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## Social enterprises role in Romanian welfare system

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# Working Paper

## **Social enterprises role in Romanian welfare system**

Mihaela LAMBRU & Claudia PETRESCU

**CIRIEC No. 2019/17**

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## **Social enterprises role in Romanian welfare system<sup>\*</sup>**

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## ***Abstract***

Within a socio-economic and political context dominated by both the economic crisis and the pressure to find ways to reform and upgrade general interest services and develop sustainable work integration solutions for disadvantaged groups, Romanian decision makers showed interest towards social economy and social enterprise solutions. Starting with 2007 in Romania the key factor that pushed associations and foundations towards the institutionalization as social enterprises has been the progressive need and interest towards the development of income generating activities to enhance their social mission. This paper aims to analyze the role of social enterprises in Romanian welfare system. For this, we identify the challenges and opportunities for SE in the social service system, analyze legislative and fiscal framework impacting on social enterprises development within the welfare service delivery. The paper brings structured information regarding the size, dynamic and profile of social enterprises active in the social sector area in Romania, specific challenges and development perspectives. For each type of social enterprise, the paper identifies its role in the Romanian welfare system.

**Keywords:** social economy, social enterprises, welfare systems

**JEL Codes:** L3 (L31, L33), I3 (I30, I31)

Over the past twenty years, Central and Eastern Europe has taken considerably more interest in gaining additional knowledge of and involving social economy actors in general and social enterprises in particular as potential economic and social development actors and facilitators. The paper examines the role of social enterprises within the Romanian welfare system (WS), identifying trends and challenges.

The paper is structured as follows: firstly, a general overview of the Romanian WS model will be presented, emphasizing on specific characteristics and trends; secondly, the typology and development trends of Romanian social enterprises (SEs) will be presented to illustrate the variety of SE models emerging in the present WS national context.

### **Welfare State profile in CEE and in Romania – characteristics and trends**

At international level we have already extensive and comprehensive literature regarding SE institutionalization and development in different geographical areas and socio-political, cultural and economic contexts (Borzaga, Galera, Nogales, 2008; Lyon and Sepulveda, 2009; Defourny and Kuan, 2011; Borzaga and Galera, 2012; Kerlin, 2017; Nyssens and Defourny, 2017). All these studies highlight a genuine and considerable interest in SEs coming from different categories of stakeholders, while demonstrating that the various forms of social enterprise organization and development strategies depend on WS context-driven constraints and opportunities.

Various scientific attempts to describe and analyze social enterprises share the importance attached to the understanding of the economic, political, social and cultural contexts in which those organizations operate (Kerlin, 2006; Kerlin, 2009; Kerlin, 2013; Borzaga and Becchetti, 2011; Crimmins and Keil, 1983; Alter, 2010; Young, 1983; Young, 2012; Borzaga and Galera, 2009; Teasdale, 2012; Nicholls and Teasdale, 2017). Besides national perspectives, we have an emerging comparative literature with a regional approach proposing different models and typologies to understand commonalities and distinctions between social enterprise movements in different contexts (Borzaga and Defourny, 2001; Defourny and Nyssens, 2012; Mair, Battilana, Cardenas, 2012; Kerlin, 2009; Kerlin, 2013; Kerlin, 2017; Defourny and Kim, 2011; Nyssens and Defourny, 2017).

Many of the SEs research studies are based on sociological or historical institutional theory and some of them are proposing sort of constructed typologies or models based on institutionalist theories. The institutionalist

theory perspective enables us to understand social enterprises as organizations embedded in their socio-political and economic contexts and as historically constructed institutions placed under a specific welfare regime (Kerlin, 2013; Kerlin, 2017; Salamon, Sokolovsky and Anheier, 2000; Salamon and Sokolovsky, 2010; Nicholls, 2010; Teasdale, 2012; Beland, 2005; Sepulveda, 2015). Also, we understand that current institutions and policy options are highly influenced by the early developments of State structures and are strongly path dependent (Sckocpol, 1979; Sckocpol, 2008; Steinmo, 2008, Ruechemeyer, 2009). Social enterprises are embedded in their socio-political and economic context, as historically constructed institutions placed under a specific welfare regime (Beland, 2005; Sepulveda, 2015; Kerlin, 2017).

In order to better understand the inception and evolution of social enterprises in Romania it is important to grasp the evolution and specificity of the welfare state. In the past decades, the landscape of the Welfare State has witnessed dramatic changes worldwide, marked by governments' increasing incapacity to cope with multiple social pressures in a difficult socioeconomic context. These changes have been studied from various theoretical and disciplinary angles, in an effort to identify key welfare profile features in different regional contexts and to understand better the facets of the current welfare reform. Starting with the seminal work of Esping-Andersen (1990) on the typologies of welfare regimes, we have witnessed the development of welfare regime models and typologies in different contexts (Bonoli, 1997; Ferrara, 1996; Castles, 1998; Arts and Gelissen, 2002). The bulk of the welfare literature focuses on Western post-industrial societies, but in the late 90's, we could see new literature slowly emerge about welfare development in CEE post-communist countries (Aidukaite, 2009; Aidukaite, 2011; Cerami, 2006; Cerami and Vanhuysse, 2009; Deacon, 1992; Fenger, 2007; Inglot, 2008). All these studies indicate that CEE countries hold distinctive welfare characteristics based on their common historical, institutional and socioeconomic past. However, we have to understand that the CEE region is not entirely homogenous and there are differences between the countries of this region.

In a comparative study on European social policies, conducted by Golinowska et al. (2009) and which also includes CEE countries, the authors state that, starting from specific trends and characteristics, we can identify a specific welfare model based on commonalities resulting from the communist past and similar transition challenges related to democracy and market economy development. The authors identify a series of characteristics for this welfare model which are specific to former communist countries:

- a return to the Bismarkian social insurance system established before the Second World War;
- high take-up of social security;
- drastic social security reform within a short period of time;
- great influence of foreign experts and organizations in policy design;
- important issues related to unemployment and labour migration;
- accelerated demographic transformation;
- weakness of the associative sector and civil society organizations in general;
- high level of corruption; increasing inequalities and social exclusion.

Other authors have specifically emphasized the weakness of civil society and the low level of trust in state institutions (Ferge, 2001).

The CEE countries share common features regarding social protection, all of them having low social protection spending as a percent of GDP even though the risk of poverty and social exclusion is high. EUROSTAT data analysis of public spending on social protection in EU countries indicates for the period 2000 - 2016 a common tendency in CEE countries to allocate much lower GDP shares than the EU average (28.1%). In Romania, Latvia and Lithuania, the GDP share of such expenditure remains well below the EU average, namely around 15% in 2016 and dropping after 2010. Between 2010 and 2016 the expenditure for social protection as percentage of GDP dropped out under 20% also in other CEE countries (Czech Republic, Estonia, Hungary). In some CEE countries – Croatia, Poland and Slovenia – the share is greater than 20%, but below the EU average (28.1%). (Table 1)

**Table 1 - Social protection expenditure as percentage of gross domestic product  
(% of GDP)**

Country	2000	2005	2007	2010	2012	2015	2016
<b>EU - 15</b>	25.5	26.5	25.9	29.4	29.6	29.3	29.0
<b>Bulgaria</b>	:	14.7	13.4	17.0	16.6	17.9	17.5
<b>Czech Republic</b>	18.0	18.0	17.6	20.0	20.4	19.0	18.9
<b>Estonia</b>	13.8	12.5	12.0	17.6	15.0	16.1	16.6
<b>Croatia</b>	:	:	:	21.3	21.6	21.8	21.3
<b>Latvia</b>	15.4	12.2	10.6	18.3	14.4	14.9	15.2
<b>Lithuania</b>	15.7	13.2	14.2	19.1	16.3	15.6	15.4
<b>Hungary</b>	19.6	21.4	22.1	22.5	21.3	19.4	19.2
<b>Poland</b>	19.6	20.0	18.4	19.7	18.9	:	20.3
<b>Romania</b>	13.0	13.4	13.2	17.4	15.4	14.6	14.6
<b>Slovenia</b>	23.7	22.6	20.9	24.4	24.9	23.7	23.3
<b>Slovakia</b>	19.1	16.1	15.7	18.2	18.0	18.2	18.4

Source: EUROSTAT, 2019 (indicator: spr\_exp\_sum).



As we can see in Table 1. Romania shows a very low level of spending of public expenditure on social protection. The social protection expenditure increased between 2000 and 2010, from 13% of GDP to 17.4 % of GDP. After 2010, even if it was a decrease of this expenditure as percent of GDP, the amount allocated to social protection in million EURO increased with 2 million. Considering the poverty issue in Romania and the need for social services, this amount is not sufficient to cover the needs.

In the past two decades of democracy and market economy in Romania, both public institutions (at central and local levels) and non-governmental organizations have developed and matured, contributing to the establishment of a public-private partnership through public market openness towards private actors such as non-governmental organizations, especially in the field of social services.

While social contracting is no longer a novelty for governmental decision makers in Romania, but part of the state's intervention logic in various public policy areas (in particular in the social area, environment, education and training), the logic of investing in social entrepreneurship and opening the public market to all social economy entities (not only to NGOs) remains both a novelty and a challenge for public policy development and implementation.

As for governance quality indicators, Romania and Bulgaria report the lowest scores related to the government's capacity to make public policies that foster private sector development, trust in the rule of law and the fight against corruption. The development of CEE countries was analyzed using two indicators – GDP/capita and GCI ranking. Based on their GDP/capita, most Central and Eastern European countries have a low public spending on social protection as percent of GDP. GCI ranking points out different levels of development for these countries, with a higher competitiveness index in the Czech Republic and Poland and the lowest in Hungary. (Table 2)

**Table 2 - Socioeconomic indicators for Central and Eastern European Countries**

Country	Welfare State <sup>a</sup>	Governance <sup>b</sup>			Economy <sup>c</sup>
	Public spending on social protection (% of GDP)	Regulatory Quality	Rule of Law	Control of Corruption	GCI Score/Ranking
<b>Romania</b>	14.6	72.17	61.54	57.21	4.3/62
<b>Bulgaria</b>	17.5	70.67	54.33	49.52	4.44/50
<b>Czech Republic</b>	18.9	82.21	84.13	67.31	4.72/31
<b>Hungary</b>	19.2	74.52	66.35	61.54	4.20/69
<b>Poland</b>	20.3	80.29	76.92	73.56	4.56/36
<b>Slovenia</b>	23.3	72.60	80.77	76.44	4.39/56
<b>Slovakia</b>	18.4	75	69.23	62.5	4.28/65

<sup>a</sup>Source: EUROSTAT, *Expenditure on social protection % of GDP*. Data for 2016

<sup>b</sup>Source: World Bank (2018), World Wide Governance Indicators for 2015, <http://info.worldbank.org/governance/wgi/#home>

<sup>c</sup>Source: Schwab. K. (ed.) (2016), *The Global Competitiveness Report 2016-2017*, Geneva: World Economic Forum, [http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf)

Despite quantitative growth, especially in the number of active associative entities and sector employees, many authors have shown that CEE countries feature a weakness of the associative sector and civil society (Golinowska et al., 2009; Ferge, 2001; Les and Jeliaskova, 2007; Hausner and Giza-Poleszczuk, 2008; Lambru, 2011). Volunteering stays at a low level in the region compared with Western European countries, namely below 15%, except for the Czech Republic, Slovakia and Slovenia where it exceeds 20% (Voicu and Voicu, 2009). As for government support provided to associations and foundations and other social economy actors on a public market opened to these organizations, we note that it is still limited.

In Western Europe, public-private partnership development between the State and third sector in general and social enterprise development in particular have been strongly affected by the Welfare State crisis and the reaction of citizens dissatisfied with both public supply and market provision of social and community care services (Borzaga and Galera, 2012). In CEE, in addition to Welfare State crisis and reform tensions, public resources are deficiently allocated to general interest services, public-private partnerships are few and limited by restricted budgetary allocations.

## Methodology

Our paper aim is to analyze the role of social enterprises in the Romanian welfare system. Thus, we propose to identify the challenges and opportunities for SE in the social service system, to analyze legislative and fiscal framework impacting on social enterprises development within the welfare service delivery.

In order to identify and analyze present challenges and opportunities we have used a mix of research methods which includes: qualitative research (in-depth interviews with social enterprises and associations and foundations from social and health areas, in-depth interviews with decision makers), secondary data analysis (surveys on associations and foundations from social and health area, administrative data regarding social enterprises activities and social services providers, administrative data regarding social enterprises created through SOP HDR), social documents analysis (report on public procurement for social enterprises, report on non-governmental sector in Romania).

## The SE typology and development trends within the Romanian welfare system

In order to understand the Romanian SEs role within the WS context it is important first of all to present some historical elements related to their organizational roots. In Romania social enterprises have solid roots in associative, mutual and cooperative traditions, belonging to the complex family of social economy organizations. Each type of social economy organizations has its own historical background and economic and social profiles.

The role of social enterprises in welfare system is linked mainly with social services provision because of the state and market failure (Evans, 2007; Teasdale, 2012; Nicholls and Teasdale, 2017; Doherty, Lyon and Haugh, 2014), employment for vulnerable groups (Aiken, 2007; Teasdale, 2012; Nicholls and Teasdale, 2017; Doherty, Lyon and Haugh, 2014; Elsen and Walliman, 1998), empowerment of vulnerable groups (Bode, Evers and Schulz, 2006), mobilization of social capital (Evans and Syrett, 2007; Kay, 2006; Evers, 2001).

The Romanian spectrum of social enterprise comprises *de facto* (associations and foundations with entrepreneurial activity, mutual aid associations, cooperatives, WISE – sheltered workshops) and legally-recognized social enterprises (social enterprises ex lege and social insertion enterprises/WISE). Especially associations and foundations, WISEs and mutual aid associations

have an important role in the welfare system in Romania because of their involvement in tackling social exclusion: social services delivery, employment of vulnerable groups, mobilize social capital, empowerment of vulnerable people.

### **Associations and foundations with economic activities**

The most dynamic actor in the field of social enterprise development are associations and foundations, called regionally NGOs, which engage in economic activities to address social issues either directly or indirectly (by developing separate limited liability companies in which they are the main shareholder). Surplus obtained through the entrepreneurial activity has to be used in line with statutory purposes of the associations and foundations. Examples of economic activities include the delivery of services addressed to the general public (social services, care giving, education, environment protection, labour market services, culture, sport, tourism, fair trade, accounting, archiving, printing etc.) or even the production of goods (food, jewellery, toys, textiles, decoration etc.).

The National Institute of Statistics (NIS) data for 2015 indicate 42,707 active associations and foundations with 99,774 employees. Despite the quantitative growth of the associative sector registered between 2010 - 2015, associations and foundations' territorial dispersion is uneven and indicates a concentration in urban areas (approx. 75%) and in the more developed regions of Romania (55% of associations and foundations are located in the three most developed regions) (CSDF, 2017, p. 22-23). Due to this uneven distribution of associations and foundations in Romania, the level of service accessibility is differentiated, lacking in particular in areas faced with the most serious social issues – the rural and poor areas.

In the last years, an important issue of associations and foundations has been to secure the financial resources necessary for their activity (Lambru & Vamesu, 2010; CSDF, 2015; CSDF, 2016). One possibility to secure financial resources apart from the traditional methods (grants, sponsorship, subsidies, donations, membership fees, etc.) was the development of economic activities enabling them to independently secure part of the resources in order to be able to fulfil their social goals.

The number of associations and foundations that carry out economic activities has increased since 2010 up to 5,302 (meaning 12% of all active associations and foundations) with 13,117 employees (13% of associations' and

foundations' employees). Associations' and foundations' total incomes/revenues from economic activities have increased between 2010 and 2015. In 2015 the average percentage of associations' and foundations' incomes from economic activities was 29%. (Table 3)

**Table 3 - Evolution of Associations and Foundations  
with economic activity in Romania 2000-2015**

<b>Associations and foundations</b>	<b>2000</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Number of organizations	1219	2730	3832	4058	4468	4744	5302
Number of employees	1942	12561	15038	16097	11272	12469	13117
Economic activities' income in total associations and foundations' income (%)		34.20	55.63	57.25	28.07	29.92	28.66
Number of organizations that had a surplus		1589	2299	2341	2133	2289	2656
Total income (thousands EURO)	51,319	529,284	829,828	713,211	2,045,685	2,117,577	2,543,032

Source: CSDF, 2017. *Romania 2017. Non-profit sector – profile, evolution and challenges*; NIS, data processed by the Research Institute for Quality of Life (RIQL), 2013

If we consider only the associations and foundations active in the delivery of social services of general interest, 9% of the associations and foundations from social/charitable field carry out economic activities, 8% of those from health field, 12% of those from education, 12% of the cultural ones, 10% of the civic ones and 9% of those from environment. (Table 4)

**Table 4 - Associations and foundations' areas of activity and % of associations and foundations having economic activities per area of activity, 2010-2015**

Associations and foundations' areas of activity	2010	2011	2012	2013	2014	2015
<b>Social/Charity</b>	5961	6651	7587	8192	8688	8861
<b>% with economic activity</b>	8%	7%	7%	8%	8%	9%
<b>Education</b>	2927	3257	3858	4632	5151	5453
<b>% with economic activity</b>	11%	10%	9%	11%	11%	12%
<b>Culture</b>	2738	3211	3713	4589	5035	5310
<b>% with economic activity</b>	9%	10%	9%	11%	10%	12%
<b>Health</b>	1601	1655	1808	2079	2252	2456
<b>% with economic activity</b>	8%	7%	8%	8%	8%	9%
<b>Civic</b>	970	1092	1273	1495	1606	1623
<b>% with economic activity</b>	9%	9%	9%	9%	9%	10%
<b>Environment/Ecology</b>	743	868	989	1111	1199	1233
<b>% with economic activity</b>	8%	8%	7%	8%	8%	9%

Source: CSDF, 2017. *Romania 2017. Non-governmental sector – profile, evolution and challenges*

### ***Role of associations and foundations in welfare system***

Associations and foundations with economic activities are the most active SEs in tackling with social exclusion issues in Romania: the biggest social services providers (quantitative and qualitative) and ones of the most important employers for vulnerable groups. They are also the main social innovators in social protection area by developing new type of social services according with the beneficiaries needs, introducing new concepts and practices in the social policy (ex. social integrated services at community level, quality standards for various types of social services).

Social services of general interest (social protection, health, culture, education) are developed and provided in Romania by the state and private providers, the associative sector being one of the main private actors in this field. In social protection associative sector is the main private provider of services, because of their capacity to innovate in social services field and to respond in a proper manner to the people and community's needs. Also, associations and

foundations are the main partner of the public institutions in the public policy design process in social protection.

In Romania, social services comprise a wide range of services and activities aimed at supporting vulnerable people "to overcome difficult situations, prevent and combat the risk of social exclusion, increase the quality of life and promote social inclusion" (Law 197 / 2012, Article I, point 3). This diverse range of services may include social services (accommodation, food preparation, food, cleaning, counseling, therapy, etc.), health services, educational and training services, cultural services or leisure.

Social services can be provided by public and private institutions. All these social services providers should be accredited by the Ministry of Work and Social Justice. This accreditation is intended to certify compliance with quality criteria and standards in social services regulated at national level by both the supplier and their services.

According with the National Registry of Accredited Social Services Providers in 2019 there are 2705 of accredited social services providers, from which almost 40% are private providers (associations and foundations, mutual aid associations, limited liability companies, church organizations). The number of associations and foundations that are accredited to provide social services is 751, almost equal with that of the associations and foundations with economic activities in the social/charitable field (National Registry of Accredited Social Services Providers, 2019). All private social services providers have licensed 1568 social services (42% of all licensed social services). Associations and foundations have specially licensed home care services for elderly/disabled people, day care centers for children and their families, day care centers for people with disabilities, social canteens, residential centers for the elderly, centers for other categories of vulnerable people (National Registry of Licensed Social Services, 2019).

### **WISE-type enterprises – sheltered workshops and social insertion enterprises**

In Romania, there are two types of work integration social enterprise – sheltered workshops dedicated only to disabled people and social insertion enterprises centered on all types of vulnerable groups.

## ***Sheltered workshops***

Sheltered workshops were established in the first years of the post-communist period as an institutional form to support the work integration of people with disabilities. These entities can be developed by companies, associations and foundations or public administration and at least 30% of their employees should be people with disabilities. (Law 448/2006 on protection of people with disabilities).

Historically speaking, worker cooperatives for people with disabilities are at the root of sheltered workshops or contemporary WISEs. In the communist period, work integration of disabled people was achieved through worker cooperatives. Like in other European countries, Romanian sheltered workshops are considered an intermediate stage of employment tailored for disabled people towards a working place on the free labour market. Contemporary sheltered workshops are organized according to the Law 448/2006 (Law on protection of people with disabilities) and perform productive work, participate in commercial activities and also provide personal and social services in order to fully integrate their recipients in the open labour market and society.

Like other European countries, Romania has a quota-system for stimulating employers to hire people with disabilities. The legislation regarding the protection of persons with disabilities (Law 448/2006, stipulates that any private or public organization with 50 employees should hire at least 4% of persons with disabilities. In case that an employer does not meet this requirement, it must pay at the general state budget 100% of the national minimum salary for all the vacant positions. Until 2017, as an alternative, the defaulting company can buy goods or services for the given amount from authorized sheltered workshops. This change in the legislation (G.O. 60/2017) generated a reduction in income and a reduction of the market for sheltered workshops. Because their fiscal facilities were eliminated, most of them do not want to renew their authorization as sheltered workshop, and until December 2019 only 5 sheltered workshops renewed their authorization. According to the information provided by National Agency for Fiscal Administration, the amount that is collected monthly from this disability tax is around 42 million EUR (Close to You Foundation, 2019).

For the period 1980 - 1989, the data from National Federation of Worker Cooperatives indicates that approx. 30,000 persons with disability were members of worker cooperatives (MMFSP, 2010). The official statistics regarding the sheltered workshops are available since 2006 (in follow up to Law 448/2006, on protection of persons with disabilities). There were 48 such



units in 2006 and one year later (in 2007) their number increased more than three times (150 sheltered workshops were registered). By 2010, the number of registered sheltered workshops was 419, while by 2017, their number almost doubled (708) (ANPD, 2017; Achitei et al., 2014; Constantinescu, 2013). During 2008 - 2017, most of those sheltered workshops were companies (64%), associations and foundations (28%) or cooperatives (2%) (ANPD, 2017). The number of associations and foundations managing sheltered workshops increased after 2011 from 56 to 197 in 2017 (they are already mentioned at the associations and foundations) (Table 5).

**Table 5 - Romanian sheltered workshops evolution between 2008-2017**

	2008	2010	2011	2012	2013	2016	2017
<b>Sheltered workshops</b>	207	481	330	564	667	759	708
<b>Managed by:</b>							
<b>Limited liability companies</b>	156	378	245	391	455	495	442
<b>Associations and foundations*</b>	24	58	56	109	149	204	197
<b>Cooperatives</b>	22	24	11	20	19	16	15
<b>Other types of organizations</b>	5	21	18	40	43	43	42
<b>Public institutions</b>	0	0	0	4	1	1	1

Source: DPPH, 2011; ANPD, 2015; ANPD, 2016; ANPD, 2017; Alături de voi, 2014.

\*Due to the registration procedures, there can be an overlapping in small number of cases between the number of associations and foundations that are sheltered workshops and data on associations and foundations as discussed above.

### ***Social insertion enterprises***

Social insertion enterprises are regulated by the 2015 Law on the Social economy. Their aim is to integrate vulnerable people in the labour market, including people with disabilities. Thus, social insertion enterprises could in principle include also sheltered workshops. In fact, social insertion enterprises and sheltered workshops are functioning in parallel with neither one replacing the other one. They could be set up as cooperatives, associations or foundations, mutual aid associations or limited companies if social enterprise criteria are fulfilled (Art.3) and in their employment structure they have at least 30% of workers with multiple challenges (Art.10) to enter the mainstream labour market: long-term unemployed, former drug addicts, unemployed ex-offenders, minorities facing discrimination (e.g. Roma people, NEETs, victims of domestic violence, single mothers, homeless, etc.). The level of vulnerability

should be established through a social diagnosis done by local public authorities, in accordance with public regulations.

Considering that social insertion enterprises facilitate the insertion of vulnerable persons into the labour market, they must also provide accompanying measures specifically tailored for them (information, counselling, professional training, job adaptation to the person's capacity, accessibility of the work place according to people's needs, etc.). These accompanying measures have the role of empowering vulnerable people and of reinforcing their chances for the socio-professional insertion.

Because the registration as social insertion enterprise involves a lot of bureaucracy (administrative documents to prove the existence of employees from vulnerable groups, an annual report on the activity carried out, accounting documents etc.) and the absence of fiscal facilities or other assets dedicated exclusively to them, they are not officially registered in the National Registry of Social Enterprises. This is why till the end of November 2018 only 114 social enterprises were included in the National Registry of Social Enterprises. Only 12 work integration social enterprises (WISEs) aiming at social inclusion of disadvantage people were registered even if the law provides fiscal benefits and other incentives. Out of 114 social enterprises registered, 50 are associations, 8 foundations, 6 mutual aid societies for employees, 7 cooperatives and 43 limited companies. (National Registry of Social Enterprise, December 2018)

### ***Role of WISEs in welfare system***

WISEs are instruments of the welfare system, being an active social policy measure for social inclusion. WISEs have a specific role in ensuring paid employment for vulnerable people, especially for disabled persons, but also in empowering vulnerable groups to integrate socio-professionally. The employment of disabled people has a double impact - economic and social.

From an economic point of view, the WISEs have an important role for the integration on the labour market of a specific category of employees, training and retraining in line with labour market demand and bridging the transition from sheltered employment to free labour market.

The social role of WISEs comprises two major components, social integration (interaction with others, strengthening self-esteem, providing support services) and mobilizing social capital by providing a new social relationship environment

for the persons with disabilities. The WISEs' representatives consider that the most important role of these organizations is to offer the opportunity for vulnerable people, especially for people with disabilities, to become active persons in the labour market and to expand their social interactions with other persons. More specifically, they represent a way to get these people out of their ordinary life environment and to restore their self-confidence.

In recent years in Romania we see an ascending trend in the number of sheltered workshops registration. At the same time, starting with 2017 we have a decrease of their number of employees (Table 6). This situation can be explained by the recent legislative changes affecting the activity of sheltered workshops. There is a decrease in the number of employees in sheltered workshops authorized at the end of 2017 by 465 people, due to the application of the provisions of G.O. 60/2017 and the abolition of the facility offered to economic agents to buy products made by sheltered workshops with the money due for not engaging people with disabilities.

There is no official data available regarding the transition of people with disabilities from sheltered workshops to free labour market, but different studies and information from stakeholders' in-depth interviews show that this transition rate is generally very low (RAS, 2009; RAS & Motivation, 2010; Achitei et al., 2014; Alexiu et al., 2014).

**Table 6 - The evolution of the employees' number in sheltered workshops**

<b>Sheltered workshops</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Number of sheltered workshops</b>	564	667	691	723	759	708
<b>Number of employees in sheltered workshops</b>	1690	1769	1733	1785	2015	1550
<b>Number of disabled persons employed at national level</b>	28756	29842	30556	32147	33449	33593
<b>% employees in sheltered workshops of total disabled persons employed at national level</b>	5.88%	5.93%	5.67%	5.55%	6.02%	4.61%

Source: DPPH, 2011; ANPD, 2015; ANPD, 2016; ANPD, 2017; Alături de voi, 2014.

## **Mutual aid associations of retirees**

Mutual aid associations of retirees (RMAA) have a long history in Romania, first of them being established in the middle of XIX century. Their main aim is to offer financial, social, health or cultural services for elderly people and communities. RMAA have a double registration as associations (GO 26/2000) and as mutual organizations (Law 540/2002). RMAAs are also registered as

non-banking financial institutions with the National Bank of Romania. At a community level, these organizations have survived and developed mainly to help citizens cope with financial exclusion risks. Mutual aid associations work as incipient credit unions and provide small loans to their members and community. Nevertheless, differently from many similar Western European organizations, they are not involved in insurance/reinsurance of activities (Lambru, 2013; Grijpstra et al., 2011).

NIS data from 2015 indicates a number of 219 RMAAs with 2,450 employees. During 2000 - 2015 the numbers of organizations and employees of RMAAs nearly doubled (Table 7).

**Table 7 - Mutual aid associations' evolution in Romania**

Mutual aid associations for retirees	2000	2010	2011	2012	2013	2014	2015
<b>Number of organizations</b>	133	203	193	198	201	218	219
<b>Number of employees</b>	1,306	1,306	2,176	2,240	2,412	2,544	2,450

Source: CSDF, 2017. *Romania 2017. Non-profit sector – profile, evolution and challenges*; NIS, data processed by the Research Institute for Quality of Life (RIQL), 2013.

### ***Role of mutual aid associations in welfare system***

They are a safety network for their more than 1.5 million members and their families. They offer a wide range of non-bank financial services (loans) and social services tailored to the needs of their members, mostly senior citizens. RMAA members join these organizations because they provide the only viable solution to different risks common to the Romanian welfare system: (a) the risk of financial exclusion – many Romanian pensioners are not eligible for banking services because of their small pensions and thus their financial needs are covered by low interest loans from PMAA; (b) covering the costs incurred by specific events (– funerals–) which is something that RMAA do for all members based on the social fund available.

While the core services supplied are financial ones – small loans for their members, the range of services delivered is much broader and includes: social services, cultural, recreational activities, direct services for small fees provided through the labour of the pensioner members, food shops with lower prices for their members, repairing workshops, medical and funeral services, beauty services. Mutual aid associations of retirees can offer services also to non-members and also reach members' families and social benefit beneficiaries for

free or upon a small payment. They provide also social/medical services to their members, their families, and more in general to elderly people in need.

### **Cooperatives pursuing general interest goals**

The framework for the functioning of the cooperatives is ensured by Law no.1 / 2005 (Law on the organization and functioning of the co-operative). Over the last few years, a new generation of cooperatives have developed in Romania, most of them fulfilling social enterprises characteristics. It's a re-discovery of the cooperative sector, which is still struggling to overcome a number of psychological barriers, which have been inherited from the communist period. Most of them are established thanks to specific national policy measures (in rural areas, they obtain a better score when submitting funding proposal or can receive more incentives from public authorities) or European Funds. Domains where cooperatives fulfilling the social enterprise criteria include the following: environment, culture, fair trade, rural and sustainable development.

The new generation of cooperatives are using their profits not only to benefit their members, but also to promote the interests of their communities by carrying out general interest activities. The principle "one person, one vote" is the basis of the governance in cooperatives. Even if the cooperatives' law does not foresee the presence of diverse stakeholders in the decision making process, cooperatives pursuing general interest goals tend to involve a plurality of stakeholders (especially from local communities) in the decision-making process.

### **Role of the SE in employment of vulnerable group**

Romania has funded the social enterprises' start-up between 2009 - 2015 through the Sectoral Operational Program Human Resources Development (SOP HDR) (Axis 6 – Social economy). An amount of EUR 429,153,699 was earmarked, through SOP HDR, for both the social enterprises' start up and the knowledge of the field. Through these funds, 1339 social enterprises have been set up that created 8332 jobs. Of these, 70% (933) were organized as limited liability companies, 22% (293) as associations and foundations, 6% (82) as cooperatives and 2% (26) as mutual aid associations (Table 8). Taking into account the fact that social enterprises

have been considered as forms of social inclusion (the axis that financed SEs' start up were dedicated to social inclusion of vulnerable groups), 74% (6148) of the new jobs created were for vulnerable persons (Roma people, disabled persons, NEETs, young people from the social protection system, unemployed, poor people, vulnerable women etc). The main issue is related to the sustainability of these jobs created by the SEs financed by SOP HDR.

In Romania the poverty rate in rural areas was higher (48.5%) than in urban ones and was caused by the predominance of agriculture in economic activity that is associated with low incomes and seasonality of work, but also by the fragmentation of the agricultural holdings, small dimension of the farms, low level of entrepreneurship. The low level of entrepreneurship in rural areas represents an important determinant of poverty and exclusion for people from these areas. Because of that, the SOP HDR encouraged the social entrepreneurship in rural areas, and 67% (897) of social enterprises financed were located in rural areas.

**Table 8 - Social enterprises' startups  
financed through SOP HDR, POSDRU 2009-2015**

Regional intermediary body who managed the implementation	Social enterprises number	Jobs number	Types of organizations				
			Limited liability companies	Coops	Assoc. & Foundations	Mutual aid associations	Others
South East	251	1481	195	4	49		3
South West	175	1196	106	54	15		
South Muntenia	340	2005	241	4	95		
Bucharest-Ilfov	67	399	49	8	10		
Nord West	250	1767	180	4	64		2
Centre	256	1484	162	8	60	26	
<b>Total</b>	<b>1339</b>	<b>8332</b>	<b>933</b>	<b>82</b>	<b>293</b>	<b>26</b>	<b>5</b>

Source: Center for Non-profit Legislation, 2019. Data from Ministry of European Funds, General Direction European Programs Human Capital, 2018, Data received according to the document 36332/23.05.2018

## Results and contribution

Compared with other western European countries, Social service marketization occurred in Romania also, but with limited coverage and a much reduced policy toolkit. The Law 34/1998 regarding subsidies for private entities providing social assistance services was followed by other new laws and government ordinances enabling public-private-partnerships and social contracting in

various policy areas, but almost 20 years later the toolkit used and the management capacity of public authorities remain limited.

The new legislation developed in Romania (Law on social economy 219/2015 and Law on public procurement 98/2016) offers interesting perspectives with regard to the contribution of the social enterprises to the development of services of general interest. Moreover, special provisions in the public procurement framework regarding social clauses and reserved contracts have been introduced, although the enactment was slow and inconsistent.

*Limited awareness and understanding of the social enterprise concept* has also an impact in preventing the full harnessing of social enterprises potential as a modern tool for social services reform. Decision makers' and the general public's poor understanding of the identity and social utility of these organizations represents a barrier for the development of social enterprises. Despite the legal recognition, the lack of awareness and proper understanding of the social enterprise concept jeopardize the development and scaling-up process. The term "social" is associated with the activities of charities and work integration of vulnerable groups and not with entrepreneurship. Success cases of SE are hardly known and understood by the public administration and general public. Also, in an ideological recent climate unfavorable to civil society organizations in general, it is necessary for all types of social enterprises to increase their capacity to educate and mobilize members and clients, to explain better the principles underlying their very functioning, stressing out their specificity.

Despite the *Growing demand for general interest services* the Romanian social services sector is undeveloped and underfunded. But the demand for social services better responding to identified social needs is growing fast. A special situation is represented by the stringent need for services addressing the elderly. The Romanian "baby boomers" will retire in 10-15 years from now. This is the largest demographic group and we can foresee a lot of pressure for social services modernization. Social enterprises as Retiree Mutual Associations are already involved in providing services for elderly and can offer an interesting business model complementing the governmental action.

In Romania the availability of funding for social enterprises development is still very limited. The EU funding was very important to boost the legislative reform and support new type of social enterprises, focusing on work integration of disadvantaged categories. This type of funding encouraged the development of many valuable social enterprise initiatives, but also a lot of opportunistic behavior. Beside the limited support for start-up work integration social

enterprises, for the bottom-up active social enterprises the public resources are very few. At the same time the entrepreneurial activities of associations and foundations are not encouraged and supported by public authorities and mutual organizations are poorly understood and almost invisible for policy makers.



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