



# **The State of Social Entrepreneurship in Romania**

## **SEFORIS Country Report**

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## **About SEFORIS: Social Enterprise as FORce for more Inclusive and Innovative Societies**

SEFORIS is a flagship multi-disciplinary, multi-method international research project on social enterprise funded by the European Commission. Through the generation of robust evidence and internationally leading research, SEFORIS aims to better understand the role that social enterprises play in the EU and beyond in the development and evolutions of inclusive and innovative societies.

SEFORIS will investigate key processes through which social enterprises deliver inclusion and innovation (spanning a range of domains, from organisation and governance, over financing and innovation to behavioural change) as well as the contexts in which social enterprises thrive. In terms of methodology, we will start from policy and social enterprise practitioner questions and challenges together with critically scrutinizing existing academic literature. We use this first step to develop theoretical frameworks that then serve as a basis for thinking systematically about innovation and inclusion processes in context. This is followed by field and lab experimentation with social enterprises and in-depth case studies to expand and enrich our understanding of social enterprises. Unique longitudinal survey data will be collected across 9 distinct countries to test new (and at times counterintuitive) hypotheses to reach novel insights and generalizable conclusions. We engage policy makers and social enterprises throughout the research process to ensure that our research is relevant for them and can inform their practice.

### **The SEFORIS partnership**

SEFORIS is a consortium of 12 organisations from 10 countries including Belgium, China, Germany, Hungary, Portugal, Romania, Russia, Spain, Sweden, and the UK.

#### **Academic partners and research institutes:**

KU Leuven (Belgium), Hertie School of Governance (Germany), Autonomous University of Barcelona (UAB, Spain), University of Aveiro (Portugal), Centre for Economic and Financial Research (CEFIR, Russia), Stockholm School of Economics (Sweden), Aston Business School (United Kingdom)

#### **Social entrepreneur support and financing organisations**

Oksigen Lab (Belgium), i-propeller (Belgium), Non-Profit Incubator (NPI, China), Nonprofit Enterprise and Self-sustainability Team (NESsT, Hungary & Romania), and The Foundation for Social Entrepreneurs - UnLtd (United Kingdom)

#### **Advisors**

Organisation for Economic Co-operation and Development (OECD, France), Harvard Business School (HBS, USA) and the European Venture Philanthropy Association (EVPA, Belgium)

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## Executive Summary

The diminishing funds available for NGOs, the high unemployment rate especially among disadvantaged groups, the risk of poverty and the inability to cover basic quality living standards and other social disparities led Romanian civil society to find entrepreneurial solutions to solve these problems otherwise unanswered by the public or private sector.

According to Eurostat, Romania is among the European countries with the highest poverty rate; 28% of Romanian population is at risk of poverty and the deprivation rate exceeds 25%. Moreover, due to the high unemployment rate of youth (24%) and the growing number of aging population, Romania will most likely experience a significant increase in public spending at 7% of GDP or more.

Currently, in Romania, social enterprises are seen by the general public and key stakeholders (government, non-profits, social entrepreneurs) as a way to promote economic and social inclusion.

The Romanian SEFORIS country report highlights nine findings to illustrate the current status of social entrepreneurship in the country.

### 1. Sector development and awareness

In the past year, social enterprises have received increasing attention in Romania, but even so the sector is still in its infancy. EU funds have played an important role due to the large funding available for social economy supporting projects designed to promote the concept of social enterprise through activities such as the creation of various websites, physical or online resource centres, domain specific conferences, information campaigns etc. While the increased availability of information has had positive results in raising the visibility of social enterprises in Romania, many projects – and enterprises created through such projects - do not seem to have realistic sustainability strategies that would ensure their long-term survival once EU project funding has ended.

### 2. Sector statistics

Due to the lack of a common understanding of the concept, it is fairly difficult to get objective, accurate and up to date numbers. However, according to the most recent statistics realized by National Statistics Institute and the Ministry of Labour, Family, Social Protection and Elderly , the social economy in Romania includes approximately 70 000 registered organizations, out of which about 25 000 have been identified as active organizations, registered in the National Statistics Institute.

### 3. Social entrepreneur profile

The social entrepreneur is a person who develops a social enterprise with a viable business model with the sole purpose of solving a social problem he/she is close to. Business skills are very important but not sufficient and definitely not a precondition for starting a social enterprise. While the business skills can be learnt and improved with experience, the intrinsic drivers and motivation of the entrepreneur to solve the social problem can't be taught or learned. Therefore, the background of the social entrepreneur is not important. However, what is common to all entrepreneurs, including those starting social enterprises, is the entrepreneurial mind-set: the constant alertness and readiness to leverage new opportunities to develop the business and the long term vision.

#### 4. Social enterprises can opt for a non-profit or a for profit legal form

Social enterprises in Romania can choose to function either in a non-profit or in a for profit legal form. Social enterprises functioning in non-profit legal form can only carry out business activities in a complementary manner. Those social enterprises which have a special public benefit status may enjoy some discounts or exemptions from taxes, duties and customs. Business activities are regulated in different legal norms which are sometimes inconsistent and the related concepts are unclear.

#### 5. Major challenges

In general, a major challenge perceived by stakeholders is the lack of a clear legal and regulatory framework for social enterprises. Furthermore, the lack of a common understanding of the concept and a fostering policy framework brings out some other challenges social entrepreneurs face:

- Difficult access to finance; SEs are ignored or discriminated by mainstream financiers, such as banks.
- Lack of access to markets; SEs are excluded from public procurement processes.
- Various challenges working with state institutions as the concept is not known and policies are most often subject to interpretation.

#### 6. Diversified sources of revenues and funding

The source of revenue and funding differs based upon 2 main criteria: (1) legal form of the social, and (2) nature of funding, meaning direct funding for SE and sources relevant to SE, but not directly addressed to this field. Associations and foundations, the most common form of SE in Romania, are financing their activities mainly from grants, sales revenues representing on average only 18.5% of their income. The for-profit legal form of a SE (e.g. companies, cooperatives) can access incentives and grants for direct investment in tangible and intangible assets designed mainly to increase sales of products or services (Minimis Aid, National Programme for Young Entrepreneurs, National Programme START, etc.).

#### 7. There are new, dedicated players in the field

The social enterprise field is diverse: there are several players like private social impact investors (NESsT, Romanian-American Foundation), companies (OMV Petrom), banks (Citibank, UniCredit Tiriatic Bank) and the European Social Fund. However, traditional donors supporting the civil society sector have just recently started to realize the potential of supporting social enterprise instead of one-time projects.

#### 8. Monitoring impact is an external request

Evaluating and monitoring impact seems to be an external request for most SEs. The most monitored indicator is employment-related. However there is no national wide statistic regarding social enterprise impact.

## 9. Social enterprises reported to be much more innovatively active than commercial enterprises

According to the SELUSI research, Romanian social enterprises are fairly innovative. The grand majority of the social enterprises which are present in Romania continuously look for new products and services they could bring to the market so that they are always well perceived by their customers.

# 1. Key facts and figures on social entrepreneurship

“Even though the social economy was recently rediscovered in Romania, the legal undertakings and the high number of researches on the sector, allows us to believe that we are gaining ground. Continuing the initiatives to support social economy development will allow Romania to become a country with a moderate acceptance of the social economy in a short time frame.”<sup>1</sup>

- Simona Maria Stanescu, Sociologist, Research Institute for Quality of Life, Romanian Academy

## 1.1 Definition and common understanding of social enterprise

- Social economy is a broad, complex concept which is still the basis of a variety of debates. NESsT was one of the first entities to introduce the social enterprise concept in Romania, by providing capacity building and funding to CSOs launching these income generation activities.
- Social entrepreneurship as a concept first appeared in the 19th century and it was first used in literature on social change. However, it became more popular with Charles Leadbeater's publication of "The Rise of the Social Entrepreneur". The aim of social entrepreneurship is to promote the cause of social and environmental goals that have long lasting impact.
- In Romania currently social enterprises are seen by the general public and key stakeholders (government, non-profits, social entrepreneurs) as a way to promote economic and social inclusion. In general, a major challenge perceived by stakeholders is the lack of a clear legal and regulatory framework for social enterprises. There are several definitions of social enterprises or derivative concepts and names inspired from international definitions and/or other European legislative models.
- As of early 2014, a draft law is under debate in the Romanian Senate.
- The main regulations of the above mentioned law aim:
  - To define the social economy as activities organized independently of the public sector, whose purpose is to serve the general interest, the interests of one collectivity and/or non patrimonial personal interests, through the growth of the employment rate for persons that are part of vulnerable groups;
  - To establish the principles and associated concepts of social economy;
  - To define and differentiate the concepts of „social enterprise” and „insertion social enterprise”;
  - To establish state mechanisms of support for the development of social enterprises;
  - To set up a National Register for social enterprises.
- The European Social Fund had a significant impact on social enterprise growth in Romania. The availability of large EU grants determined many CSOs to develop social economy projects and create social enterprises.
- Consistent EU funding in the social economy field has led to the development of a large number of projects designed to promote the concept of social enterprise through activities such as creating various websites, physical or online resource centres, domain specific conference, information campaigns etc. While the increased availability of information had positive results in raising the visibility of social enterprises in Romania, many projects – and enterprises created through such projects - do not seem to have realistic sustainability strategies that would ensure their long-term survival past EU project funding has ended.

<sup>1</sup> Raport de recomandări al economiei sociale : România 2013 / Simona Maria Stănescu (coord.), Romeo Asiminei, Daniela Vîrjan. - Bucureşti : ADD Media Communication, 2013



## 1.2 Size of social enterprise

- In the absence of a common definition of what a social enterprise is and of a legal framework, it is difficult to get objective, accurate and up to date numbers. However, according to the most recent statistics realized by National Statistics Institute and the Ministry of Labour, Family, Social Protection and Elderly , the social economy in Romania includes a number of approximately 70 000 registered organizations, out of which about 25 000 have been identified as active organizations, registered in the National Statistics Institute.
- Associations and Foundations are the most representative segment of social economy in Romania, both numerically (more than 23.000 active organizations in 2009) but also from the income point of view or the number of people employed.
- Even though it represents only 11% of the total number of nongovernmental organizations, organizations that have economic activities total 44% of the income, and 47% of the activities of the nongovernmental sector. The income that comes exclusively from economic activities (direct sales or public contracts) experienced constant growth, reaching a value of 792 million lei at the end of 2009. Economic activities therefore represent 18.5% of the total income of nongovernmental organizations.<sup>2</sup>
- Although we have this data about social economy and income generating activities of nongovernmental organizations, we can't conclude that these are all social enterprises. In other words, not all association and foundations provide products and services continuously in a financially sustainable manner; some have occasional economic activities with the main purpose to generate revenues. Furthermore, this approach does not consider other types of entities that social enterprises might take such as in the case of for profits.
- One statistic we can use is the number of social enterprises created through EU funded projects. From 2011 till 2012, there were 261 new social enterprises created through EU funds. These generated 4.684 jobs.<sup>3</sup>

**Table 1: Key data on size of social enterprises (Source: SELUSI, 2012<sup>4</sup>)**

Key Data		
Organizational age	Number of employees	Revenues
cca 60% older than 10 years	61% 1-10 employees	9% above 1M revenues
cca 40% between 5 and 10 years old	30% 11-49 employees 9% 50-249 employees	41% less than 80.000 EUR revenues

<sup>2</sup> INS data found in Atlasul Economiei Sociale, FDSC, 2011

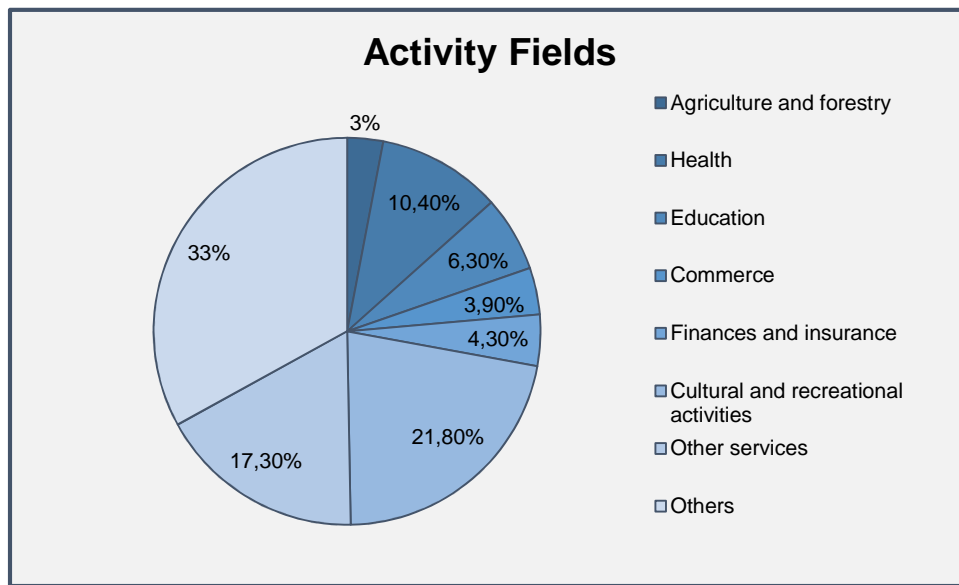
<sup>3</sup> <http://www.ies.org.ro/info-stiri/vrs/IDstire/854/t/dmi-6-1-dezvoltarea-economiei-sociale>

<sup>4</sup> SELUSI Research Consortium. 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

### 1.3 Sectors and regions in which social entrepreneurs are active

#### Industrial sector

The distribution of CAEN codes (NACE -Classification of Economic Activities in the European Community) emphasizes the fact that social enterprises in Romania operate in a multitude of fields with the most representative from a statistical point of view being the following: cultural activities (including sports and religious activities), activities of service delivery, health, education and financial intermediaries.

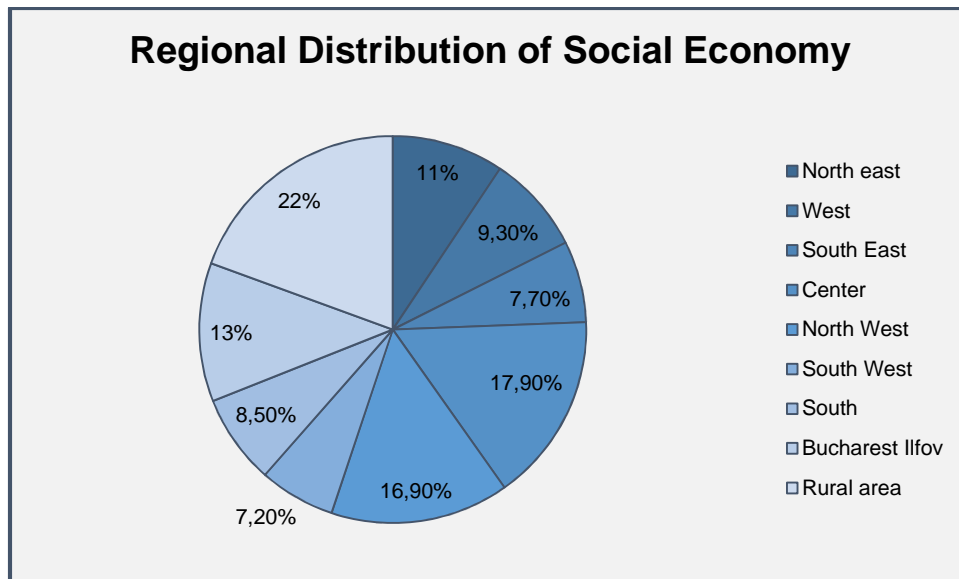


**Figure 1: Social enterprises – activity fields (NACE sections)**

**Source: National Statistics Institute, 2011**

#### Regional level

According to the National Statistics Institute, social economy entities, including social enterprises, are present in all areas of Romania; associations and foundations have a wider presence in the regions which are better developed (centre, Bucharest-Ilfov or North-West) whereas cooperatives are better represented in areas that are fairly underdeveloped (North East and South East).



**Figure 2: Regional distribution of social economy in Romania in 2009**  
**Source: National Statistics Institute, 2011**

#### 1.4 Recent developments in social entrepreneurship

- Even though cooperatives seem to be decreasing in number, the social economy sector presents overall positive growth over time.
- Interest in the sector is reflected in the growing number of applications received in dedicated programs such as the NESsT Social Enterprise Competition and Fabricat in Tara lui Andrei, the biggest Social Enterprise Competition powered by Petrom in partnership with NESsT. In 2013, there were almost 600 applications received for these two programs. At the end of both programs there were 12 social enterprises awarded with a grant to start or develop their business.
- Even though the concept of social enterprise is still under debate and there is no legal framework for this field in Romania, from NESsT experience working in this area since 2007 both as a practitioner and thought leader, new social enterprises initiatives demonstrate increasing quality. This is due to the increasing information about the concept, the training programs available through EU funds and the showcasing of concrete practices presented by key players in the field, through both local and foreign examples

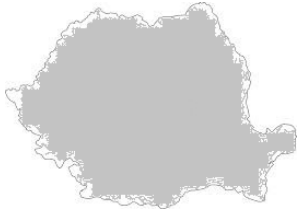
## 2. General country context

“[...] The main problems encountered by social enterprises are related to the lack of capacity building (before and after launching the business) and the difficulties in attracting adequate funding for start-up and the growth of the business until it reaches breakeven. [...] Sure, there are other problems as well, related to the legal environment, the bureaucracy each entrepreneurs faces, regardless of their nature (i.e. social or traditional entrepreneur), or the lack of a coherent national movement (for example, in US there is the Social Enterprise Alliance, and in UK the Social Enterprise Coalition). But the sector is changing rapidly in Romania, with an increasing number of key persons and organization interested in social enterprises potential to solve critical social problems, and this is encouraging.”

- Roxana Damaschin-Tecu, Portfolio Director, NESsT<sup>5</sup>

### 2.1 Number of inhabitants and size of country

Table 2: Number of inhabitants and size of country

Number of inhabitants	21.790.479(1/1/2013)	
Size of country	238.391 km <sup>2</sup>	

### 2.2 Top 4 societal challenges

Table 3: Top 4 societal challenges

<b>Poverty and social exclusion (like migrant population)</b>
<ul style="list-style-type: none"> <li>- According to Eurostat, 28% of Romanian population is at risk of poverty and the deprivation rate exceeds 25%.</li> <li>- In 2013, unemployment rate was at 23.6% – increase by 1% in comparison with 2012; low living standards – life satisfaction level was at 6.7<sup>6</sup>.</li> </ul>
<b>Ageing population (cost for health care and pensions, adapted housing, loneliness ...)</b>
<ul style="list-style-type: none"> <li>- It is likely for Romania to experience a significant increase in public spending to 7% of GDP or more.</li> <li>- The healthcare system is expected to face substantial challenge in the future and public expenditure on health care is projected to grow by 1 ½ % points of GDP by 2060 (age 80+ will be the fastest growing age class of the population in the future)<sup>7</sup>.</li> </ul>
<b>Labour market: Youth unemployment in large cities and too early exit of +50 year olds</b>
<ul style="list-style-type: none"> <li>- There was 22.2% unemployed youth in 2012 according to Eurostat statistics.</li> <li>- Employment rate of persons aged 15-64 in 2012 was at 60%<sup>8</sup>.</li> </ul>

<sup>5</sup> <http://www.startups.ro/analize/cum-poate-ajuta-antreprenoriatul-social-romania>

<sup>6</sup> <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=0&language=en&pcode=tipslm80>

<sup>7</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions; Dealing with the impact of an ageing population in the EU (2009 Ageing Report)

<sup>8</sup> [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php?title=File:Employment\\_rate\\_persons\\_aged\\_15-64\\_2012.png&filetimestamp=20130503144441](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Employment_rate_persons_aged_15-64_2012.png&filetimestamp=20130503144441)

**There were major gaps in living standards between rural and urban areas<sup>9</sup>.**

- According to the World Bank, Romania has the highest proportion of rural population in EU, 45%. But it also has the highest incident of rural poverty, 70%.
- Moreover, Romania imports an increasing proportion of its food needs, even though almost 30% of employment is in agriculture.

## 2.3 Overview of (social) policy, entrepreneurial and civil society landscape

**Table 4: Overview of landscape**

(Social) Policy Landscape	Entrepreneurial Landscape	Civil Society Landscape <sup>10</sup>
<p><b>SOCIAL EXPENDITURES</b> 16.3% of GDP<sup>11</sup> in 2011</p> <p><b>POLITICAL STABILITY AND ABSENCE OF VIOLENCE<sup>12</sup></b> Rank 48 (0=lowest; 100=highest) in 2012.</p> <p><b>RULE OF LAW</b> Rank 56 (0=lowest; 100=highest) in 2012.</p>	<ul style="list-style-type: none"> <li>- No specific legal framework for SEs in place at the moment of the publication.</li> <li>- A Social Economy law is currently under debate in the Senate.</li> <li>- 2.74 more male entrepreneurs than females entrepreneurs in 2012<sup>13</sup></li> <li>- According to the GEM report, the opportunity-driven early-stage entrepreneurial activity rate increased from 5.68% of the adult population in 2011 to 6.92% in 2012. The necessity-driven nascent entrepreneurial activity rate decreased from 4.09% in 2011 to 2.23% in 2012, increasing the ratio of opportunity to necessity entrepreneurship from 1.39 to 3.10. In Romania 74.2% of early-stage entrepreneurs are motivated by opportunity<sup>14</sup>, 24.2% by necessity.</li> </ul>	<ul style="list-style-type: none"> <li>- In 2010, there were 66,804 civil organizations registered in Romania, but only approximately 26,000 were active.</li> <li>- Associations and Foundations show a steady upward trend on all economic indicators. Income increased by 51% from 2009 to 2010.</li> <li>- Broad range of activities: social services, sports, education, culture, health etc.</li> <li>- Human resources: over 100,000 employees (representing 1.1% of total employed population and around 1.7% of the wage-earning population) and 504,000 volunteers (circa 50M working hours).</li> </ul>

Note: GEM stands for Global Entrepreneurship Monitor. The report measures nationwide attitudes, activities and characteristics which have a positive or negative influence on entrepreneurship.

<sup>9</sup> <http://www.worldbank.org/en/country/romania/overview>

<sup>10</sup> Social Economy Atlas, FDSC, 2011

<sup>11</sup> Eurostat Newsrelease, no 174/2013 - 21 November 2013

<sup>12</sup> <http://info.worldbank.org/governance/wqi/index.aspx#reports>

<sup>13</sup> Entrepreneurship in Romania, Country Report 2012, GEM. The Global Entrepreneurship Monitor (GEM) is the most important and comprehensive international study of entrepreneurship and the entrepreneurial environment.

<sup>14</sup> Opportunity-driven entrepreneurs represent those involved in early-stage entrepreneurial activity who claim to be driven by opportunity, the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income. Necessity-driven entrepreneurs are those involved in entrepreneurship activities because they had no other option for work. The ratio the ratio of opportunity to necessity entrepreneurship is higher in efficiency-driven economies.

### 3. Social enterprises in (an institutional) context

“For the development of this sector, the state must change its vision towards the mechanism of subsidies and non-refundable grants allocation, to monitor (and measure) the impact generated and avoid duplications in the system. At the same time, companies could review their donations and shift towards long term impact programs, apply corporate shared values instead of corporate social responsibility and engage social enterprises in their supply chain. And consumers could put more pressure on the market, showing concern for the origin and the content of their products, and how employees are treated in the production process.”<sup>15</sup>

- Roxana Damaschin-Tecu

#### 3.1 Institutional and stakeholder landscape of social enterprises

In Romania the nongovernmental sector is the main actor of the social economy. Associations and foundations are the most representative segment both from the numerical point of view (93% of the organizations registered between 1990 and 2010, 89.7% of the organizations that were active in 2009) but also from the outcome point of view.

The relevant institutional actors for the social economy in Romania are split in three main categories: institutional actors with competences specific to the field, the organizational forms that can be assimilated to the social economy and the beneficiaries of the social economy.

- **State and other supervisory bodies** regulating the activities of non-profit SEs:
  - Ministry of Labour, Family, Social Protection and Elderly – Direction for Social Inclusion Programs, National Agency for Work Force.
  - Ministry of Economy, Commerce and Business
  - Ministry of Agriculture and Rural Development
  - Ministry of Justice – Commerce Registry National Office
  - Romanian National Bank -
  - Social and Economic Council
  
- **Private structures**
  - Romanian Chamber of Commerce,
  - Syndicates
  - Commercial organizations
  
- **Other players**
  - Non-profit organizations – civil society organizations
  - Social enterprises
  - (Social) Business support organizations
  - General public
  - Consumers or clients

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<sup>15</sup> <http://www.responsabilitatesociala.ro/editoriale/intreprinderile-sociale-un-sector-care-nu-mai-poate-fi-ignorat.html#sthash.jTJV2N5s.dpuf>

Romanian legislation encompasses a variety of types of CSOs engaging in activities aiming to achieve general or common interest. They include associations, foundations, and federations (with the former two having the option to be granted public benefit status).

The Romanian legal framework explicitly permits CSO commercial activities as long as they are mission related. CSOs wishing to engage in non-mission related commercial activities have to set up a separate, for-profit entity. The legal framework does not particularly promote CSO commercial activities since both mission-related and non-mission related activities are regulated in the same way that for-profit commercial activities are regulated.

Less than one in three Romanians trust NGOs, but in the past few years the public perception of CSOs has improved. This positive development is due in part to greater freedom of the press, which has sought information and opinions from CSO leaders on a variety of topics, in particular related to government transparency.

### **Recognized definitions of social enterprise within the social economy**

Two common and related concepts with social economy concerns social enterprises and social entrepreneurs. “While the for-profit business operation and the local government enterprise may appear to be the logical and familiar institutional forms through which services are provided, there is yet another common form. It is a hybrid of market, non-market and non-monetary goods and services forming a stable organization that goes beyond the temporary function generally associated with the formation of an initiative. Its institutional form can best be described as a “social enterprise”- a private business with a social purpose” (Laville, 2003, p. 398) The concept of social enterprise is an extension of the social economy, adding some features: entrepreneurial orientation in the provision of social services, targeting a larger segment of beneficiaries and increasing the quality of democratic control processes. (Constantinescu, 2011, p.6)<sup>16</sup>

## **3.2 Key context dimensions for social entrepreneurs**

Expertise in or attending to a particular social problem does not necessary translate into finding a viable commercial solution which can be addressed through a social enterprise (Dorado, 2006). The allocation of EU funds seems to disregard this aspect, lacking a clear strategy to support management and enterprise skills development and continuous capacity building needed by these enterprises.

Furthermore, the lack of a common understanding of the concept and on the need to foster a policy framework brings out some other challenges social entrepreneurs face<sup>17</sup>:

- Difficult access to finance; SEs are ignored or discriminated by mainstream financiers, such as banks.
- Lack of access to markets – SEs are excluded from public procurement processes.
- Various challenges working with state institutions as the concept is not known and policies are most often subject to interpretation.

Even though EU funds represent a big opportunity for social enterprise development these have some drawbacks:

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<sup>16</sup> Social Economy dimensions from Romania, Perspectives and realities of NGO sector; Felicia Androni, Mihaela Camelia Schmidt; Annals of the University of Petroșani, Economics, 12(3), 2012, 17-26.

<sup>17</sup> Trade-offs Between Regulation and Fostering of Social Enterprise: the Case of EU Policies, Éva Varga, NESsT, 2012.

- Distortionary effect, increasing grant dependence ;
- Only available for larger and stronger organizations ;
- Risk averse, while at the same time not requiring sound business plan which could mitigate risks;
- Provide false incentives and encourage project-based short-term thinking that does not lead to sustainability of enterprise activities ;
- Focusing on meeting administrative goals, rather than achieving social impact;
- Inadequate screening of applicants which leads to disbursing funds to organizations with no experience or content causing long-term damage on capacity building of SE sector;
- Provided little or no support to support organizations, incubation or other entities building a sector;
- Require co-financing not provided or delayed at national level;
- Call for tenders often suspended at national level and disbursements delayed causing cash flow problems and even bankruptcy.

### **3.3 Linkage between social entrepreneurs and inclusive society**

An inclusive society is based on mutual respect and solidarity, ensures equal opportunities and decent living conditions to all citizens and sees diversity as a source of power and not a reason for factions.<sup>18</sup> Social inclusion creates the feeling of belonging to a community; it helps individuals share values and gain identity and dignity. Poverty is the main reason for which people can feel excluded. The lack of access to medical service or professional opportunities makes social differences become visible.

Starting in 2005, active inclusion is clearly mentioned in the directives given by the European Commission to the member states, in regards to employment: “ensuring inclusive labour markets for citizens looking for jobs and for disadvantaged individuals”.<sup>19</sup>

Furthermore, through the renewed principles of the Lisbon Strategy emerged the Strategy for Active Inclusion in 2008 based on the following: giving the right income, insertion based labour markets and access to quality services<sup>20</sup>.

One of Romania’s most significant problems is high poverty and unemployment, especially among disadvantaged groups. As charity funds are decreasing and public funding is limited, one feasible way to solve these problems is to create a social enterprise – a business where these disadvantaged groups can be employed and become active members of society producing goods or delivering services in a financial sustainable business model. These types of business have an essential role in identifying a new funding formula for social development, from sources that are different and alternative to public ones. The help given to address the social problem is not a simple act of charity, but rather an action with clear economic and social ends. Profit is reinvested in the enterprise to meet the needs of more disadvantaged persons or in other social activities aimed at helping this group.<sup>21</sup>

The social entrepreneur is a person sensitive to a social problem who finds an entrepreneurial solution to solve that problem, developing a social enterprise with a viable business model. From NESsT experience, the business skills are very important but not sufficient and definitely

<sup>18</sup> [http://europa.eu/youth/eu/article/ce-este-incluziunea-social%C4%83\\_ro](http://europa.eu/youth/eu/article/ce-este-incluziunea-social%C4%83_ro)

<sup>19</sup> <http://ec.europa.eu/social/main.jsp?catId=108&langId=en>

<sup>20</sup> [http://ec.europa.eu/archives/growthandjobs\\_2009/](http://ec.europa.eu/archives/growthandjobs_2009/)

<sup>21</sup> Manuale di formazione dei manager di Economia Sociale, Mai 2012



not a precondition for starting a social enterprise. While the business skills can be learnt and improved with experience, the intrinsic drivers and motivation of the entrepreneur to solve the social problem can't be taught or learned. Therefore, the background of the social entrepreneur is not important. However, what is common to all entrepreneurs, including those starting social enterprises, is the entrepreneurial mind-set: the constant alertness and readiness to leverage new opportunities to develop the business and the long term vision.

## 4. Organization of social enterprises in the market and society

“[...] the sector is still in an incipient phase, in which too many and too early regulation could hamper creative and innovative initiatives, which would not fit in a predefined model. The Romanian legal framework – as in many other countries – is currently imposing a clear cut between for-profit and non-profit legal entities and is, in generally, unfriendly with hybrid models, which combines social objectives with an entrepreneurial approach, making social enterprise development difficult and bureaucratic.”

- Roxana Damaschin-Tecu<sup>22</sup>

### 4.1 Legal form of social enterprises

**Table 5: Legal forms of Non-Profit Organizations**

Number of Nonprofit Organizations Registered in Romania	
Type of Nonprofit Organization	Number Registered
Associations	44,271
Foundations	16,785
Federations	758
Foreign legal entities	22
Unions	633
Others	213
Total	62,682

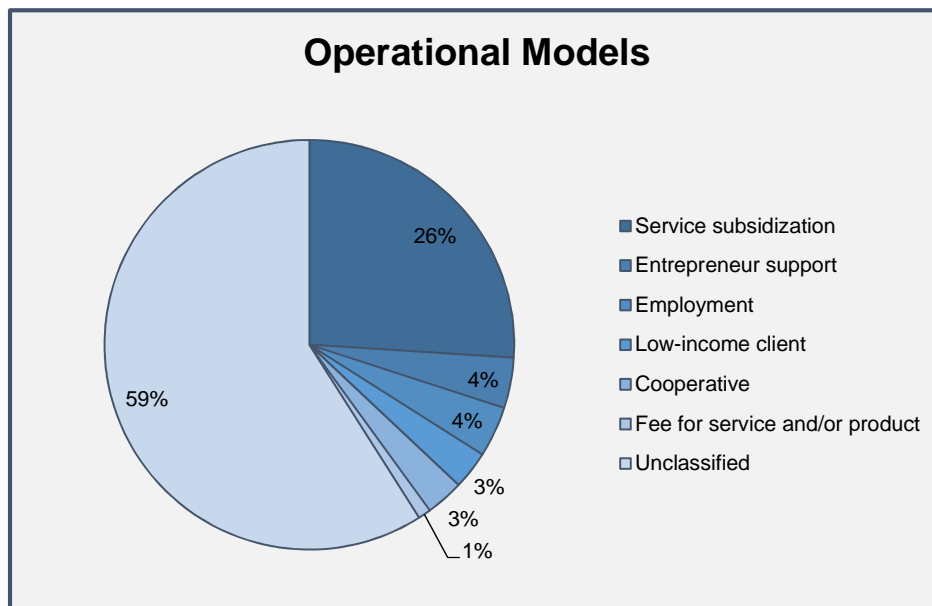
**Source: National Registry of Associations and Foundations, 2009**

- Currently Romania’s legal frame defines the social economy with the help of the principles recognized at a European level. Based on the definitions coming from the European environment, the following social economy legal entities can be identified in Romania:
  1. Not for profit organizations that develop economic activities, irrespective of their activity field.
  2. Not for profit organizations organized like CAR – mutual aid funds (both for employees and retirees).
  3. Credit cooperatives.
  4. Cooperative societies, 1<sup>st</sup> degree, regulated through Law 1/2005. Cooperatives can have activities in various sectors such as agriculture; regulated through law 566/2004, transportation cooperatives, etc.
- In addition to the ones mentioned above, for Romania there are also some normative acts and references to what is called social enterprise, but they do not have a definition that is accepted from a legal point of view.
- The Romanian legal framework regarding CSOs is: OG 26/2000 (legal status), OMFP 1696/2007 (accounting regulations) and the Fiscal Code (fiscal obligations).

<sup>22</sup> <http://profitpentruoameni.ro/wp-content/uploads/2013/05/05-Interviu-cu-Roxana-Damaschin-Tecu-enterprise-development-director-la-NESST-Europe.pdf>

- Up to this moment, in Romania the following organizations specific to social economy have been registered:
  1. 2.179 mutual aid funds
  2. 51 credit cooperative banks
  3. 419 authorized protected sheltered units
- From the numbers made public by the Ministry of Labour, Family, Social Protection and elderly in 2010, the most often met social economy type of organization was the mutual aid fund.
- Another possible legal form for a social enterprise is the limited liability company or other legal form for for-profit companies. Most of these types of social enterprises have the founding NGO as their sole owner but there is no statistic regarding their number. Private initiatives are difficult to identify given the lack of a clear definition of the concept or a methodology to keep track of their record.

## 4.2 Operational model of social enterprises



**Figure 3: Operational models of social enterprises (Source: SELUSI, 2012. N=73). See Annex for explanation of the different models.**

## 4.3 Important values for social entrepreneurs

In most cases, the social entrepreneur is an active member of the civil society, having developed or worked in other social projects in the past or being personally connected to a specific social problem.

In some cases the social entrepreneur is also known as a social innovator – the person that solves a certain problem in an efficient, innovative way. The person considered to be a social entrepreneur is a change agent in the community. They are the ones to identify the problems and use the principles of entrepreneurship to organize, create and structure a business that has as a purpose the initiation of social change.

Social entrepreneurs are generally known to have keen abilities to understand and implement change and to convince others to support them in these efforts. They choose to use their assets for the social causes they believe in. They often seem to be from a different world because they are idealistic and extremely passionate about what they do but also have the practical and strategic ability to actually change the world they live in.

However, in Romania there are just a few social entrepreneurs well known for their achievements, usually the success of social enterprises being attributed to a team or an organization. Often, a value shared by members of social entrepreneurial teams is collaborative approaches to solving social problems.

## 5. Financing of social enterprises

“Social enterprises need access to intelligent funding - grants, debt, equity, guarantee funds - according to the stage of development the social enterprise is in. Different development points mean different risk levels.”

- Conclusion from Malcom Hayday, Charity Bank UK, speaker at Social Enterprise Day 2012, event organized by NESsT in Romania

### 5.1 Sources of revenue and funding for social enterprises

- The source of revenue and funding differs based upon 2 main criteria: (1) legal form of the social enterprise (described in section 4.a) and (2) nature of funding, meaning direct funding for SE and sources relevant to SE, but not directly related to the sector. The non-profit legal form of a SE has access to more fiscal benefits such as the 2% donation from individuals' income tax or 20% from the profit tax of companies, or from CSR initiatives. For-profit legal forms of a SE (e.g. companies, cooperatives) on the other hand, can access incentives and grants for direct investment in tangible and intangible assets designed mainly to increase sales of products or services (Minimis Aid, National Programme for Young Entrepreneurs, National Programme START, etc.). In Romania the legal form of the social enterprise can dictate the major source of income.
- Most of the SE in Romania are associations and the latest available data<sup>23</sup>, summarizes the most frequent sources of revenue: (1) international funding (EU grants, foundations, etc.) was declared the most important revenue by 35.5 % of organizations; (2) national philanthropy is an important source of revenue for 18% of organizations; (3) public funding, including fiscal facilities and 2% donation mechanism, was considered a main source of revenue by 19% of organizations; (4) only 5.5% of organizations mentioned economic activity as the most important source of income. Although only 11% of the NGOs have economic activities, in 2009 sales revenues represented 18.5% of the total income of these organizations.<sup>24</sup>
- NESsT conducted an assessment to estimate the proportion of self-financing income generated by the social enterprise from its Romania portfolio. On average, 62% of annual revenues (2013) were generated from selling products and services, which underlines the strong entrepreneurial orientation of these SEs. But in fact, only 40% of the social enterprises generate 50% or more revenues from sales, and the rest of the budget is covered from on average 3 donors. Those who generate less than 50% from sales have on average 4 donors contributing to a sustainable funding mix. These 10 entities from the portfolio were intensively assisted in their business planning and implementation; other unassisted entities might present a smaller share of sales in their total income.

### 5.2 Financial Crisis

- There are no recent data regarding the effects of the financial crisis on social enterprises compared with other actors of the socio-economic environment. Although we can conclude that they were most likely affected given that they are highly dependent on funding from companies and individuals who in the crisis registered a lower profitability.
- The EU Programme focusing on the Social Economy (POSDRU 6.1) indirectly addressed through the creation of social enterprises and related employment. According to the Annual Report for 2012, this programme created 261 new social enterprises with 150 million EUR. Regarding the number of jobs created by the programme, this indicator has

<sup>23</sup> "Barometrul Liderilor ONG (FDSC, 2010)

<sup>24</sup> INS data found in Atlasul Economiei Sociale, FDSC, 2011

registered a spectacular growth in 2012 compared to 2011, increasing the number of jobs created approx. 17 times. The total number of jobs created by social economy structures in this programme (2007 - 2012) was 4684 jobs in 2012, a 129% increase from 3630 expected by the programme with only 35% of the funds allocated. However, it is important to keep in mind that most of these social enterprises are not necessarily market driven and might not be able to sustain themselves without continued EU funding.

- Despite crisis, the first bank financing of social enterprises initiated by Romanian Commercial Bank was done in 2010.

### **5.3 (New, dedicated) players**

- Major private entities that decided to finance social economy:
  1. OMV Petrom with its programme Fabricat in Tara lui Andrei (Andrew's Country). In 2013, the company allocated 350,000 EUR (10 social enterprises x 32,000 EUR and 20 participants x 1,500 EUR).
  2. Romanian-American Foundation
  3. Citi Foundation/ Citi Bank
  4. Romanian Commercial Bank
  5. UnicreditTiriac Bank offered 61,000 EUR support to 4 social enterprises (2013).
  6. Among others we mention The Foundation for an Open Society (SOROS Foundation), Potsieu.ro – a new crowd founding platform, Velux Foundation, Erste Foundation fostering social entrepreneurship among students, etc
- The government financed social enterprises through national calls for projects within POSDRU 6.1. (European Social Fund) and other indirect calls for legal entities (National Programme for Rural Development, priority 3, National Programme for Young Entrepreneurs).
- The Swiss - Romanian Cooperation Programme and the European Economic Area Mechanism both managed by The Civil Society Development Foundation.
- 
- Horizon 2020 call for proposals, Erasmus+ calls, and other European Commission's grants.
- NESsT is one of the only dedicated players providing long-term support for social enterprises in Romania, having invested over \$ 1 mil in capacity building and direct funding of start-ups and developing social enterprises.

## 6. Innovations of social enterprises

“[...] There are a few critical areas in Romania where the reforms of the last years opened the pathway for 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 for the public-private type of partnership.”

- Mihaela Lambru<sup>25</sup>

### 6.1 Innovation drivers and barriers

Innovation can contribute to social and labour inclusion, decrease in poverty and the successful transition to an ecologically focused economy. In Romania social innovation and social economy are relatively new concepts, mainly embedded in the NGO sector and in civil society. Social innovations seen as new ideas or ways of working that meet social needs more effectively than existing traditional approaches, is seen in Romania among many social economy organizations (associations, foundations, credit unions, cooperatives) dealing with child care, social services, work integration of disabled people, rural community development, formal and non-formal education, waste management, health-care services etc.

The main drivers for social innovation in Romania seem to be the following:

- Financial sustainability and expansion on the market;
- The growth of product quality and variety;
- Sustainable social impact reducing the impact on the environment;
- Pressure coming from competitors and financing organizations;
- Improvement in the business process through – flexibility, increase capacity, cost reduction;
- Response to change in regulations/ requests

According to the SELUSI report for Romania, innovation drivers represent the following characteristics:

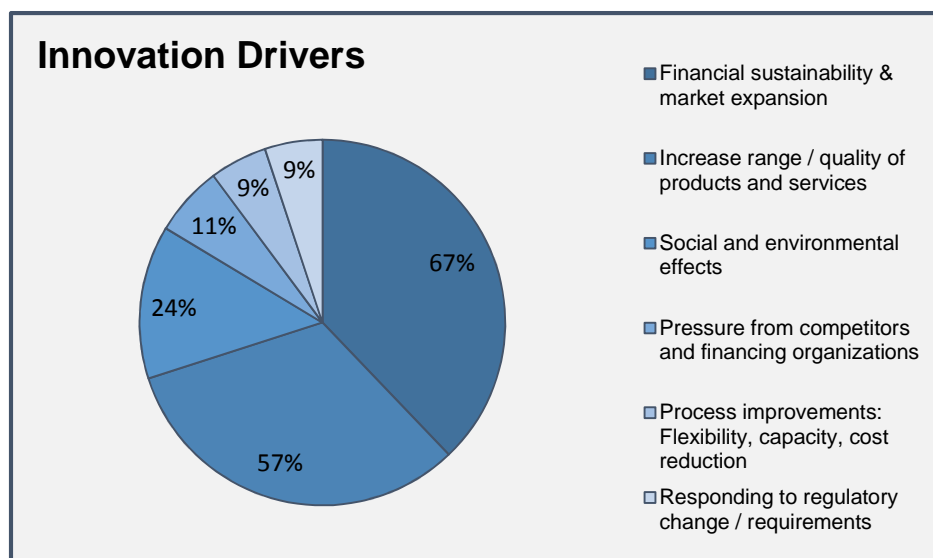


Figure 4: Innovation Drivers (SELUSI, 2012. N=74)

<sup>25</sup> Trends and challenges for social enterprises, Mihaela Lambru, Claudia Petrescu, International Review of social research, Volume 2, Issue 2, June 2012, 163-182.

In Romania, barriers confronted by social entrepreneurs include:

- Cost related barriers – excessive cost assimilated to innovation;
- Internal obstacles like lack of time, lack of personnel, lack of technology related information;
- Regulation related obstacles; innovations have been inhibited by the need to obey governmental regulations. Also social enterprises do not receive support from the official institutions given that they are not familiarized with what is a social enterprise;
- Market related barriers which indicate de fact that social innovation could not be achieved because the product or service would not be accepted in the market.

The SELUSI Report for Romania, summarizes the barriers to social economy innovations:

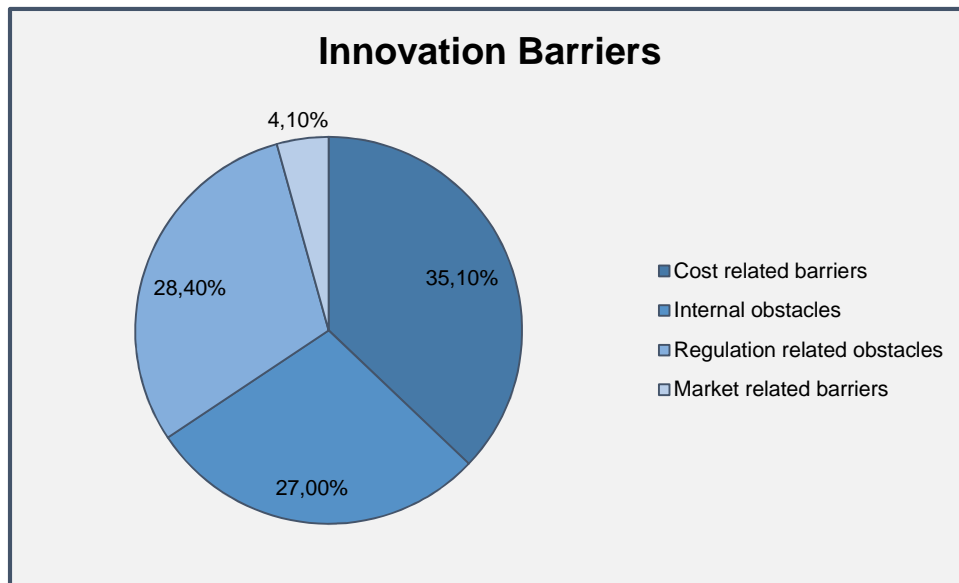


Figure 5: Innovation Barriers (SELUSI, 2012. N=74)

## 6.2 Typology of innovations

- In Romania there is a tendency for organizations to introduce at least one new service/product/process which is significantly improved.
- Most of the social enterprises come with innovation on the market and generally the social enterprises tend to be more innovative in comparison to conventional commercial enterprises.

## 6.3 Innovation process

The Romanian SELUSI research suggests that Romanian social enterprises are fairly active in regards to the innovation dimension of their activities, always trying to develop new elements on the market. According to the data identified, the grand majority of the social enterprises which are present in Romania are continuously developing new products and services to bring to the market so that they are always well received by their customers.



## 7. Impact of social enterprises

“The development of social economy in Romania in the next years could have positive consequences: local development and social cohesion, linking economic activities to the local needs, sustaining activities at risk (e.g. crafts) and generating social capital, social services of general interest, social innovation and the rectification of the three major labour market imbalances: unemployment, job instability, social and labour market exclusion of unemployed people.”

- Cristina Barna<sup>26</sup>

### 7.1 Impact measurement: does this take place?

- SEs which monitor their impact are mostly entities assisted by major private organizations that financed or offers consultancy for their development (OMV Petrom, Unicredit Foundation, Romanian-American Foundation, NESsT). The impact measurement is a requirement to receive their support. They monitor rigorously both qualitative and quantitative indicators.
- At the public level, the measurement of the impact of SEs is done by the Management Authority of the EU funding program that supports the social economy (POSDRU 6.1.). The major indicators measured by the Authority are the number of newly created SEs and the jobs created by these social economy structures. The emphasis is only on the quantity indicators imposed by the EU Commission. The impact is not measured rigorously; the Authority measures only the impact of the entities created by the program.

### 7.2 Impact results and dimensions

- The most monitored indicator is employment-related.
- The majority of the indicators monitored by the Romanian SEs are typical macro indicators related to their program activities, without paying attention to indicators that focus on awareness building and policy change such as media appearance, website visitors, number of organizations replicating their model, public policy change influenced by them, etc.
- The focus of the impact these organizations are aiming for is community change.
- Most of the SEs which receive external support monitor a range of well-established social and economic indicators.

### 7.3 Trends and developments related to social impact

- Improve the quality of how SEs deliver social impact.
- Increase social impact by increasing the number of people they reach, the geographical area of impact and the sectors of social impact.

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<sup>26</sup> Social economy: Going Local to Achieve the Strategy Europe 2020. Romania Case, Cristina Barna, Review of Applied Socio-Economic Research, Volume 3, Issue 1/ 2012, pp. 14.

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## 9. Annex: Operational models explained

Operational models describe how social enterprises align social and economic value creation<sup>27</sup>.

### 1. Employment model

The organisation provides employment opportunities and job training to its target population or people with high barriers to employment.

### 2. Cooperative model

The organisation provides direct benefits to its target population or clients through member services: market information, technical assistance, collective bargaining power, economies of bulk purchase, access to products and services, etc.

### 3. Market intermediary model

The organization provides services to its target population or clients, usually small producers to help them access markets.

### 4. Entrepreneur support model

Similar to the market intermediary model, the organisation sells business support and/or financial services to its target population or clients, which are self-employed individuals or firms. Its mission centres on facilitating the financial security of its clients by supporting their entrepreneurial activities.

### 5. Fee for service and/or product model

The organisation commercialises its social services and/or products, and sells them directly to the target population or clients, individuals, firms, communities, or to a third party player.

### 6. Low-income client model

The low-income client model is a variation of the fee for service and/or product model. The organisation designs and sells services specifically to low-income clients.

### 7. Service subsidisation model

The organisation sells products or services to an external market and uses the income it generates to fund its social programmes. Social and business activities may only align weakly.

### 8. Organisational support model

The organisational support model is similar to service subsidisation model, but the business activities are separate from the social programmes through different legal entities.

<sup>27</sup> Based on **Alter, Sutia K.** 2006. "Social enterprise models and their mission and money relationships." In *Social Entrepreneurship: New Models of Sustainable Social Change*, edited by A Nicholls, 205–232. Oxford: Oxford University Press.



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