grew continuously along the nineteenth century and new models of cooperative organizing appeared, such as: The Rochdale pioneers (the first to successfully achieve sustainable and successful cooperatives), Schulze-Delitzch (the one who established the principle of self-support) and Raiffeisen (founder of the first credit unions).<sup>8</sup>

Throughout their history, cooperatives have brought innovation in the field of management and were guided by a set of principles that emphasized the economic and social character of these entities. The cooperative principles are periodically reviewed and putting them into practice involves networking (teamwork), transparency, the implementation of a participatory management, a democratic decision making process, all these contributing to the growth and development of the social capital and entrepreneurship. The development of the cooperative phenomenon is based on four models of cooperation as follows:<sup>9</sup>

- *The mutualistic model* - which promotes only the interests of affiliated members and includes those organizations that are strongly oriented towards membership and are based on their economic interests. The cooperatives fitting this model are rather private companies (due to members' rights) with the economic role of correcting market failures and they do not necessarily have a social role. This model is particularly found in Germany and the United States of America.

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<sup>7</sup> C. Borzaga and R. Spear (eds.), *Trends and challenges for co-operatives and social enterprises in developed and transition countries* (Trento, Italy, 2004), 4.

<sup>8</sup> Adapted from Dan Cruceru, *Cooperația în România (The Cooperative Society in Romania)*, (Bucharest: ARTIFEX, 2007).

<sup>9</sup> Borzaga and Spear, *Trends and challenges*; Giulia Galera, *The evolution of the co-operative form: an international perspective*, in Borzaga and Spear, *Trends and challenges*, 18.

•*The sociological model* - characterizes more open cooperatives serving the interests of the community within which they operate. This model is not widely used due to “the weak mutuality” and lack of focus on its members.

•*The intermediary model* - refers to those organizations that promote the concept of mutual support for their members and for the community they live in. Such cooperatives are found in most European countries (Italy, Spain, France, Portugal, Belgium).

•*The quasi-public model* - where cooperatives are perceived as public companies and their governing rules are dictated by public authorities. This model is found in various forms in socialist and communist countries.

In conclusion, based on the analysis of the existing cooperative models, a number of changes that occurred during the coagulation of the field can be noticed,<sup>10</sup> namely: social orientation has become a priority at the expense of the mutualistic one, in a great number of countries, an evolution towards the production of services of general interest can be observed and, not least, the provision of general interest services has been increasingly incorporated in the new forms of cooperation.

#### THE EMERGENCE AND DEVELOPMENT OF COOPERATIVES IN ROMANIA

As it can be seen, cooperatives have a crucial role in maintaining social solidarity due to organizational characteristics, the specific of activities and, not least, due to how profit is distributed. Romanian cooperatives operate in two main dimensions related to social solidarity support - providing benefits to their members and the community they belong to and involving people from disadvantaged groups.

In our country, the ideas of cooperation developed in the second half of the nineteenth century, under the strong influence of the Western world and by the involvement, support and promotion of the cooperative doctrine by a number of personalities of Romanian society of that century, including Nicolae Bălcescu, Ion Ghica, Costache Bălcescu, Ion Ionescu de la Brad, P. S. Aurelian, etc. In their view, cooperation was an essential element of Romania’s economic development and of improving living conditions for a range of social classes (peasants, workers and the petty bourgeoisie).

The first significant moment was recorded in the mid-nineteenth century, when the so-called *Statutes of Savings and Loaning House (1845)* were published. This project belonged to Costache Bălcescu, Nicolae Bălcescu’s older brother, an

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<sup>10</sup> Borzaga and Spear, *Trends and challenges*.

economist and politician and represents the first known attempt to establish a savings and loan house in Romania which officially marked the beginning of the development of the cooperative sector. In cities, the idea of cooperation got the form of savings houses, of associations of private credit cooperatives, of German inspiration, such as Raiffeisen and Schulze-Delitzsch systems. Thus, the cooperative movement emerged in urban areas where the associative spirit was more active and where the actions undertaken in this regard were more intense.<sup>11</sup>

In rural areas, this idea of modern cooperatives was introduced and implemented by Ion Ionescu de la Brad (1818-1891), politician, economist, agronomist, statistician, who in 1860 founded a credit association, a scholar savings house and a popular bank in Brad village, Roman county. A partisan of the Schultz-Delitzsch model, he saw cooperatives as the only way to save the peasants from the cultural and economic regress.

A significant moment in the evolution of cooperative movement in our country is recorded in the late nineteenth century, specifically in 1895, when Romania participates as a founding member to the establishment of the International Cooperative Alliance (ICA). In 1898, Spiru Haret becomes the main supporter of the cooperative movement expansion and organization, him also being the initiator of the first law of cooperatives. Meanwhile, in his capacity as Minister of Public Instruction, he actively militated for the organization of popular banks, having been supported by the teachers and priests in rural areas.

Between 1887 and 1903 the operation of cooperatives was regulated by the *Code of Commerce*, and after the Union, the Law-Decree on the establishment of the *Central House of Cooperation and Villagers' Land Ownership* (1919) entered into force. Later, in 1928, the *Cooperative Code* was promulgated, which contained provisions on the organization and functioning of cooperative organizations and by Law 35/1929 on the organization of cooperatives, was stipulated the establishment of the *National Office of Cooperation* for coordination functions and the establishment of the *Central Cooperative Bank*, with the function of financing the cooperative sector. In 1935 the Law for organizing cooperatives was adopted, to which successive changes were made in the years 1938, 1939, 1940 and 1941, which included provisions on the organization, functions and activities of cooperatives.

After the communist regime setup in 1946, the cooperative sector experienced a major new reorganization by the adoption of the Decree 133/1949 on the organization of cooperatives, defining cooperative as mass organizations of

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<sup>11</sup> Adapted from Cruceru, *Cooperatiya în România*.

the working people in towns and villages. A new development of cooperatives was made possible by Law 14/1968 on the handcraft organization and operation and by Law 6/1970 on the organization and operation of the consumer cooperatives.

However, it is noted that between 1947 and 1949 the civil society and many organizations in the cooperative field were abolished. A certain degree of autonomy was registered with reference to consumer and handcraft cooperatives which were often accused of promoting capitalist principles. After 1989 the Law-Decree 67/1990 on the organization and operation of consumer and credit cooperatives entered into force, detailing the legal status of these types of cooperative organizations. It was subsequently replaced by Law 109/1996 on the organization and operation of the consumer cooperatives and credit cooperatives and, not least, the promulgation of the last regulation on cooperatives, Law 1/2005 (adapted from the Preliminary Report on the cooperative movement, 2011).

## *2. The Legal Framework for the Organization and Operation of Cooperatives in Romania*

### 2.1. DEFINITION AND PRINCIPLES OF ORGANIZATION OF COOPERATIVES

Since 2005 we have been witnessing a unification of legislation on cooperatives, the most popular forms to the general public being handcraft cooperatives and consumer cooperatives. According to Law 1/2005 a cooperative society is considered to be that “autonomous association of natural and / or legal persons, where appropriate, established on the basis of their freely expressed consent, in order to promote the economic, social and cultural interests of cooperative members, being jointly owned and democratically controlled by its members, in accordance with cooperative principles” (Article 7, paragraph 1/Law 1/2005). Analyzing this definition we can formulate a set of characteristics that underlie the establishment of a cooperative: autonomy (cooperatives are not part of the public sector), the freely expressed consent (it is not imposed by constraint), the promotion of economic, social and cultural interests for all members (not just profit is targeted, see private companies, but also social and cultural interests), joint ownership (it is not owned by any member) and the exercised democratic control (each member having one vote).

These features are particularly important because they distinguish cooperatives both from the public and the private spheres. According to the “European Status of Cooperatives”, the main objective of cooperatives is to “develop economic and social activities of members (...) for the provision of goods

or services or for the undertaking of works (...) to meet the needs of its members.”<sup>12</sup>

On the other hand, the law regulates a set of defining principles for the cooperative organization. These principles entirely fall in the spirit of cooperative movement and provide a more detailed explanation of the essence of cooperative and of its present attractiveness. The principles are the following (Article 7, paragraph 3/Law 1/2005): the principle of voluntary and open association, the principle of democratic control, the principle of the economic participation of cooperative members, the principle of autonomy and independence of cooperative societies, the principle of education and training of cooperative members, the principle of cooperation between cooperatives and the principle of the concern for the community. These principles stipulated by law are not normative, they serve only to interpret and apply the law.

## 2.2. FORMS OF ORGANIZATION OF COOPERATIVES

Law 1/2005 classifies cooperatives in first degree cooperatives (which include handcraft cooperatives, consumer cooperatives, capitalization cooperatives, agricultural cooperatives, housing cooperatives, fishery cooperatives, transport cooperatives, forest cooperatives and cooperatives of other forms), second degree cooperatives (which include first degree cooperatives, in their majority, and also other natural or legal persons) and unions (which include same form cooperatives and their associations at county, Bucharest and national level). These types are completed by credit cooperatives but which benefit from a special legal regime.

### *Conclusions*

Cooperatives represent the juridical form specific to social economy, with a long historical evolution and a great potential for the employment market. Currently, cooperation represents a key factor strategically influencing the development of social economy, thus the need for more sustained promotion and development of cooperative movement in our country too.

As we have seen, cooperatives promote an operation model based on an economic and a social component although it can be pointed out that they are too economically oriented to be included in the non-profit sector and, in the same time, too socially oriented to be considered organizations which are aimed at obtaining profit. Because of this, a series of controversies and ambiguities may arise because

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<sup>12</sup> MMFPS (2010), 24.



there is no clear demarcation regarding their orientation for profit or non-profit. The non-profit feature of cooperatives traditionally relies on equality criteria (“one member, one vote”) and proportionality criteria (to each person according to its participation in the organization’s activity) or, in other words, these organizations can distribute part of their income in a proportionate manner, without having any connection with profit sharing based on the invested capital. In this respect, cooperatives can be considered economic enterprises and, at the same time, non-profit organizations. Being based on the socio-economic duality, cooperatives are seen as “atypical organizations”, by combining voluntary and commercial elements. The option of surplus sharing does not necessarily deprive cooperatives from their non-profit nature, because it is done in concordance with the proportionality of the members’ patronage, regardless of the type and amount of capital invested. Cooperatives are considered to be “entrepreneurial initiatives of the middle and lower class, leading to the creation of small economic enterprises that address their social needs.”<sup>13</sup>

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<sup>13</sup> D.Săulean, *Defining the Cooperative Sector in Romania*, FDSC, [www.fdsc.ro](http://www.fdsc.ro), 1998.

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