

## Trends and Challenges for Social Enterprises in Romania

Mihaela LAMBRU\*

*University of Bucharest, Faculty of Sociology and Social Work*

Claudia PETRESCU

*Romanian Academy, The Research Institute for Quality of Life*

**Abstract:** Over the last years, the interest for the potential of social economy organisations to support and produce economic and social development has increased substantially. Against the background of this increased interest in the area, the interest for the research of this economic sector having specific characteristics and grouping various organisations under the same identity has also increased. Starting from recent research, the main purpose of this article is to describe the landscape of social economy actors and the key elements in the evolution of the social enterprises in Romania. In the first part, we present structured information about the status quo of social economy entities such as they appear by analyzing the data collected at national level by the National Institute of Statistics and by analyzing the juridical and institutional framework of each type of organization. The analysis mainly focuses on three types of organisations – cooperatives, NGOs with an economic activity and mutual organisations. In the second part, the authors identify and analyze several key policy fields enabling the development of social economy actors. The last part of the review is dedicated to a discussion concerning the development of a specific policy framework to support the social enterprises in Romania.

**Keywords:** *social enterprises, social economy, nongovernmental organisations, mutuals, cooperatives, policy entrepreneurship.*

### **Introduction**

The social economy landscape in Romania, as in other former communist countries, is very puzzled and scarcely visible despite the growing development trends that characterize some of the social economy actors.

Over the last years, concurrently with the growing interest of public authorities for the promotion and support of the initiatives in the social enterprise development field, the interest for research in this field also grew and the debates with respect to the specificity of this economic sector,

\*e-mail: lmb\_ro@yahoo.com.

its social utility, its characteristics and the profile of the organizational actors forming it intensified.

The reality of this sector is covered by a varied terminology, from ‘nongovernmental sector’, ‘third sector’ and, more recently, to ‘social economy entities’ and ‘social enterprises’ and entails a variety of types of organisations, from nongovernmental organisations and mutuals to cooperatives. Each type of social economy organisation has its own historical background and economic and social profile. Some of said organisations, as various types of cooperatives and mutuals, have a long tradition within the Romanian society going back to the 19<sup>th</sup> century. The communist period interrupted the natural development of those organisations and altered their core characteristics (Les, Jeliaskova, 2007<sup>1</sup>), in order to fit the communist ideology and to be used as instruments of the new political regime. From nationalization to forced incorporation into the state infrastructure, from demutualization to the development of quasi social market-organisations, many tools have been used by the communist powers in order to control them and diminished the nongovernmental sector (Hausner, Poleszczuk, 2009<sup>2</sup>).

The concept and approach of ‘third sector’ type has established itself in Romania in the first years after the ‘90s, against the background of the increasing interest for the nongovernmental sector (NGOs) that was in full expansion, both in terms of quantity, but also in terms of quality and substance. The NGO sector brought innovation to public services, particularly in the area of social services, had an active role

in promoting the good governance and democratization of the Romanian society, carried out empowerment and representation activities for various groups etc.

In the post-communist context, the NGOs were occupying the space between the state and the market, having low visibility and a fuzzy identity for the citizens and the decision-makers in the political and the bureaucracy field. The lack of visibility of the non-profit sector in Romania, both nationally and internationally, generated difficulties in the advocacy actions aiming at the modernization of the legislation for the third sector, prevented the coagulation of the sector into coalitions and strong representation structures with a well-defined agenda. (Salamon, 2010)<sup>3</sup> Against this background, the ‘third sector’ approach proposed by John Hopkins Centre for Civil society Studies represented an opportunity for the nongovernmental sector in Romania to make its identity and specific profile known in an international research context. The non-profit research project conducted in Romania within the Hopkins research programme in 1998 represents the first systematic research initiative of this type. (Epure, Saulean, 1998)

Starting 2005, against the background of the increased interest towards the European prospects in various fields of public policy highly supported by the European integration process, the European approach begins to make itself known in Romania as well, promoting the concept of social economy, more comprehensive than the American one, and also integrating the organisations of cooperative type and the mutuals. The researches

carried out starting 2008 bring a shift of focus from third sector approaches to social economy ones. (Lambru, Vamesu, 2010) Thus, the concept of social economy also gains ground in Romania as an umbrella concept, under which we find various organisations that put social objectives in the centre of their mission and practice, but also have economic objectives, generating some economic value by the services they provide, by the active participation in the production and sale of goods and services.

In the researches carried out with this ‘theoretical lens’ (Sabatier, 1999)<sup>4</sup> the focus is not on the non-lucrative (non-profit) aspect or characteristic, but rather on the fact that profit distribution is limited for these organisations. This adds to the other organizational characteristics grouped around the principle of mutuality and social purpose that is specific to social economy organisations. (Laville: 221, 2010)<sup>5</sup>

Another concept that also entered the research vocabulary and practice in Romania, but also awakened the interest of the various social economy organisations is that of social enterprise. The social enterprise concept covers the reality of an enterprise type developed for the first time in Italy in the ‘80s, which combines the entrepreneurial, business objectives with social objectives. Being a flexible concept that covers the reality of various initiatives developed within specific national contexts, in the mid ‘90s, the social enterprise has been rigorously analyzed as practice type by EMES in 15 countries of the European Union. The economic criteria and the social indicators developed by EMES for the

identification of the social enterprise type initiatives are extensively used to acknowledge, to study and to promote the social enterprise in various national and local contexts. (Borzaga and Defourny, 2001; Defourny and Monzon Campos, 1992; Defourny and Nissens, 2006)

The idea of developing social entrepreneurship and promoting social enterprises is at its beginnings in Romania. The context appears to be a favourable one: practices and models consolidated in the area of promoting social enterprises at an international level, the interest and mechanisms to support and promote reforms in public policy from the European Commission, available funding in order to support initiatives and innovation in this field, social economy actors interested in the development of said field. Against this positive background, a policy initiative was launched in 2010 by the Ministry of Labour and Social Protection aiming to develop the legal framework that would enable the social enterprises to grow and operate. Within a participative policy process, a draft law was created aiming at encouraging this new type of enterprise in Romania as well.

The present article explores the world of Romanian social economy entities, focusing in particular on three types of organisations: cooperatives, mutuals and NGOs. The article addresses questions related to the size and dynamics of the sector, the scope and the role of the Romanian social economy entities in tackling different social and economic risks for various categories of the population.

In the first part of the article we perform a first type of analysis, from a legal and institutional perspective, by determining the typology of social economy organisations starting from the legal incorporation form. As such, in Romania, we can distinguish three large categories of organisations: cooperatives, associations and mutuals. This typology has been used to achieve the statistic detection of these organisations based on the fiscal information recorded by the National Institute of Statistics - NIS.

A database was created this way, comprising what we call 'social economy entities'. Starting from an analysis of the secondary data thus organised, we made a sector profile description and performed an analysis in terms of dynamics and size of the social economy sector.

In the second part, we shall identify and analyze several key domains of policy reform that allowed the development of public-private partnership formulas and the access of nongovernmental actors to the public services market in Romania. We shall discuss the potential of these areas of policy for the development and support of social entrepreneurship. Finally, we shall dedicate the analysis to the public policy framework that is specific for the sector, the new draft law for social economy actors *The Framework Law for Social Economy*<sup>6</sup>.

### ***The profile of the social economy actors in Romania***

The sector of social economy in Romania comprises mainly NGOs with economic activities, mutuals,

cooperatives, work protected shelters, all having in common the interest or prevalence of the social objectives and entrepreneurial actions in order to support the social objectives, the democratic governance structure (one person, one vote), the finality of the services to the benefit of the members and not to make profit, management autonomy. In Romania, there are several types of qualifying organisations that function as organisations of social economy, based on their legal institutional characteristics (Table 1).

These organisations have been identified in the database of the National Institute of Statistics comprising private enterprises (REGIS), starting primarily from the legal status of the organisations, namely associations or cooperatives. Of course, the legal status of a private enterprise can also be deceiving (Defourny, Develtre, Fonteneau, 1999)<sup>7</sup>, additional information being obtained from the federative structures existing for each type of social economy entity. The cooperatives and mutual federative structures were able to provide us with data about the membership and the types of activities carried out by their members.

**Table 1.** *Social economy actors in Romania - number, surplus/profit, employees in 2009*

2009	No. of Active Organisations	Total Employees	Total Surplus/Profit (EURO)
NGOs	23,100	109,982	152,215,570
NGOs with economic activities	2,471	23,551	55,679,858
Mutuals/credit unions	897	18,999	40,030,167
Employees mutuals/credit unions	704	16,275	32,785,008
Retired mutuals/credit unions	193	2,724	7,245,159
Handicraft cooperatives	788	25,553	9,019,941
Consumer cooperatives	894	8,942	2,853,680
Credit cooperatives	65	1,419	874,519
<b>Total</b>	<b>27,947</b>	<b>174,025</b>	<b>204,993,876</b>

Source: The National Institute of Statistics - INS, 2011

The organisations using the framework legislation on associations and foundations – GO26/2000 are the most numerous social economy sub-grouping. Here we can find NGOs (with or without economic activity), mutual associations, agriculture associations and commons, all of them being primarily registered as association.

In order to better identify the social economy actors we have operated a typology, based on two main criteria: economic activity and membership.

The first category consists of NGOs, non-member associations or member-based associations serving non-members. Here we have the bulk of the active associations registered on GO26/2000. The second sub-grouping consists of mutual organisations, associations serving a defined membership. In this category we have the Employee Mutual- help Associations (Case de Ajutor Reciproc ale Salariatilor-CARS), Pensioners

Mutual- help Associations (Case de Ajutor Reciproc ale Pensionarilor-CARP) and some other organisations defined as mutuals since they serve a well defined membership, but the most important numerically are by far the CARS and the CARP.

Third subcategory is represented by agricultural associations and commons, organisations with members owning forests or irrigation systems, associations of specialists in agriculture and commons who have regained their collective right over the property after 1992.

The nongovernmental sector in Romania is the most developed domain of the third sector as to the number of entities and their employees. Over the last 5 years, we witnessed an increase in the number of NGOs in Romania, the data from the National Institute of Statistics indicating 23,100 active NGOs in 2009, with an estimated number of 109,982 employees.

The NGOs are active in a wide range of fields – environment, social, human rights etc. From a statistic point of view, according to the number of registered legal persons, the most important fields are sport and recreational activities (18.8%), education (7.5%) and social services (7.3%). From the perspective of the employed staff and annual incomes, the most important field is education, followed by sport and recreational activities and those related to the social field. The most dynamic sectors are: education with a growth of 38%, sports and recreational activities with 26%. (Lambro, Vamesu, 2010)

The mutuals associations share the associative registration form with the NGOs, but another important feature is the mutual character of the organisations, similar to cooperatives. In Romania, the majority of mutual associations are Employee Mutual-help Associations (Case de Ajutor Reciproc ale Salariatilor-CARS), Pensioners Mutual-help Associations (Case de Ajutor Reciproc ale Pensionarilor – CARP), each type of mutual organization having also a specific legislation. For the CARS, we have Law 122/1996 and, for CARP, Law 540/2002, which provides the legal operation framework for these organisations with double registration, giving a description of the types of activities that can be carried out by these mutual associations. Also CARS and CARP are registered as non-banking financial institutions with the Romanian National Bank. The peculiar organization of the mutual associations based on the relationship of their members with the world of work (employees/pensioners) is inherited from the communist time, when mutual

associations have been instrumented and integrated within the design of the communist welfare system, being coordinated at the time by the trade unions. This dichotomist structure is reflecting the structure of the lifecycle in communist times – school/work/retirement. At the end of communism, the mutual organisations preserved this membership structure, even though the union support collapsed with the industrial-agricultural system. However, at community level, these organisations have survived and developed, answering to a clear need of support structure for the citizens, in order to cope with financial exclusion risks. These mutual associations function as credit unions, providing loans to its members or coverage of certain decrease-related costs (particularly in the case of the CARP), not being involved in insurance/reinsurance activities like many organisations of this type from Western Europe.

In the records of the National Institute of Statistics, as seen in Table 1, we find 897 organisations in 2009 (many of them being unions and release a joint balance check) with a number of 18,999 employees. Although we witness a slight increase in the number of mutuals in the last 5 years, there is yet a slight decrease in their number of employees.

Mutual organisations enjoy a great notoriety among Romanian citizens. A recent national survey has shown that 12% of the respondents declared themselves contributory members of CARS or CARP, frontloading the affiliation to union organizations (11%) or political parties (6%). (Lambro, Vamesu, 2010). Starting

from membership data recorded by the federative structures, CARS and CARP cumulate more than 5 million members. Similarly to other countries in the region (Les, 2004<sup>8</sup>), while the cooperative sector flounders in the crisis, mutual organisations seem to experience a rebirth and revitalisation.

Beside the NGOs and mutual associations, another distinctive social economy entity is represented by cooperatives. The cooperative sector counts 1,802 cooperatives of all types in 2009 (894 consumer cooperatives, 788 handicraft cooperatives, 65 cooperative banks and 55 consumer cooperative unions).

During the last 10 years, we cannot speak of a decline in the number of cooperative companies in Romania, with the exception of cooperative banks (from 191 units in 2000 to 65 in 2009), yet this is no longer valid when we take into account the number of employees of these entities, which underwent fluctuations, dropping to almost 30% of the original number.

After the communist period, a decline of the consumer cooperative is registered in terms of number of units (from 3392 units in 1991 to 894 in 2009) and of employees (from 208,826 in 1989 to 8,942 in 2009). In the case of the handicraft cooperative, we notice an increasing trend in their number after the communist period (from 562 in 1989 to 784 in 2009), while we witness a steep drop in their number of employees.

The legislation regarding the cooperative sector in Romania has changed in several waves after 1989. In 1990, we have two Governmental Decrees, 66/1990 regarding handicraft cooperatives and 67/1990 regarding

consumer cooperatives, aiming to democratize the organisations by allowing free elections for the governance structures and to eliminate the coordination role of the state. Several years later, Law 109/1996 expands the scope of business of consumer cooperatives and defines consumer cooperatives and handicraft cooperatives separately.

Also we have to notice the first post-communist law where credit cooperatives are defined separately from consumer cooperatives, Law 200/2002.

The most important legislative benchmark in the evolution of the post-communist cooperative sector in Romania is Law 1/2005. This law defines all the cooperative types, establishes the legally recognized activities, lays down the winding-up rules and loosens the control exerted by the central, federative organisations of the cooperative.

Starting from the statistic and the economic information, from the analysis of the legal framework for the cooperative sector, we can say that there are some obvious trends. First of all, there is the trend for demutualization by a pronounced decrease in the number of members. In the case of handicraft cooperatives, this decrease is from 429778 members in 1989 to 58497 in 2004, and in handicraft cooperatives, the decrease is from 6550000 in 1989 to 27823 in 2009.

We also note a decrease in the number of employees from the cooperative sector, many of the cooperatives falling within the category of micro-enterprises due to their number of employees. An

important decrease is also noted as regards the number of hired persons with disabilities, from 19395 in 1989 to 973 in 2004.

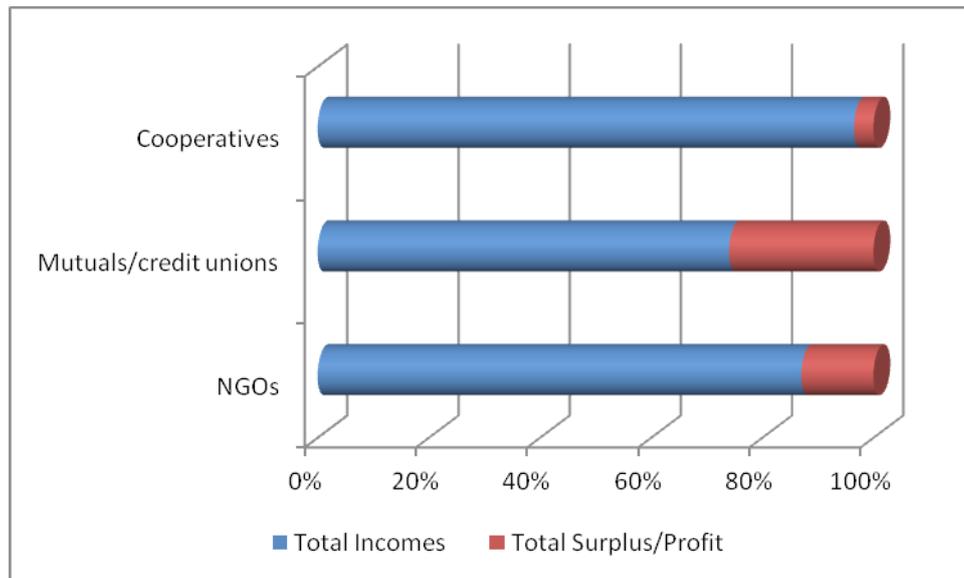
The type of activities performed by cooperatives also changes, an important role being played by real-estate transactions over the last years. In the case of handicraft cooperatives, the share of persons having declared that this field of activity has grown from 3.5% in 2000 to 7.9% in 2009.

Another element that characterizes the current trends is given by the pronounced local character of the activity carried out by cooperatives and

a reduction of exportation activities.

Analyzing the profile of social economy enterprises presented above, NGOs with economic activity, mutuals and cooperatives, we can say that there is still a need of a certain ‘entrepreneurial revolution’ marking the expansion of social enterprises.

Figure 1 below shows that most entrepreneurial social economy entities from Romania are mutuals, followed by NGOs and cooperatives. To put it in other words, cooperatives seem to be lagging behind.



**Figure 1.** Share of surplus income reported by type of social economy entities - 2009

Source: Data processing from The National Institute of Statistics, 2011.

**Prerequisites for the development of social enterprises. Enabling policy reform areas.**

Great expectations are connected to the sector of social economy in the world nowadays, as it is hoped that innovative successful solutions can be found for old problems that have not had the best solutions applied to them, as well as new problems for which we must find solutions: in the area of social inclusion, the development of social services and the coverage of new social risks, the problems related to sustainable local development etc. The recent financial crisis rendered this need of innovative solutions even more stringent for problems in which the state, as well as the market, proved to be inefficient. But in order for the organisations active in the field of social economy to innovate (Phillis, Deiglmeier and Miller<sup>9</sup>, 2008; Frances and Nino, 2010<sup>10</sup>; Murray, Caulier-Grice and Mulgan, 2010<sup>11</sup>) and generate new development solutions, there is a need for an enabling, supporting policy framework of reform in the domain of public policy.

We selected a few areas of public policy that we consider to be very important in order to sustain social innovation and to allow the emergence of high-impact solutions development in the field of social economy.

Public administration everywhere in the world has the tendency to favour incremental solutions very much linked with traditional ways of doing things and has a certain resistance to new models and practices. This is even more the case in countries such as Romania, where the reform of public administration and the manner to make

public policies evolve rather slowly. Nevertheless, there are a few critical areas in Romania where the reforms of the last years opened the pathway of the development of innovative policy solutions, setting the framework for an entrepreneurial type of approach: the reform in the field of social services, public administration reform and the development of instruments of the public-private type of partnership.

Social policy reform, and to be more precise, the social services reform component is one of the major enabling policies, which encourage the development of the associative sector. At the beginning of the '90s, Romania emerged from communism with a mature welfare system, but almost exclusively focused on social security (retirement and health). A series of risks such as unemployment did not exist for reasons easy to understand in the context of an economy based on full employment. On the other hand, services of social assistance were non-existent, not because there was no poverty in the country, but because in communist Romania, the existence of poverty was not acknowledged (for ideological reasons). The first years of transition, which were the harshest ones from the point of view of social costs, found Romania in the position of having to face new stringent social assistance needs for various risk groups, but also to build a modern social work system based on a healthy balance between financial benefits and services, starting from the evaluation of needs. In this context, the emergence, diversification and extension of the activity of newly-appeared NGOs and mutuals was very important, sustaining and fostering

reform in the area of social assistance and, in particular, the underdeveloped field of social services. The self-help groups of disabled people, parents, patients, human rights groups or groups for the rights of the various high risk categories of people for social exclusion (children, vulnerable ethnic minorities – Romany, sexual minorities, disabled people, elderly people, dependent people, patients etc.), humanitarian and charitable groups, as well as professional agencies of social services multiplied, generating an actual boom of the types of services present in Romania during the last 20 years and heightened the pressure for a strategic approach of the domain from the authorities. (Lambriu, Vamesu, 2010)

Initially supported by public or private international funds, these NGOs have constantly innovated at the level of social services, meeting the needs of beneficiaries and, to an equal extent, the stringent need of alternatives for the public sector as it was immersed into a complex process of reconstruction. The end of the '90s brought about the great challenges with regard to the reform of social services, especially in fields such as child protection and home care services, residential services for the elderly. The child protection system and the development of connected services became a critical element within the framework of reform strategies after 1998. The European Commission's monitoring of this domain has been a hot topic in the country reports that have reined in Romania's path toward EU integration and had a trigger effect for the fostering of social innovation in the area of services for disenfranchised categories. The new system of social

services developed in the context of a concern for social services at the local level, namely community services, and was built especially around county services for child protection and social work, with an important backup from the NGOs that advanced and implemented alternative services, tested products and processes and brought new issues and ideas for solutions on the agenda of central and local public authorities.

Another critical area of reform that influences the development of social innovation and social entrepreneurship is represented by the reform of public administration, both central and local (Borzaga, 2004)<sup>12</sup>. After 1990, in post-communist Romania, the local administrative level was reinstated, as the first free local elections were organized immediately after the regime change. An entire decade was needed for the system of local administration to become functional, as it cumulated elements of political and administrative decision de-centralization, as well as financial de-centralization.

During the last decade, we witnessed the intensification of the efforts for administrative reform in Romania, at a central and local level, with a strong impulse from the perspectives and process of European integration. In the matter of social innovation policy, the existence of a reformed administrative system is crucial. Out of the multitude of aspects that we can select for a discussion in the domain of the administrative system reform, we chose a particularly important element – the development of public-private partnership in the social arena.

The public-private partnership enables the state to be better acquainted with the needs of individuals and to provide adequate solutions for them. The purveyance of services in a partnership with NGOs allows for a solution that is differentiated according to the actual needs and is adequate to the problems that appear in a given community. There is greater flexibility that leads to a specific need being rapidly addressed. In the area of social services, the public-private partnership ensures the prompt purveyance of these services to the communities that need them the most (impoverished communities, rural communities).

In contrast with the privatization of social services where the responsibility for the creation and purveyance of services is undertaken by the private sector, in social contracting, the state maintains the responsibility of social services. In order to support social development, the government can act in a partnership with the agents of nongovernmental sector, profit or non-profit.

During the last decades, everywhere in the world, as the local level develops and accumulates institutional means, the central government relinquishes the monopoly it holds in the area of social services, actively supporting the local authorities and the organisations of the third sector in the taking over of some of the activities aimed at finding solutions for the problems of the community, providing also a total or partial financing of said solutions. (Nelzon, Zadek, 2000<sup>13</sup>; McQuaid, 2000<sup>14</sup>; Greve, Hodge, 2009<sup>15</sup>) This also happened in Romania, with the government granting increasingly larger responsibilities to the local

administration in supplying social services, without completely solving the problem of access to resources.

Starting with 1998, we witnessed in Romania the successive development of policy tools enabling the contracting of public services, the privatization of services and the development of complex partnerships between public and private organisations. All this expanding policy instrumentation illustrates the process of public market opening for the associative sector.

An important factor that led to the development of the nongovernmental sector and can open the road to the development of social enterprises is represented by the development of the public-private partnership and especially social contracting. After 1998, when the first legislation enabling social contracting was adopted, Romanian public authorities, at central and local level, began delegating more specific responsibilities related to social services in particular, but also to other types of public services, to NGOs. This delegation of responsibilities was done through various contractual formulas – from grants to subsidies, to outsourcing. Thus, the role of the nongovernmental sector in the design and delivery of social services increased considerably. This was possible due to the quantitative and qualitative increase of the nongovernmental sector, as well as to some specific orientation at public administration level (decentralization, subsidiaries, privatization, deinstitutionalization of services) and some new approaches to good governance issues (transparency, participation).

Following an international trend (Gilbert, 2002<sup>16</sup>; Esping-Andersen,

**Table 2.** Public-private partnership legislation in Romania

Policy instrument	Law	Level of application	Provisions	Comments
Subsidies	L34/1998 – on the granting of certain <i>subsidies</i> to the Romanian associations and foundations constituted into a legal body, which create and administer social assistance units	National Local	The granting of certain subsidies to accredited purveyors of social services for said act. It institutes the financing of the social service on the basis on an average monthly cost of the beneficiaries.	The first normative act that stipulates the public-private partnership in the purveyance of social services in Romania. It ensures the continuity of the service. It is the most used mechanism at a central and local level for financing social services on the basis of partnership agreements.
	L448/2006 on the protection of the rights of people with disabilities	Local	It stipulates, at Art. 32, the possibility of contracting social services by NGOs having the average monthly cost per beneficiary as basis, a fact which positions social contracting in the category of subsidies and not that of contracts.	Little applied at a local level. L34/1998 is preferred, as it has simpler and clearer norms of implementation.
Grants	L350/2005 – regarding the regime of <i>non-returnable financing</i> from public funds allocated to non-profit activities of general interest	National Local	It is a legal framework that promotes a procedure applicable to all forms of financing of non-profit entities from public funds	At the beginning, it was also applied in the area of social services, later on, local administrations preferred to finance the social field on the basis of L34/1998. The criteria for the granting of financial aid are very restrictive and impose on the NGO to ensure a co-financing for 10% of the total project value.
Public-private partnership	GO 68/2003 – regarding social services	Local	It speaks of <i>contracts for services</i> and <i>contracts for partnership</i>	It is applied in very few cases, as it lacks clear procedures of implementation.

Outsourcing of public services	L17/2000 regarding social assistance for the elderly	Local	Local budget financing of social services purveyed for the elderly categories of beneficiaries by NGOs is permitted, but without mentioning the obligation to foresee said sums in the budget or a specific procedure to that effect.	Little applied at the local level, Law 34/1998 being preferred for its simpler and clearer norms of implementation.
	L215/2001 regarding local public administration	Local	It stipulates the possibility of financing public services under partnership contracts and collaboration agreements based on the decisions of local councils.	Little applied at the local level, Law 34/1998 being preferred for its simpler and clearer norms of implementation.
	L272/2004 regarding the promotion and protection of children's rights	Local	It stipulates, at Art.118, the financing of social services destined for child protection from local budget resources, but without specifically mentioning that they are also to be granted to NGOs or indicating the procedure to be followed.	Little applied at the local level, Law 34/1998 being preferred for its simpler and clearer norms of implementation.
	GO 34/2006 on the award of public procurement contracts, contracts on concession of public works and concession of services	National Local	It refers to procurement contracts in activity field.	It is contested by the NGOs, as they consider that in the social field <i>the lowest price</i> cannot be a main criterion for the award of the contract. The criterion should be the lowest price for the highest quality.

	<p>GO 68/2003 regarding social services</p>	<p>Local</p>	<p>It speaks of service contracts and partnership contracts. Art. 12.1 of GO 68/2003 makes specific reference to the outsourcing of social services purveyance, stipulating as method the contract for granting (purveying) social services by the public social assistance service, organized at a local or county level, to any purveyor of social services, while observing the competition regulations laid down by law.</p>
		<p>There is a single case when the outsourcing was based on this law. The lack of clear norms of implementation makes it necessary for GO 34/2006 to be applied in parallel.</p>	<p>Stipulates social services contracting and public private partnership, as instruments for the (quantitative and qualitative) development of social services. The contracting of social services is seen as a way of financing social assistance.</p>

Source: Rusu, Octavian and Petrescu, Claudia and Vălcu, Irina, 2007.

2002<sup>17</sup>; Evers, Laville, 2004<sup>18</sup>; Borzaga, Santuary, 2003<sup>19</sup>), in the last 20 years Romania underwent an evolution towards a welfare mix system, determined by the economic and social pressures and the impossibility of the state to face these pressures on its own and also to support the offer of public services to the citizens. In two decades of democracy and market economy, the public organisations (at a central and local level), as well as the NGOs matured, allowing for the introduction of public-private partnership elements

and the development of mix service provision systems. If the logic of social contracts is no longer a novelty in Romania, but a part of the action logic of the state, the logic of investment in social entrepreneurship and the unconditional opening of public markets for the actors of social economy is a challenge.

### **The development of a policy framework for social enterprises in Romania**

Although in Romania the social enterprise as a juridical entity does not exist yet and there is no clearly articulated policy-based conceptual approach to social economy or social enterprises integrating different organizational types, from NGOs to cooperatives, in the last three-four years, in Romania, we witnessed an increase in the interest for the development of a public policy framework for social economy. Also, the concept of social enterprise is present more and more often in various public debates, mainly related to work integration for marginalized groups.

Following the path of other countries in the region and at European level, in 2011, a draft law regarding social economy was launched in Romania by the Ministry of Labour, Family and Social Protection. The main incentive in promoting the draft document was the need for the public authorities to secure the last years investment in the social economy field by means of European structural funds.

In Romania, with the launch of the Sectoral Operational Programme for Human Resources Development (SOP HRD) 2007-2013 financed by the European Social Fund with Major Domain of Intervention 6.1 dedicated to Social Economy, this sector became more visible, through the development of initiatives aimed at improving the public policy framework, achieving comprehensive analyses of the domain, as well as creating new jobs in the social economy field. Moreover, axis 6.2 aims at increasing social inclusion by improving access to and participation

of vulnerable groups on the labour market.

Starting from the list of funded projects posted on the Ministry of Labour, Family and Social Protection website<sup>20</sup> we have done a summary analysis of the objectives targeted by the projects funded in Romania from structural funds until now. The analysis shows that in the 3 years of ESF financing, 113 projects were submitted on the 2 axes, out of which 57 on axis 6.1 dedicated to social economy and 56 on axis 6.2. Out of the 113 projects, 67 have as main beneficiaries NGOs, 40 have public institutions, 2 religious organisations, 1 labour union and 5 commercial companies. A number of 83 projects are carried out in partnership. The main types of products/project categories were: the formation of national/regional/local centres, the creation of social enterprises, social enterprise incubators, mobile centres/teams of social services, the development of public-private partnerships aiming to support the development of local social economy actors, the development of integrated social services. As the most targeted groups of these projects we can enumerate: Roma, women, detainees and people with disabilities.

Presented as the most important initiative governing the social economy field, *The Framework Law for Social Economy*<sup>21</sup> was elaborated through a largely consultative process, initiated by the Ministry of Labour, Family and Social Protection. In the elaboration of the law, a structured policy consultation process was organized on this topic with various third sector representatives. The whole process lasted 10 months and various types of

public organisations (local government representatives, deconcentrated and decentralized administrative units representatives, NGOs and mutual's representatives) have been involved. At the end of the process the draft law was sent for debate and enactment into the Parliament.

The process of public consultation regarding the *The Framework Law for Social Economy* is closed, and looking back we can draw some conclusions regarding the quality of the participative process and the result of the negotiations that took place inside this process.

Firstly, the non-governmental sector played a very important role of policy entrepreneur in the inclusion of the social economy axis on the agenda of the government and within the public consultation process. This policy entrepreneur role is not something new for the non-governmental sector, falling within a trend of democratization of the public policy decision. In Romania, specific legislation exists regarding the public consultation that favored the development of participatory processes. Law 52/2003 on the transparency of the decisional act in public administration, advocated by the entire NGO sector, makes public consultation mandatory in Romania. Of course, going beyond the formalism of compulsoriness, the quality of the participatory process remains important. This entrepreneurial role in policy making of the non-governmental sector materialized in a series of elements that allow us to qualify it as such. Thus, the nongovernmental organisations have played an important role in problem identification and framing (Kingdon, 1984<sup>22</sup>; Walker, 1981)<sup>23</sup> and introduce

new ideas related to social enterprises to different policy actors, helped the agenda-setting process for decision makers.

Secondly, the process of public consultation regarding the new legislation in social economy represented a learning process for those involved. While at the beginning of the process there was an acute need of basic information, definitions and context presentation, towards its end all those involved showed a better knowledge of the field, international practices and models of legislation in the field. The role of the non-governmental sector was very important here as well, important NGOs in the social field or resource centres for NGOs organizing external events during the public consultation process, such as conferences, seminars, inter-sector debates on topics related to social economy.

Thirdly, we should notice the absence of the cooperative sector from the process. Although federative and representation structures of cooperatives were invited, they did not send representatives. The reasons why this invitation to participate in the consultative process was declined seem to be linked to the difficulties of the cooperative sector in understanding its place and role among other social economy entities, the poor understanding of the social enterprise concept.

Fourth, a specific element of this public consultation process and a novelty in the practices of this type in Romania was the sporadic presence to the consultative sessions of the representatives of the Ministry of Labour, Family and Social Protection.

The entire process was outsourced to a consultancy company, which mediated the discussion between the Ministry and the representatives of the organisations participating in the consultation process.

The work product of the public consultation process was a draft law containing certain elements that the participants in the debate seem to have reached a consensus about.

Among the most significant aspects included in the draft law, we have the following:

- It is an ‘open form law’ (SE connotations applied to different legal entities)
- The concept of ‘social brand’ and Register of Social Economy Enterprises is introduced. The qualification of social economy enterprise is subject to specific requirements concerning the field, the allocation of assets, and the property and control structure.
- The definition of the framework for sectoral public policy that is targeted, namely the integration of disadvantaged people and, to a lower extent, the integration of the purveyors of social services in the labour field. The main accent of the draft document is on social inclusion by means of social economy enterprises.
- The National Resource Centre for Social Economy and Regional Resource Centres for Social Economy are established; their main role being to ‘promote and support social economy enterprises’.

The existence of a favourable legal framework for social enterprises is an important element for the development of the sector, but only if this legislation

is harmonized with the specific legislation of each and every social economy entity. NGOs, mutuals, cooperatives, each of them have specific legislation often asking for in-depth changes. The public consultation process regarding the new legal framework for social enterprises also played a revealing role regarding the serious legislation problems that social economy entities specifically have.

### Conclusions

It is hoped that the enactment of a specific legislation will foster the development of opportunities in the area of social entrepreneurship and the development of the entrepreneurial dimension of the associative sector through the stimulation of social enterprises. Also, the new draft legislation is promising a friendly policy environment hoping to see as a result the development of the social insertion activities for disadvantaged people.

But the new legal framework will not operate in a vacuum of legislation and practice in the social economy field. In Romania, social economy already includes a large number of organisations, producing and trading goods and services on the market, for which the new legal framework may represent an opportunity, but may also be something to be ignored. In order to truly stimulate the development of social enterprises, it is necessary to have, in parallel or in the continuation of this new law regarding social enterprises, the possibility to ‘reform’ the specific legislation for each social economy entity. So far, only the representatives

of the non-governmental sector have signalled the fact that the specific legislation for associations and foundations GO 26/2000 needs to be modified in order to make a better use of the new legal framework regarding social enterprises. But cooperatives and mutuals are in the same situation.

The new legislative framework will definitely bring incremental positive changes in the positioning of the third sector within the Romanian welfare mix system. But in order to have ‘an entrepreneurial revolution’ in the Romanian social field, profound changes are necessary in the political vision, as well as in the manner in which public authorities (whether central or local) sustain social entrepreneurship, understand the potential of social economy the actors for local development, cohesion and social inclusion.

Another important element in the success of social enterprises in Romania is the increased advocacy capability of social economy entities. Here, we refer in particular to the ability of federations and the ability of policy coordination between the representatives of the various types of social economy organisations. This sector suffers from fragmentation and lack of cooperation between the representatives of the various types of organisations.

This need for a change of vision and attitude regarding the social economy sector should go beyond excessively state-centred approaches and opening of public markets to social enterprises, to the coherent support for social innovation through the institutionalized mechanisms of support (resource centres, incubators,

information centres, and programs of entrepreneurial education) and mechanisms to identify good practice models.

Not less important is the aspect related to the improvement of the data collection system gathering information with respect to the social impact of social enterprises and the improvement of the system of statistic and demographic data collection in the third sector. There is a significant international experience in this area (Bouchard ed., 2009<sup>24</sup>) that can provide models and practices in this field. Such an endeavour would add more visibility and credibility to the initiatives from the social economy area and would peak the interest of local collectivities to engage in and support the initiatives in the social economy field.

## Notes

<sup>1</sup> Les, E., Jeliaskova, M., (2007), ‘The Social Economy in Central East and South East Europe’ in Noya, A., Clarence, E., (ed.), (2007), *The Social Economy: Building Inclusive Economies*, OECD Publishing.

<sup>2</sup> Hausner, J., Giza-Poleszczuk, A., (2008), ‘Introduction – The Social Economy and Growth’, in Hausner, J., Giza-Poleszczuk, A., (ed.) (2008), *The Social economy in Poland: achievements, Barriers to Growth, and Potential in Light of Research Results*, Warsaw: Foundation for Social and Economic initiatives.

<sup>3</sup> Salamon, Lester -2010. Putting the Civil society on the Economic Map of the World. – in *Annals of Public and Cooperative Economics*, 81:2.

<sup>4</sup> Sabatier, A. Paul, 1999, *Theories of the Policy Process. Theoretical Lenses on*

*Public Policy*. Westview Press;

<sup>5</sup> Laville, Jean-Louis – 2010, *Politique de l'Association*, Edition du Seuil;

<sup>6</sup> <http://www.economiesociala.net/m10-1-1-ro-Proiect-de-lege-ECONOMIE-SOCIALA>;

<sup>7</sup> Defourny, J, Develtere, Fonteneau (eds) *L'Economie sociale au Nord et au Sud – Paris-Bruxelles*, De Boeck University, 1999;

<sup>8</sup> Les, Eva –2004. Cooperatives in Poland from state controlled institutions to new trends in cooperative development. In *Trends and challenges for cooperative and social enterprises in developed and transition countries*, Edizioni, 2004;

<sup>9</sup> Phillis, J. A. Jr., Deiglmeier, K., Miller D. T., 'Rediscovering Social Innovation', *Stanford Social Innovation Review*, Fall 2008, 6, 4, Stanford, p. 36;

<sup>10</sup> Westley F., Antadze N. (2010), 'Making a Difference: Strategies for Scaling Social Innovation for Greater Impact', *The Innovation Journal: The Public Sector Innovation Journal*, Vol. 15 (2)., p. 2;

<sup>11</sup> Murray, R., Caulier-Grice, J., Mulgan, G. (2010), 'The Open Book of Social Innovation'. NESTA Report;

<sup>12</sup> Borzaga, C., (2004), 'From suffocation to re-emergence the evolution of the Italian Third Sector', in Evers, A., Laville, J. L., (ed.) (2004) *The Third sector in Europe*, Cheltenham and Northampton: Edward Elgar Publishing;

<sup>13</sup> Nelson, J. and Zadek, S. (2000) *Partnership Alchemy: New Social Partnerships in Europe*, Copenhagen: Copenhagen Centre;

<sup>14</sup> McQuaid, R.W. (2000) 'The Theory of Partnerships - Why we have Partnerships?' in Osborne, S. P. (ed.), (2000), *Managing Public-Private Partnerships for Public services: An international Perspective*, London: Routledge;

<sup>15</sup> Greve, C., Hodge, G., (2009), 'Public-Private Partnerships and Public Governance Challenges', in Osborne, S. P. (ed.), (2009), *The New Public Governance: Emerging perspectives on the theory and practice of public governance*, edited by Stephen P. Osborne, pp.147 - 160, London: Routledge;

<sup>16</sup> Gilbert, N. (2002) *Transformation of the Welfare State. The silent surrender of public responsibility*, Oxford University Press;

<sup>17</sup> Andersen, Gosta Esping,(ed.) (2002) *Why we need a New Welfare State*, Oxford University Press;

<sup>18</sup> Evers, A., Laville, J. L., (ed.) (2004) *The Third sector in Europe*, Cheltenham and Northampton: Edward Elgar Publishing;

<sup>19</sup> Borzaga, C., Santuari, A., (2003), 'Italy: from traditional co-operatives to innovative social enterprises', in Borzaga, C, Defourny, J., (ed.), (2003), *The Emergence of Social Enterprise*, London and new York: Routledge;

<sup>20</sup> [www.fseromania.ro](http://www.fseromania.ro);

<sup>21</sup> <http://www.economiesociala.net/m10-1-1-ro-Proiect-de-lege-ECONOMIE-SOCIALA> ;

<sup>22</sup> Walker, I. Jack 1981 'The diffusion of Knowledge, Policy Communities and Agenda Setting: the relationship of Knowledge and Power', In John E. Tropman, Milan J. Dluhy, Roger Lind (eds) *New Strategic Perspective on Social Policy*. New York: Pergamon Press;

<sup>23</sup> Kondon, W. John,1984, *Agenda, Alternatives and Public Policy*. Boston: Little Brown;

<sup>24</sup> Bouchard, M. (ed) (2009), *The worth of social Economy. An international perspective*, Bruxelles Bern, Berlin, Frankfurt am Main, New York, Oxford, Wien: Peter Lang;

## References

- Andersen, Gosta Esping,(ed.) (2002) *Why we need a New Welfare State*, Oxford University Press.
- Borzaga, C., (2004), ‘From suffocation to re-emergence the evolution of the Italian Third Sector’, in Evers, A., Laville, J. L., (ed.) (2004) *The Third sector in Europe*, Cheltenham and Northampton: Edward Elgar Publishing.
- Borzaga, C. and Defourny, J. (eds.) (2001) *The Emergence of Social Enterprise*, London, Routledge.
- Borzaga, C., Santuari, A., (2003), ‘Italy: from traditional cooperatives to innovative social enterprises’, in Borzaga, C, Defourny, J., (ed.), (2003), *The Emergence of Social Enterprise*, London and new York: Routledge.
- Bouchard, M. (ed.) (2009), *The worth of social Economy. An international perspective*, Bruxelles Bern, Berlin, Frankfurt am Main, New York, Oxford, Wien: Peter Lang
- Cafaggi, F., Iamicelli, P., (2008), *New Frontiers in Legal Structure and Legislation of Social Enterprises in Europe: A Comparative Analysis*, EUI Working Paper Law, No. 2008/16.
- Defourny, J. and Monzon-Campos, J. L. (eds), (1992), *Economie Sociale – The Third Sector*, Bruxelles, De Boeck.
- Defourny, J. and Nissens, M., (2006), Defining social enterprises, in Nyssens, Marthe, (ed.) (2006), *Social Enterprise. At the crossroads of market, public policies and civil society*, London and New York: Routledge
- Defourny, J, Develtere, P., Fonteneau, B. (eds), (1999), *L’Economie sociale au Nord et au Sud*, Paris-Bruxelles, De Boeck University.
- Epure, Saulean, (1998), *Defining the non-profit sector: Romania*, Civil Society Development Foundation, working paper for The Johns Hopkins Comparative Nonprofit Sector Project.
- Evers, A., Laville, J. L., (ed.) (2004) *The Third sector in Europe*, Cheltenham and Northampton: Edward Elgar Publishing.
- Gilbert, N. (2002) *Transformation of the Welfare State. The silent surrender of public responsibility*, Oxford University Press.
- Greve, C., Hodge, G., (2009), ‘Public-Private Partnerships and Public Governance Challenges’, in Osborne, S. P. (ed.), (2009), *The New Public Governance: Emerging perspectives on the theory and practice of public governance*, London: Routledge.
- Hausner, J., Giza-Poleszczuk, A., (2008), ‘Introduction – The Social Economy and Growth’, in Hausner, J., Giza-Poleszczuk, A., (ed.) (2008), *The Social economy in Poland: achievements, Barriers to Growth, and Potential in Light of Research Results*, Warsaw: Foundation for Social and Economic Initiatives.
- Kindon, W. J., (1984), *Agenda, Alternatives and Public Policy*, Boston: Little Brown.
- Lambriu, M., Vamesu, A., (ed.), (2010) *Romania 2010. Non-governmental sector – profile, tendencies, challenges*, Bucharest: Litera.

- Laville, Jean-Louis – 2010, *Politique de l'Association*, Edition du Seuil
- Les, E. (2004), 'Co-operatives in Poland from state controlled institutions to new trends in co-operative development' in Borzaga, C. and Spear, R., (2004) *Trend and challenges for co-operative and social enterprises in developed and transition countries*, Edizioni 31, Trento - Italy.
- Les, E., Jeliaskova, M., (2007), 'The Social Economy in Central East and South East Europe' in Noya, A., Clarence, E., (ed.), (2007), *The Social Economy: Building Inclusive Economies*, OECD Publishing.
- McQuaid, R.W. (2000) 'The Theory of Partnerships - Why we have Partnerships?' in Osborne, S. P. (ed.), (2000), *Managing Public-Private Partnerships for Public services: An international Perspective*, London: Routledge.
- Murray, R., Caulier-Grice, J., Mulgan, G. (2010), *The Open Book of Social Innovation*, NESTA Report.
- Nelson, J. and Zadek, S. (2000) *Partnership Alchemy: New Social Partnerships in Europe*, Copenhagen: Copenhagen Centre.
- Phillis, J. A. Jr., Deiglmeier, K., Miller D. T., 'Rediscovering Social Innovation', *Stanford Social Innovation Review*, Fall 2008, 6, 4, Stanford.
- Rusu, O. Petrescu, C., Valcu, I., (2007), *Place and role of NGOs on Romanian social services market*, Bucharest: Civil Society Development Foundation.
- Salamon, L., (2010) *Putting the Civil society on the Economic Map of the World*, in *Annals of Public and Cooperative Economics*, 81:2.
- Sabatier, A. P., (1999), *Theories of the Policy Process. Theoretical Lenses on Public Policy*, Westview Press.
- Walker, I. J. (1981) 'The diffusion of Knowledge, Policy Communities and Agenda Setting: the relationship of Knowledge and Power', in Tropman, J. E., Dluhy, M. J., Lind, R. (eds), (1981), *New Strategic Perspective on Social Policy*, New York: Pergamon Press.
- Westley F., Antadze N. (2010), 'Making a Difference: Strategies for Scaling Social Innovation for Greater Impact', *The Innovation Journal: The Public Sector Innovation Journal*, Vol. 15 (2).
- <http://www.economiesociala.net/m10-1-1-ro-Proiect-de-lege-ECONOMIE-SOCIALA>
- [www.fseromania.ro](http://www.fseromania.ro)