

# EXPLORING THE ROLE OF SOCIAL ENTERPRISES WITHIN THE ROMANIAN WELFARE SYSTEM<sup>1</sup>

CLAUDIA PETRESCU  
MIHAELA LAMBRU

*S*ocial enterprises are embedded in the local context, their organizational characteristics and operational strategies being influenced by the institutional settings, political culture and historical traditions and events. Similar to other European countries, Romania has included the modernization of the welfare systems in the development agenda of the last decade. One of the areas of interest was to better understand and promote the dynamics of the social enterprises as economic, social development actors and facilitators. From a neo-institutionalist perspective, this paper aims to explore the role of social enterprises as a component of Romanian welfare system. It starts with an overview of the history of the Romanian social enterprise, its roots and drivers; it continues with the identification of the roles, challenges and development processes of the social enterprises as welfare services.

**Keywords:** social economy; social enterprise; welfare system.

Over the past decades, the concept and practice of social enterprises (SEs) have grown incrementally to become nowadays a significant topic for research, practice and policy reforms in many countries around the world. Defined as organizations combining entrepreneurial dynamic to provide services or goods with a primacy of social aims (European Commission 2016; European Commission 2019; European Commission 2020), SEs can be found in various national context and sectors of activity, having several forms of legal incorporation (cooperative, association, business), and combining multiple resources (market and public resources, procurement, citizens donation and volunteering).

The social mission of SEs business model had often oriented the SEs activities towards traditional “welfare type” activities such as social services, health services,

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**Adresele de contact ale autorilor:** **Claudia Petrescu**, Institutul de Cercetare a Calității Vieții al Academiei Române, Calea 13 Septembrie, nr. 13, sector 5, 050711, București, România, e-mail: claudia.petrescu@iccv.ro; **Mihaela Lambru**, Facultatea de Sociologie și Asistență Socială, Universitatea din București, B-dul Schitu Măgureanu, nr. 9, sector 1, București, e-mail: lmb.ro@yahoo.com.

<sup>1</sup> Part of this article was published as working paper in the CIRIEC International Working papers series – Lambru, M. and Claudia Petrescu. (2019). Social enterprises role in Romanian welfare system. CIRIEC No. 2019/17 and in Lambru, Mihaela și Claudia Petrescu. (2019). *Social enterprises and their eco-systems. Country report: Romania*. European Commission. Luxembourg: Publications Office of the European Union.

work integration services. In more developed welfare state systems, SEs are being oriented toward innovative and even niche activities such as circular economy, collaborative economy, migration, energy, and transport. Recent comparative reports (European Commission 2020) confirm that Social Enterprise concept and practice have evolved in all the European Member States, becoming an *integrative part of the contemporary welfare states*, a vehicle and solution for identification of and response to new or unmet society needs.

The role of social enterprises within the welfare system was addressed and captured by the scientific literature developed in the last decades. Some authors emphasize the relations between SEs practice and the provision of social services as a consequence of the state and market failure (Kibler et al. 2018; Teasdale 2012; Nicholls and Teasdale 2017; Doherty, Haugh and Lyon 2014); others highlight the role the SEs play in providing employment to vulnerable groups (Aiken 2007; Teasdale 2012; Nicholls and Teasdale 2017; Doherty, Haugh and Lyon 2014; Elsen and Walliman 1998; Gidron and Monnickendam-Givon 2016) or in the empowerment of vulnerable groups (Bode, Evers and Schulz 2006; Gonzales 2007), as well as the mobilization of social capital (Evans and Syrett 2007; Kay 2006; Evers 2001).

The development of social enterprises is strongly influenced by the political and economic contexts and by the institutional environment in which they perform. The context characteristics influence functions and roles played by social enterprises. Moreover, the functioning and performance as well as the output of SEs activity are enhanced or hampered by the politics, economic development, valorisation of innovation and technological advancement as well as the capacity of the working force and the relevance of the public policy, administration and legislation (Kerlin 2017; Kerlin 2013; Borzaga and Becchetti 2011; Alter 2010; Young 2012, Borzaga and Galera 2009; Teasdale 2012; Nicholls and Teasdale 2017). A major context element influencing the definition and functioning of social enterprises is represented by the type of welfare regime in which they operate.

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. In this regard, there is an extensive research literature that analyses the changes of the profile of the welfare states in different regional contexts. Starting from the examination of different typologies of welfare state regimes (Esping-Andersen 1990), we have witnessed the development of different theoretical models and typologies capturing the welfare state regimes transformation (Bonoli 1997; Ferrara 1996; Ferrara 2005; Castles 1998; Arts and Gelissen 2002; Gidron and Monnickendam-Givon 2016; Ferrera and Hemerijck 2003; Gilbert 1999; Gilbert 2003; Evers and Guillemard 2013; Morel, Palier and Palme 2012). The recalibration of the European welfare state included changes in the redistributive role and more emphasis on an enabling role, where the main accent is not on engaging in direct provision of goods and services, but rather on creating enabling conditions for many other actors to step in,

design and deliver social services up to the citizens' expectations (Gidron and Monnickendam-Givon 2016). To this end, a variety of policy instruments are used to promote the partnership and complementarity between public and private actors; move from a compensatory welfare system (reactive) to a preventing one (proactive) and from passive social policy measures of support to active provisions of social inclusion (Baglioni 2017; Gilbert 1999; Gilbert 2003; Evers and Guillemard 2013; Morel, Palier and Palme 2012).

A specific strand of research literature focuses on the changing realities of the welfare state development in CEE, post-communist countries (Aidukaite 2011; Cerami 2006; Cerami and Vanhuysse 2009; Deacon 1992; Fenger 2007; Inglot 2008). All these studies indicate that CEE countries present distinctive welfare characteristics based on their common historical, institutional and socioeconomic past. Some major common characteristics refer to a return to the Bismarkian social insurance system established before the Second World War; accelerated social security reform within a short period of time; great influence of foreign experts and organizations in policy design; issues related to unemployment and labor migration; accelerated demographic transformation; weakness of the associative sector and civil society organizations in general; high level of corruption; increasing inequalities and social exclusion (Golinowska et al. 2009; Ferge 2011).

As part of this regional trend, Romania has also modernized the actual Welfare State model by developing and strengthening a mixed of welfare systems. Despite greater economic and social pressure, the State's inability to cope with a high demand for social services, and the difficulties of the public authorities in maintaining and increasing the quality of public services, considerable progress took place.

Over the past three decades of democracy and market economy, both public institutions (at central and local levels) and non-governmental organizations have been set up and successfully contributed to the overall development of the country. Many of these organizations have established public-private partnerships due to public market openness towards private actors such as non-governmental organizations and non-profits. While social contracting is no longer a novelty for governmental decision-makers in Romania, the logic of investing in social entrepreneurship and opening the public market to all social economy entities remains both a novelty and a challenge for public policy development and implementation.

The reform of the welfare system in Romania included the decentralization of social protection services, the reform of the public pension system (social pensions, and the introduction of the private pension system – the second and third pillar); development of the unemployment insurance system; health insurance reform; development of social inclusion measures (introduction of the minimum guaranteed income, redefining social benefits system, active measures for employment of vulnerable people); development of the quality standards for social services (Cerami and Stanescu 2009; Zamfir 1999; Zamfir, Stanescu and Arpinte 2015).

The development of social enterprise concept and practice in Romania is strongly linked to the larger concept of social economy. Both concepts of social economy and social enterprise have been almost simultaneously introduced in Romania after 2005, generating some confusion among the existing stakeholders. Also, both concepts have been narrowly understood as a new way to connect the social inclusion policy with EU funding (European Commission 2019; Lambriu and Petrescu 2017; Petrescu and Negut 2018).

The present article aims at analysing the development of the Romanian social enterprises in connection with the evolution of the welfare state. The structure of the article has two main parts. The first part presents a historical overview of the evolution of social economy organizations in Romania, covering pre-communist, communist and post-communist periods. The second part of the article is trying to clarify the question of social enterprises specific roles within the Romanian welfare system.

### **HISTORICAL ROOTS AND MILESTONES IN THE DEVELOPMENT OF THE ROMANIAN SOCIAL ENTERPRISES**

The following section of the article describes and analyses the historical background of the development of social enterprise in Romania. It presents the dynamics of social economy organizations and the process of social enterprise institutionalization. Associations and foundations with entrepreneurial interest, mutuals and cooperatives have all survived and adapted to the dramatic changes of political and economic regimes taking place in the last 70 years of Romanian history, from capitalism through communism and, back to capitalism, after 1989.

In Romania, social enterprises have roots in associative, mutual and cooperative traditions. These entities reached their apex in the 19<sup>th</sup> century, when associations and cooperatives of all sorts started to play a more important role in supporting the socioeconomic modernization of the country.

Between WW1 and WW2, new and modern legislative frameworks for associations and cooperatives were enacted, allowing these organizations to develop and expand (Epure and Saulean 1998; Lambriu 2013; Petrescu 2013; Lambriu and Petrescu 2016). The pre-communist period is characterised by the development of a variety of associative forms. The Romanian Constitution of 1923 provided the first full recognition of citizens' freedom of association. The Law 21/1924 regulated how associations, foundations and mutual aid associations functioned; it was inspired by the French legislation from 1901. This Law also allowed the development of entrepreneurial activities aiming to support the organisational mission of associations.

Mutual aid associations represent a special case, as they are one of the most entrepreneurial organisations within the Romanian landscape of associations.

Mutual aid associations of retirees (RMAAs) have a long track record in Romania, first mentioned in the census of social assistance and care institutions conducted in 1936 (Manuila 1938), as organisations providing social and financial services for their members. Unlike other European countries, where these organisations evolved rapidly after World War II, and function today as settled credit unions and/or are involved in mutual insurance/reinsurance businesses, in Romania, contemporary mutual aid associations only provide a small amount of financial loans to their members and deliver a limited range of social services.

The cooperatives experienced a significant growth during the pre-communist period, when worker, consumer and credit cooperatives emerged. The first Romanian legislative provisions on cooperatives date back to year 1887; between the two world wars, various legal acts triggered the development of cooperatives (the First Law of Cooperatives was issued in 1923).

The natural development of the social economy organizations was interrupted when the communist regime came into power. The communist regime made decisions (Les and Jeliaskova 2007) to fit the communist ideology and to be used as instruments of the new political regime. From nationalisation to forced incorporation into the state infrastructure, from demutualization to the development of quasi social market organisations, many tools were used by communists in order to control them. All the surviving social economy organizations have been fully integrated within the agro-industrial communist economy, functioning under strict coordination of the communist State Party. During communist times, it was impossible to register and set up independent organizations, outside the State Party's control. This notwithstanding, mutual aid associations and cooperatives continued to function despite rapid and dramatic changes in the Romanian political and economic contexts. Under the communist regime, mutual aid associations were placed under state control and fully integrated in the newly established welfare system. The goals to be pursued, the services to be delivered and the income sources were established in a top-down fashion. The cooperatives (worker, consumer, credit and agricultural cooperatives) became a main economic actor, together with state-owned industrial enterprises; the state coordinated their work and simultaneously set resource requirements, production and export plans. As part of the centralised economy, during the communist period, public authorities tended to consider cooperatives as private businesses, since they were formed based on the freely expressed consent of members who could hold property rights according to the law (though they actually had no say with regard to their rights or joint assets) (Cace et al. 2010; Petrescu 2011; Lambru and Petrescu 2014). In fact, cooperatives were not accountable to their members but to the state power and the communist party.

The association and foundation sector was deeply controlled by the communist regime. Very few associations survived the communist regime, and they only had

formal autonomy: some developed around special interests (such as philately or numismatics), traditional crafts (such as bee keeping or animal breeding), while others were associations with specific target groups, like people with disabilities and tenants' associations (Epure and Seulean 1998).

In 1989 Romania went to a new change of political and economic regime, moving from dictatorship to democracy, from planned economy to market economy. In the *post-communist period*, Romania witnessed a significant rebirth of associations, including mutual aid associations, and a collapse of the cooperative sector. The expansion of associations was both quantitative and qualitative. Associations contributed to innovation in the area of public interest services – particularly social services – and played an active role in advocating for the development of social enterprises. The first social entrepreneurship initiatives have appeared in the early 1990s, promoted mainly, by associations and foundations. Small-scale operations thus bloomed in an environment that did not foster entrepreneurial endeavours. The main motivation pushing associations to start up entrepreneurial activities was the need to secure funding to accomplish their social mission.

By mid-1990s, a specific category of associations, namely RMAAs, began to reorganise their operations, diversify their services and expand their offices; they registered a constant growth in membership and represent one of the most successful types of bottom-up social enterprise in the country (Lambriu and Petrescu 2016). RMAAs were set up in order to fight the social and financial exclusion of the elderly. They provide a wide range of services (free of charge or at reduced prices) to both their members and other elderly people from the community. Such services include reimbursable and non-reimbursable financial services, medical services and other social protection services (home care services, socialisation activities, and occupational therapies) according to their members' needs and financial capability. Non-reimbursable social services are financed using the surplus resulting from the financial services (loans) provided to the members.

One can regard the cooperative tradition as another root, albeit not a driver, of social enterprise development in Romania. Romanian traditional cooperatives have not participated in debates and reforms concerning the social economy in general, or social enterprises in particular. Since 1990s, the cooperatives have been perceived as institutions belonging to the communist era. Cooperatives are faced with the need to find a new identity and to reform their system in order to meet the market imperatives. The current political class has paid little attention to these "remnants of the former regime" which, at best, have been lumped together with small and medium enterprises (SMEs), but most often have been largely overlooked. In the years following the fall of communism, the cooperative sector faced major challenges as a consequence of the property retrocession to former owners, decreased production due to lack of markets for certain products, governance issues, a dramatic

drop in membership and significant deficit related to communication capabilities and public image.

Yet, it is worth mentioning the recent development of a new generation of cooperatives, set up after 2005, many of which pursue general interest goals and engage in new business areas such as ecological agriculture, renewable energy, and new crafts. Also, in Romania, worker cooperatives are at the root of sheltered workshops and contemporary work integration social enterprises (WISEs), as they integrate people with disabilities in the labour market. In the post-communist period, Romanian legislation on sheltered workshops aimed at facilitating the work integration of people with disabilities. In 1992, Law 57/1992 on the Employment of People with Disabilities stipulated that at least 70% of sheltered workshops' employees should be persons with disabilities. Since 2002, the percentage of employees with disabilities has been reduced to 30%.

An important milestone in the post-communist period has been the *EU accession and membership phase*. The EU accession took place in 2007, bringing along a new narrative and policy toolkit targeting social economy organizations in general, and social enterprises in particular. In Romania, the concept of social enterprise was introduced after 2005, shortly before the accession into EU. The new policy narrative regarding social inclusion was emphasising the instrumental role of WISEs. The socio-economic and political contexts, dominated lately by economic crisis and pressure to reform and upgrade public services (particularly social services) and to develop solutions for sustainable work integration for disadvantaged groups, steered Romanian decision-makers to pay interest towards both the social economy and social enterprises.

Since 2007, as a new member state of the EU, Romania has gradually become integrated into the supranational European policy; the country was simultaneously exposed to and adhered to the common European models of policy reforms. The development of legislation on social enterprise strongly links with the European trends in this area. Romanian associations acted as policy entrepreneurs putting the social entrepreneurship issue on the government agenda, working strategically towards the institutionalisation of social enterprises and integrating European trends towards general interest service reforms with the national policy agenda.

After 2010, strongly influenced by the European social inclusion agenda and under the pressure of the associative sector, the government organised public consultations on the legislation regarding the social economy and social enterprises. Associations and foundations, mutual associations and WISEs played a major role in advocating for social enterprise legislation and were deeply involved in adding relevance and practicability to the law. Already interested in the development of entrepreneurial activities in order to pursue their social mission, having a legal framework allowing entrepreneurial activities within specific limits, associations seized the opportunity to include the social enterprise issue into their agenda. This

was a way to secure their investments and innovations, mainly in social services, but not exclusively.

At this stage of *institutionalisation of social enterprise*, a good understanding of the conceptual framework behind social enterprise was crucial. Concurrently with the increasing interest of public authorities to promote and support the development of social enterprise initiatives, the interest in related research has also grown, and debates with respect to the specificity of this type of organisation, its social utility, its characteristics and the profile of relevant organisational actors have intensified. Due to confusion around the concepts of social economy and social enterprise, attempts to design and promote a comprehensive legal framework fostering the development of social enterprise posed challenges.

The recent evolution of the concept and practice of social enterprise in Romania is closely linked to the development of the concept of social economy – the latter being more “visible” and easy to grasp for various stakeholders. While the legislation’s foundation is grounded in the social economy concept, its focus aims to regulate social enterprises. In fact, social enterprises have been included in the Law on the Social Economy (Law 219/2015). Throughout its institutionalisation process, the public debates shaped by the rhetoric of social inclusion centred on the concept and use of new social enterprises. Policy makers view *ex lege* social enterprises in Romania as vehicles for employment of vulnerable groups. The rest of social enterprises, not complying with this specific line of business and operating in a variety of domains of general interest, remain largely ignored.

The development of the policy framework for social enterprises in Romania took place in the context of EU funding. Despite the recommendation of the associative sector to widen the spectrum of social enterprises regulated by the new legislation, the government largely complied with a narrow policy approach, which defines and characterizes social enterprise as policy instruments for social inclusion.

Creating the institutional framework for social enterprises raised the expectations of Romanian practitioners regarding the role of social enterprises within the welfare state. These expectations have yet to be fulfilled according to many stakeholders.

## METHODOLOGY

This article is based on the findings of an extensive research on Romanian social enterprises carried out between 2016–2019. In order to allow for data triangulation, multiple research methods were used: 1) desk research of financial data related to social enterprises using REGIS database of the National Institute of Statistics (NIS); 2) in-depth interviews with social enterprises, sheltered workshops and associations and foundations from social and health areas representatives (20),



in-depth interviews with decision makers at local and national level (6), in-depth interviews with representatives of social services providers and social insertion enterprises networks; 3) social documents analysis (reports on public procurement for social enterprises, reports on non-governmental sector in Romania). For secondary data analysis we have also used data from Ministry of Labour and Social Protection on accredited social services providers (number, typology, services provided), National Agency for Disabled Persons on sheltered workshops (number, typology, legal incorporation) and National Agency for Employment on registered social enterprises (number, typology, legal incorporation). For the section of the article, analysing the state of implementation of the legal provisions related to reserved contracts and social procurement reform in Romania we have exploited the findings of the research report produced for the Center for Not-for-Profit Law Association on “*Reserved contracts in public procurement*”.

### **THE SE TYPOLOGY AND DEVELOPMENT TRENDS WITHIN THE ROMANIAN WELFARE SYSTEM**

When we look to the universe of social enterprises in Romania one can identify a variety of *de facto* (associations and foundations with entrepreneurial activity, RMAAs, cooperatives pursuing general interest aims) and legally recognized social enterprises (*ex lege* social enterprises and WISEs), many of them with deep roots in social economy traditions. The next section of the article will present the evolution and role specificity of Romanian social enterprises within the Welfare State.

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

Associations and foundations that carry out economic activities represent the most dynamic actors in the pursuit of the development of social enterprise. Associations and foundations are engaged in economic activities to address social issues either directly or indirectly (by developing a separate limited liability companies in which they are the main shareholder). The market oriented associations and foundations develop their economic activities (social, cultural, educational, health and so on), based on the availability of the financial resources, that are most of the time, scarce. One possibility to secure financial resources necessary for their activity 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 needed resources in order to be able to fulfil their social goals.

According to the data from in-depth interviews, associations and foundations' economic activities include the delivery of various services for 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, jewelries, toys, textiles, decoration etc.).

The data of the National Institute of Statistics (NIS), for 2015, indicate 42,707 active associations and foundations, out of which 5,302 carry out economic activities (12% of all active associations and foundations). In market oriented associations and foundations there are 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 the revenue of associations and foundations from economic activities was 29% (*Table no. 1*).

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, 22–23). This has a huge impact on the level of accessibility of their services, particularly in the areas facing the most serious social problems (rural and poor areas).

*Table no. 1*

**Evolution of association 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	1,219	2,730	3,832	4,058	4,468	4,744	5,302
Number of employees	1,942	12,561	15,038	16,097	11,272	12,469	13,117
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		1,589	2,299	2,341	2,133	2,289	2,656
Total income (thousand 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 no. 2*).

Table no. 2

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

<b>Associations and foundations' areas of activity</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Social/charity	5,961	6,651	7,587	8,192	8,688	8,861
% with economic activity	8%	7%	7%	8%	8%	9%
Education	2,927	3,257	3,858	4,632	5,151	5,453
% with economic activity	11%	10%	9%	11%	11%	12%
Culture	2,738	3,211	3,713	4,589	5,035	5,310
% with economic activity	9%	10%	9%	11%	10%	12%
Health	1,601	1,655	1,808	2,079	2,252	2,456
% with economic activity	8%	7%	8%	8%	8%	9%
Civic	970	1,092	1,273	1,495	1,606	1,623
% with economic activity	9%	9%	9%	9%	9%	10%
Environment/ecology	743	868	989	1,111	1,199	1,233
% with economic activity	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 the social exclusion issues in Romania. Those organizations represent the nexus of the social service providers (quantitative and qualitative) and some of the most important employers for vulnerable groups. Also, they are the main social innovators in the field of social protection by developing new types of social services, in accordance with the needs of beneficiaries, introducing new concepts and practices in social policy (ex. social integrated services at community level, quality standards for various types of social services). With regard to social protection, according to data analysis from interviews with decision makers, the associative sector is the main private provider of services. This is due to its capacity to innovate and respond effectively and affordably to the people and community's needs. Also, associations and foundations partner with the public institutions in the process of policy design, policy advocacy and social protection reform.

As other European countries, Romanian's welfare system has opened the social services provision public market to other actors, particularly to associations and foundations due to the state failure to develop and deliver social services to divers and growing needs, and public resources' scarcity. Insufficient public resources (Romania has the lowest social protection spending as percent of GDP, in EU) and the reduced capacity of the welfare system to respond rapidly to the growing social needs represent the main reasons for the development of associations and foundations as social service providers. Starting with 1998, the state had opened

the social service market to other providers by introducing various public–private partnership formulas. Ten years later, the state had further strengthened its regulatory role by imposing also quality and cost standards both for public and private social service providers. All social service providers, public as well as private, 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 at national level.

In Romania, social services of general interest (social protection, health, culture, education) are developed and provided by the state and private sector, the associative sector being one of the main private actors in this field. According to the National Registry of Accredited Social Services Providers in 2020, 2,978 accredited social services providers deliver 4,265 licensed social services. Almost 60% of the accredited social service providers are private providers (associations and foundations, mutual aid associations, limited liability companies, church organizations) and 56% are NGOs (MMPS, 2020). The number of associations and foundations that are accredited to provide social services is 1,664, almost double of the associations and foundations with economic activities in the social/charitable field. (MMPS, 2020) A number of 1,659 licensed social services (meaning 42% of all licensed social services) is provided by private organizations. Associations and foundations have specially licensed home care services for elderly/people with disability, day care centers for children and their families, day care centers for people with disabilities, social canteens, residential centers for the elderly, and centers for other categories of vulnerable people.

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.

In the last 15 years, it can be witnessed a development of economic activity within the associations and foundations accredited as social services providers. The analysis of qualitative data indicates this economic activity in the field of social services (charging the cost when the beneficiaries that can afford to pay) or in other economic fields where they employed some of their beneficiaries from vulnerable groups. The revenue from economic activity enables associations and foundations to provide social services free to vulnerable groups.

The decision-makers, representatives of associations and foundations who have been interviewed on different research projects, consider that the associative sector is also the most important employer for vulnerable people. Many of associations and foundations have set up protected shelters where the employees are mainly people with disabilities. This type of social inclusion represents an important source

of income for people with disability while ensuring for many of them, the transition to regular labour market.

The associations and foundations contribution to social inclusion policies and implementation includes also the empowerment of marginalized people through various mechanisms such as social production and social mobilization (Gonzales 2007). The social production mechanism of social enterprises implies the development of competencies and capabilities of vulnerable people. Most of associations and foundations that carry out economic activities deliver many educational opportunities for their beneficiaries. The social mobilization function is related to civic empowerment that defines the people capacity to challenge the rules and norms that lead to social inequalities and injustice. Their support services offered to vulnerable groups include also counselling and mentoring.

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

In Romania, there are two types of work integration social enterprises – sheltered workshops dedicated only to people with disability 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. Companies and associations can develop these entities 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).

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 to fully integrate their recipients in the open labor market and society.

Romania has introduced a quota-system for stimulating employers to hire people with disabilities. According to it, any private or public organization with at least 50 employees should employed persons with disabilities in a proportion of minimum 4% of total employees. Otherwise, employer should pay at the budget 100% of the national minimum salary for all the vacant positions. Until 2017, as an alternative, the defaulting company could buy goods or services for the given amount from authorized sheltered workshops. From 2017, this alternative was not available and this had an important impact over the sheltered workshops. The change in the legislation regarding protection of people with disabilities from 2017 (G.O. 60/2017) generated a reduction of the market for sheltered workshops and of their revenues. Because their fiscal facilities were eliminated, most of them do not

want to renew their authorization, and until March 2020 only 27 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.

According to statistical data, there were 48 such units in 2006 and one year later (in 2007) their number increase 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 2007–2017, 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 no. 3*).

*Table no. 3*

**Romanian sheltered workshops evolution between 2008–2017**

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

*Source:* ANPD 2017.

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

The Law on the Social economy (2015) regulates the activity of the social insertion enterprises. According to the law, social insertion enterprise is an instrument for the integration of vulnerable people into the labour market, including people with disabilities. Social insertion enterprises and sheltered workshops are functioning in parallel with neither one replacing the other one. The incorporation form of social insertion enterprise could be cooperative, association or foundation, mutual aid association or limited liability company. Each one should fulfill social enterprise criteria (Art. 3) and employ at least 30% of people from vulnerable groups such as (Art. 10): long-term unemployed, former drug addicts, unemployed ex-offenders, minorities facing discrimination (e.g. Roma, NEETs, victims of domestic violence, single mothers, homeless, etc.).

Considering that social insertion enterprises facilitate the insertion of vulnerable persons into the labor market, they must also provide accompanying measures specifically tailored for them (information, counseling, 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 to empower vulnerable people and enhance their chances in view of the socio-professional insertion.

Due to a highly bureaucratic registration process (administrative documents to prove the existence of employees from vulnerable groups, an annual report on the activity carried out, accounting documents etc.) and lack of the fiscal facilities or other assets dedicated exclusively to them, many of social insertion enterprises are not officially registered in the National Registry of Social Enterprises. These are the reasons why the interviewed representatives of social enterprises considered that the number of social insertion enterprises registered is very low. At the end of February 2020 only 129 social enterprises were included in the National Registry of Social Enterprises (ANOFM 2020) and only 16 are work integration social enterprises (WISEs).

### ***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 to vulnerable people, especially to people with disabilities, as well as to 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 regarding the integration in 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 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 labor market and to expand their social interactions. More specifically, they represent a way to get those people out of their ordinary life environment and to restore their self-confidence.

Between 2012 and 2016, there was an ascending trend in the number of sheltered workshops registered as well as the number of people with disabilities employed. It is worth mentioning that by 2017, the number of employees had decreased as shown in *Table no. 4*. This was one of the consequences of the changes in legislation relative to sheltered workshops. By the end of 2017, only 465 people were employed by sheltered workshops, as a follow up of the implementation 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 in exchange for the quota of employees with disabilities to be hired.

There is no official data available regarding the transfer of people with disabilities from sheltered workshops to free labour market, yet, different studies and information from stakeholders' in-depth interviews show that this transition rate is generally very low due to the type and gravity of disability as well as, the companies limited interest to hire them (RAS 2009; Achitei et al. 2014).

Table no. 4

#### The evolution of the employees' number in sheltered workshops

Sheltered workshops	2012	2013	2014	2015	2016	2017
Number of sheltered workshops	564	667	691	723	759	708
Number of employees in sheltered workshops	1,690	1,769	1,733	1,785	2,015	1,550
Number of disabled persons employed at national level	28,756	29,842	30,556	32,147	33,449	33,593
% employees in sheltered workshops of total disabled persons employed at national level	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

The main scope of Mutual aid associations of retirees (RMAA) is to offer financial, social, health and cultural services for elderly people and their communities. They act as incipient credit unions that help their members to cope with financial risk exclusion by providing small loans. They are not involved in insurance/reinsurance of activities like other similar organizations from Western Europe (Lambru 2013; Grijpstra et al. 2011)

According to the data of the National Institute of Statistics, between 2000 and 2015, the number of RMAAs has increased with more than 65%. In the same time, the number of employees nearly doubled (Table no. 5).

Table no. 5

#### Mutual aid associations' evolution in Romania

Mutual aid associations for retirees	2000	2010	2011	2012	2013	2014	2015
Number of organisations	133	203	193	198	201	218	219
Number of employees	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 of retirees in welfare system***

Mutual aid associations of retirees are a safety network for 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 its members, mostly senior citizens. RMAAs covers various risks common to the Romanian welfare system: financial exclusion, social exclusion and costs incurred by specific events (eg. funerals, non-covered health costs). Based on membership status, RMAAs cover the funeral costs for all members, from the social fund available. For other health events, the costs are covered within the limits of the funds approved annually by the General Assembly.

Considered as incipient credit unions, RMAAs provide small loans for retirees and their families with a low interest rate. In this way, they cover the financial risk of the majority of Romanian retirees due to the fact that they are not eligible for banking services as the level of retirement benefits per annum is low.

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 in exchange of work provided by members, food shops with lower prices, repairing workshops, medical and funeral services, beauty services. These services are provided to all elderly people in need. The fees for services are different depending on the membership status.

### **ROLE OF THE SE IN EMPLOYMENT OF VULNERABLE GROUP**

Romania has funded the social enterprises' start-up from 2009 to 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 research/assessment of the field. Through these funds, 1,339 social enterprises have been set up and 8,332 jobs have been created. Of those, 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 no. 6*).

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, persons with disabilities, NEETs, young people beneficiaries of the social protection system, people unemployed, people living in poverty, vulnerable women etc). The main issue is related to the sustainability of these jobs created by the SEs and financed through SOP HDR (Petrescu 2019).

The poverty rate in rural areas of Romania was higher (48.5%) than in urban ones and was caused by the predominance of agriculture within the overall economy,

which is associated with low income and seasonality of work, but also with the fragmentation of the agricultural holdings, small dimension of the farms, low level of entrepreneurship. The latter factor represents an important determinant of poverty and exclusion for people from these areas. Because of that, the SOP HDR promoted the social entrepreneurship in rural areas and 67% (897) of social enterprises financed were rural.

Table no. 6

Social enterprises' startups financed through SOP HDR, POSDRU 2009–2015

Regional intermediary body who managed the implementation	Social enterprises number	Jobs number	Forma de organizare				
			Limited liability companies	Coops	Assoc. & Foundations	Mutual aid associations	Others
South East	251	1,481	195	4	49		3
South West	175	1,196	106	54	15		
South Muntenia	340	2,005	241	4	95		
Bucharest-Ilfov	67	399	49	8	10		
Nord West	250	1,767	180	4	64		2
Centre	256	1,484	162	8	60	26	
Total	1,339	8,332	933	82	293	26	5

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, the development of social economy actors and their role in welfare service marketization occurred in Romania also, but with limited coverage and a much reduced policy toolkit. Each type of social enterprise has a specific role in the welfare system and this is related to the characteristics of the activities carried out by these organizations. Public policies target in particular the role of social enterprises in relation to social inclusion of vulnerable groups and do not take into consideration other possible roles.

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 (the law 98/2016) regarding social clauses and reserved contracts have been introduced, although the implementation is inconsistent.

The main challenges that social enterprises face in Romania are as follows: 1) limited awareness and understanding of the social enterprise conceptual framework that impacts on the potential of social enterprises as a modern vector to reforming

social services; 2) the underdevelopment and underfunding of Romanian social service sector despite the growing demand for such services; 3) the limited availability of funding for development of social enterprises.

The small number of registered social enterprises, but also the reduced capacity of those created through the structural funds to support themselves, makes them marginal within the Romanian welfare system. Also, we can add here issues related to self-recognition, many of the NGOs that carry out economic activities are not declared as social enterprises in the absence of fiscal facilities.

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**I**ntreprinderile sociale sunt integrate în și dependente de contextul local, caracteristicile lor organizaționale și strategiile operaționale fiind influențate de relațiile instituționale formale și informale, cultura politică, normele și tradițiile existente. Similar cu alte țări europene, România a inclus modernizarea sistemului de protecție socială pe agenda de dezvoltare din ultimul deceniu. Unul dintre domeniile de interes a fost să înțeleagă și să promoveze mai bine dinamica întreprinderilor sociale în calitate de actor și facilitator al dezvoltării sociale. Din perspectivă neo-instituționalistă, acest articol își propune să exploreze rolul întreprinderilor sociale ca o componentă a sistemului de bunăstare din România. Articolul oferă o imagine de ansamblu asupra istoriei întreprinderilor sociale românești și a influenței diverselor sisteme politice asupra lor. A doua parte analizează rolurile, provocările și procesele de dezvoltare ale întreprinderilor sociale ca servicii de protecție socială.

**Cuvinte-cheie:** economie socială; întreprindere socială; sistemul de bunăstare.

Primit: 10.02.2020

Acceptat: 01.03.2020