

SOCIAL ECONOMY, AN IMPORTANT SOURCE FOR LOCAL DEVELOPMENT

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Abstract: *The economic crisis of recent years has put intense pressure on companies, especially in the private sector, which has often led to layoffs among staff. The question constantly arises: What happens to these employees, what protection measures does the state offer? One answer to this question may be related to obtaining European funding through the social economy. Unfortunately, in Romania, the concept of the social economy was practically limited to social inclusion, social protection, unlike countries such as Canada or Latvia, where the concept is based on local development, the contribution of enterprises to local development. To support the local development, it's necessary to create a legislative framework that will allow the revitalization of the social economy in our country. Entities belonging to the social economy, be they non-governmental organizations, landowners' associations, or unions, are important actors in the process of social innovation. In order to meet the needs of these participants in the social economy, we aim to identify innovative financing instruments for the social economy as well as the role of and implications for the local development.*

Keywords: *Social Economy, Financing instruments, Local Development, Social Innovation, Social Economy Entities.*

JEL Classification: *M 40, M41.*

1. Introduction

Today, the concept of the social economy is being reinvented around the world, aiming at changing and updating the original term introduced by the IOM in 1972, that of “informal economy”.

Basically, there are three notions that must be very well understood, in order to know this economic phenomenon that has been quite unapproachable over time, namely: the social economy, the solidarity economy and the popular economy. None of these notions have anything to do with the public domain.

It is important to analyse the real potential of social economy, primarily as a contribution to the overall development of society, especially local society (Tăbîrcă et al, 2021).

The economic crisis of recent years has put intense pressure on companies, particularly in the private sector, which has often led to layoffs. The question constantly arises: What happens to these employees, what protection measures does the state offer?

One answer to this question may be related to obtaining European funding through social economy.

Entities belonging to social economy, be they non-governmental organizations, landowners' associations, or unions, are important actors in the process of social innovation due to the services and products offered, which obviously contribute to the local development process (Tănase, 2006).

In addition to the economic crisis, there is also a more recent problem, the refugee crisis caused by the war in Ukraine. Several problems, related to the needs of these people,

can be solved largely through the same types of financing, that is, through the Social Economy.

2. Literature Review

Globally, according to available research, at the beginning there were several initiatives such as Cooperative associations, which had a weak and rather unstable presence when faced with public authorities. They focused on several global issues such as: pollution, immigration, discrimination, terms of global exchange etc.

Practically, the term social economy has been used since the 17th century, and was coined in 1830, by the French economist Charles Dunoyer, in the book “A Treatise on Social Economy”.

Since the 19th century, T.R. Malthus, S. de Sismondi, F. Le Play, John Stuart Mills or Leon Walras have also expressed related ideas. The phenomenon was repeated in the northern part of Canada, where social movements sought to shape the path to a human economy as the basis of the market economy. Thus, Mutual Aid Societies came to be, which would later become Unions and Associations.

“The economic initiative is not a right of the rich, nor is it the monopoly of private enterprises” (Vigier, 2003). Based on Vigier's words, we can appreciate that ethics in the social economy is inscribed in the very approach to these businesses, but in a different way. For example, in Unions, the fundamental principle is that social utility prevails over profit and develops the style of cooperation between those who take part in social life, a family, or a community.

At the beginning of the 20th century, social economy was regarded as the main way of social mobilization, aiming at: the economic and social needs of the population, common social projects within the democratic society. “A first positions of strength stems from nearly two centuries of social economy history. The social economy in the Nordic countries, especially its co-operative and mutualist branches, which developed within the working class to improve living conditions, in other words, often historical research in the social economy, is based on co-operation as bred out of necessity and out of the needs strongly felt by the disadvantaged or struggling population.” (Desroche, 1976).

Other specialized studies have been undertaken by the Department of Community Research and Development Centre (CRDC) and the Interuniversity Centre for Research in Social Economy, Enterprise, and Trade Unions (CRISES), at the University of QUEBEC. These two research centres published at least two books on Social Economy: Comeau, Favreau, Levesque, and Mendell in 2001; Favreau and Levesque in 1996.

In terms of Western Europe, during the 20th century, there are two periods that revolutionized Social Economy:

✓ *The first stage, between 1945 and 1975.*

Economic growth in the developed countries of Europe has led to the strengthening of the economic and social roles of the public and private sectors. Thus, this development has made social economy play a limited role in the relationship between the market and the public.

✓ *Post 1970s*

The form of Social Economy was adopted much more since the 70's, as the crisis in that period took shape, when the state proved its inability to solve the crisis of unemployment, social exclusion etc. Based on these issues, a definite conclusion has been reached: social economy is perfectly adapted to correcting social and economic imbalances and maintaining jobs.

At EU level, social economy operates through social enterprises, with common objectives such as:

- Management and independence autonomy regarding public authorities;
- Voluntary and open membership;
- The supremacy of the participation of social actors, of the person and of social objectives over capital;
- Defending and applying the principle of solidarity and responsibility;
- The democratic control exercised by the members of the social enterprise;
- Awarding the largest share of the surplus to attaining the objectives of sustainable development and the provision of services to members, in accordance with the general interest;
- The communion between the interests of the user members and the general interest.

In the post-2022 period, the post-pandemic era, it was necessary to project a very careful overview of the role of social organizations. These organizations are beginning to take shape by providing support to the ecological environment, to the community. Research from this period has shown that there is a desperate need for social enterprises to be able to solve the problems related to the protection of the vulnerable. At the end of April 2020, Imagine Canada surveyed 1458 leaders of non-governmental organizations to study the impact of COVID-19 on each industry (Lasby, 2020). The result of the survey was that around 70% of these organizations saw a decrease in revenue. It was the time when the appropriate strategy of loss recovery was that of turning to other sources, namely social economy (Lorena et al, 2011).

3. Research Methodology

To meet the needs of participants in the social economy, we aim to identify innovative social economy financing tools as well as the role in and implications for local development.

For starters, however, we must look at the definition of Social Economy in Romania, which According to Art. 2 of Law No. 219/2015, says that social economy represents “the set of activities organized independently of the public sector, whose purpose is to serve the general interest, the interests of a community and/or non-patrimonial personal interests, by increasing the employment of persons belonging to a vulnerable group and/or producing and providing goods, services and/or executing works. Social economy is based on the private, voluntary initiative and on solidarity, with a high degree of autonomy and responsibility, as well as the limited distribution of profit to members”. (Law 219, 2015)

Specifically, according to Article 4 of Law No. 219/2015, social economy is based on the following principles:

- ✓ The priority given to the individual and social objectives over the increase of profit;
- ✓ Solidarity and collective responsibility;
- ✓ The convergence between the interests of the associate members and the general interest and/or interests of a community;
- ✓ The democratic control of members, exercised over the activities carried out
- ✓ The voluntary and free aspect of the association under the forms of organization specific to the field of social economy;
- ✓ The distinct legal personality, management autonomy and independence from public authorities;

- ✓ Awarding the largest part of the profit/financial surplus to achieving the objectives of general interest, of a community or in the personal non-patrimonial interest of the members.

EMES, the European Research Network, has identified the principles by which a company can be viewed as a social economy enterprise. Thus, nine indicators have been created that allow the identification of new types of social enterprises, but also the remodelling of old ones (Borgaza, Defourny, 2001). The EMES network was founded by various actors in the social economy, such as volunteers, public bodies, or non-profit societies (Campi et al., 2006).

Referring to the legislative framework, it is necessary first of all to observe the social economic objectives in several countries such as:

Canada where there is the highest number of social enterprises and where the following issues are most encountered:

- promoting social economy as a launching pad for economic and social development
 - enabling access to administration for social enterprises
 - supporting the economic and social field
- Latvia
- creating an environment of economic activity favourable to social enterprises
 - engaging groups at risk of social exclusion
- Romania
- employment
 - developing social services
 - supporting economic and social cohesion

4. Research Results

In Romania, the emphasis is mainly on the social aspect, as social enterprises are perceived more as having a social role, a social protection purpose, unlike other countries where their primary role is that of local development.

According to Table No. 1, we see the Legislation specific to Romania, with the following markers:

- ✓ Law No. 31/90, The Companies Act does not provide as a form of organization the SEC (Social Economy Company)
- ✓ The companies receive the SEC status following the submission of an accreditation file to ANOFM
- ✓ The correct chosen method of taxation is not specified
- ✓ The financial statements don't show separately neither the social expenses, nor the 90% share of the profit reinvested in the social area, which leads to the idea that there is no transparency for these financial reports.

Table No. 1: Legislation Specific to Social Economy Enterprises

Social economy entities. Legal forms.	Specific Legislation
Cooperative societies with subtypes of cooperatives with specific legislation	Law No. 1/2005 on the organisation and functioning of the union; republished
Credit Unions	Government Order No. 99/2006 on credit institutions and capital adjustment, approved, altered and amended by Law No. 227/2007
Agricultural Unions	Law No. 566/2004 on agricultural cooperation
Agricultural Societies	Law No. 36/1991 on agricultural unions and other means of unionising in

	agriculture
Associations and foundations – NGOs with subtypes	Government Order No. 26/2000 on associations and foundations, approved, altered and amended by Law No. 246/2005
Employees’ Mutual Aid Societies	Law No.122/1996 on the legal status of employees’ mutual aid societies and their union
Retirees’ Mutual Aid Societies	Law No. 540/2002 on the retirees’ mutual aid societies
Landowners’s associations	Law No. 230/2007 on the establishment, organisation and functioning of landowners’ associations
Communities and composites	Art. 95 on Associative forms of forest owners. Forest Code Law No. 46/2008
Other non-profit organisations (associations and foundations) that have an economic activity	Government Order No. 26/2000 regarding associations and foundations, approved, altered and amended by Law No. 246/2005
Companies certified as social enterprises	Law No. 219/2015 on social economy Law No. 31/1990 on companies

Source: author's interpretation

It is thus necessary to create a legislative framework to revitalize the social economy in Romania, by developing organizations dedicated to this type of economy, but also by having an active involvement to help understand how important social economy is, especially in this context of the economic and medical crisis, but also of the refugee crisis.

4.1 The Dynamics of Social Enterprises in Romania

According to the Barometer prepared by the “Alături de voi, Romania” (“By Your Side, Romania”) Foundation, we notice that the number of legal entities certified according to the ANOFM statistics for the 1990-2019 period has significantly increased, the largest increase being recorded in 2016. Post-2019, the number has sharply increased. By 2020, 519 social economy enterprises had already been certified (*Figure no. 1*).

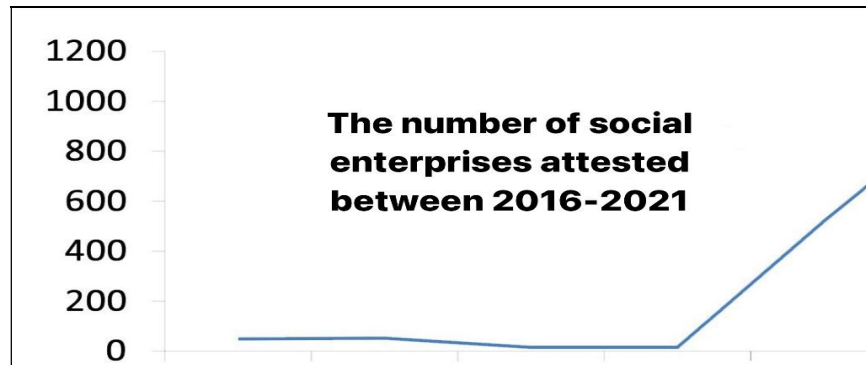
Figure No. 1
The number of certified social enterprises 1990 - 2019



Source: The register of ANOFM-certified social enterprises, March 2020, according to the Barometer available at <https://acceleratorul.alaturidevoi.ro/barometrul-economiei-sociale-din-romania-editia-2021/>

In Romania, by March 2021, 1642 enterprises had registered as social enterprises (Figure no. 2).

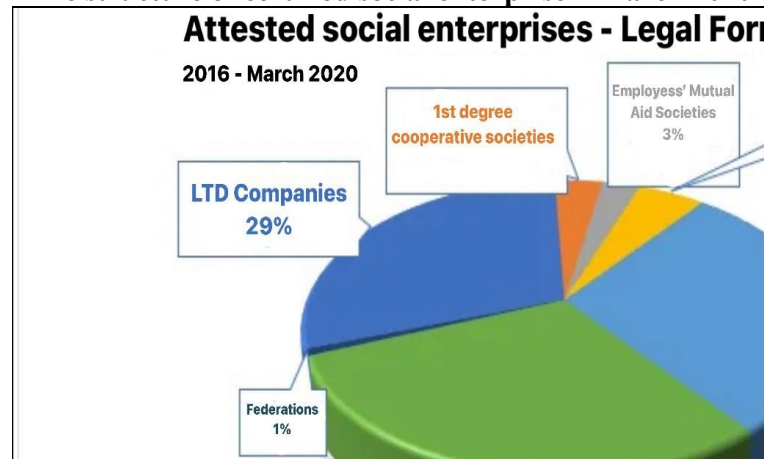
Figure No. 2
The number of certified social enterprises 2016 - 2021



Source: The Barometer of Social Economy, available at <https://acceleratorul.alaturidevoi.ro/barometrul-economiei-sociale-din-romania-editia-2021/>

In terms of percentages in all counties in Romania there is at least one certified social enterprise, the national average being 35 enterprises per county. The highest density - 229 - is registered in Alba County, followed by Cluj with 137 certified social enterprises, Dolj - 109, Iași - 89, Maramureș - 83 and Prahova – 63 (Figure no. 3).

Figure No. 3
The structure of certified social enterprise – March 2020



Source: Register of ANOFM-certified social enterprises, March 2020

In order to revitalize the Social Economy in Romania, it is necessary to develop and diversify the sources of financing both at the time of establishment, but also as the activity progresses, as well as meeting the need for tools adapted to the specific activity of each social economy enterprise.

Unfortunately, no company has benefited, according to the Law on Social Economy, from support in promoting tourism, cultural or historic heritage.

According to the same Social Economy Barometer:

- 8.7% of the surveyed enterprises benefited from State Aid Programs aimed at social economy enterprises;
- 6.7% benefited from tax exemptions granted by local public administration authorities;
- 5.6% benefited from the subsidization of labour costs through Law No. 76/2002;
- 3.6% benefited from state aid programs aimed at enterprises and coming from national funds;
- 3.6% benefited from the allocation of buildings or land in the public domain of administrative-territorial units;
- 1.5% benefited from the subsidy provided by social services to vulnerable groups;
- 1.5% benefited from the measures provided for the protected units authorized through Law No. 448 on the protection and promotion of the rights of persons with disabilities;
- 1.0% benefited from the supply of products to public authorities by participating in public procurement procedures;
- 1.0% received support in promoting the products made, the services provided or the works performed in the community;
- 0.5% benefited from taking part in special public procurement procedures - social clauses, reserved contracts - social enterprises, social insertion enterprises, protected units (Social Economy Barometer, 2020).

5. Funding

Local development through the citizen-based social economy

How can we act as citizens, as a community?

As a straight-forward way, volunteering allows, through the active involvement in the community, the promoting of goals thus contributing to the support of these goals and their fulfilment. Another way to support the development of Social Economy is the involvement of specialized institutions, by offering financial, economic-financial, and legal advice. By offering donations or sponsorships, it is possible to finance the activity of social economy enterprises, so that they can achieve the objectives for which they were set up

Social economy must be seen as a launching pad for the sustainable development of local communities. In any given community, every member should, in theory, be involved in solving the problems of that community, regardless of their nature. Seen as a promoter of solidarity, of eliminating discrimination, social exclusion, coupled with the fact that 90% of the profit or surplus gained is returned to the community, we can say that **social economy** serves the community, integrates people, creates solidarity, all of which leads to an increase in the quality of life.

The number of enterprises, of social economy associations, increases on a yearly basis, creating jobs. Volunteering by non-profit associations has gained greater visibility in the community, with funding received through the EU.

Referring to the current context of the refugee crisis following the war in Ukraine, the crisis can be solved even in part by the access, by these companies or non-governmental associations, of European funds dedicated to social economy.

6. Conclusions

As a result of the economic and financial crisis, we can say that the intervention of the European Union has great relevance, leading to the development of social economy. It is necessary to mobilize the full potential of all social economy entities for economic

recovery, by creating jobs, promoting associations, but also by creating a unitary legal framework concerning social economy enterprises.

According to the latest discussions, there is already a proposal submitted to the relevant institutions, to amend Law No. 31/1990, the Companies Law, concerning the adjustment of annual financial statements, through amendments brought to the OMFP 1802/2014.

The development of social economy is beneficial to all citizens, it supports actions that have a social impact, be they geared towards health, environmental protection-related, or education-oriented.

Recently, there have been many debates concerning social enterprises, the success of these debates being generated precisely by the diversity of the concept of social economy. The involvement of stakeholders in social enterprises is a prerequisite for the development of and trust in these groups (Brandsen, 2009).

Viewed as a third sector, despite the fact that there have been difficulties in regulating legislation, and in spite of the financial crisis which has affected this sector, there has been no dramatic decline. On the contrary, in the field of social economy, fundamental organizations have emerged (for example, tenants' unions on the oversaturated real estate markets) (Brandsen, 2012).

At EU level, social economy is intensely popular, with statistics indicating that social enterprises have created more than 14.5 million jobs, proving that man is far superior to capital.

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