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## Social economy – added value for local development and social cohesion

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### Abstract

This paper addresses *the social economy* and its importance for the local development and social cohesion. Note should be taken that the social economy arises at confluence between *the business* field and the *social* field, insofar the social economy's primary aim is not the profit making but the stakeholders' welfare and socio-economic inclusion. This paper shall tackle primarily *the added value of social economy*, which shall be considered in terms of social and economic benefits for local development and benefits related to systemic and institutional modification. *Documentary research* shall be used as a method in order to assess the added value of social economy for local development and social cohesion. The social economy contributes to developing a social cohesion-generating economy forming new mentalities for the *local social-economical environment*. Main definitions proposed for social economy and main financing sources relevant for the Romanian social economy development shall be reviewed. The three main categories of social economy stakeholders shall be analysed: public authorities, third sector, and businesses. Conclusions shall be drawn related to social economy's implications for society and general economy.

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### 1. Definitions of social economy

Because there is a multitude of national and regional approaches in EU member states, there is no clear, precise and unanimously accepted definition for the social economy.

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Professor Jacques Defourny proposed the following definition of social economy adopted by the European Social Enterprise Research Network (EMES): „social economy includes cooperative enterprises, mutual and insurance corporations, foundations and all the other non-profit organisations which hold principles that correspond to the ‘third sector’ of the modern economies (Barna, 2014, p. 9).

The most comprehensive definition of this sector was elaborated by the International Centre of Research and Information on the Public, Social and Cooperative Economy (CIRIEC) who proposed a definition suitable to national accounting systems: „*The set of private, formally-organised enterprises, with autonomy of decision and freedom of membership, created to meet their members’ needs through the market by producing goods and providing services, insurance and finance, where decision-making and any distribution of profits or surpluses among the members are not directly linked to the capital or fees contributed by each member, each of whom has one vote. The Social Economy also includes private, formally-organised organisations with autonomy of decision and freedom of membership that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them*” (CIRIEC, 2012, p. 21).

Whilst the components that define social economy differ from country to country, the profile literature acknowledges the meaning according to which social economy draws together cooperatives, mutual corporations, associations and foundations.

“The social economy organisations are active economic and social players characterized principally by goals and specific entrepreneurship type. Those enterprises are particularly active in such fields as social protection, social services, health, banking, insurances, education and training, culture, sport.” (definition CEP – CMAF).

## 2. Financing social economy

The financing of social economy in South-Eastern Europe (OECD, 2007) presents some institutional features.

As for the Romanian case, the social economy is financed by means of public and private funds. The private financing is provided by the organisations involved in the field, through specific activity, sponsorship, donations, grants. The public financing is represented mainly by the Sectoral Operational Programme Human Resources Development (SOP HRD), which consists of European non-reimbursable funds (European Social Fund) and national co-financing. The orientative financial allocation, according to the Framework Document for Implementation of SOP HRD 2007-2013, for the programming period is 294.153.700 euro, of which 234.289.498 euro represent ESF and 51.281.18 euro represent national state contribution. There is no national contribution from the local budget.

The almost EUR 300 mil. allocation for the social economy field – within a specific key area of intervention (KAI) – through the SOP HRD constitutes a proof of the importance the Romanian authorities understand to give to this field and of the capitalization of the opportunities to convert social disadvantages into modes of sustainable living.

The insertion of the social economy addressing into the Priority Axis 6 of SOP HRD – the axis dedicated to social inclusion – thus primarily orients the Romanian main financing source to the social inclusion field rather than the business field.

## 3. Social economy stakeholders

According to Constantinescu (2013), the preliminary analysis of the impact of the European Social Fund financing shows that the main stakeholders of the employment and social inclusion policies are the social economy organisations, especially associations and foundations, which access more than 50% of the available financing, therefore the central role awarded to social economy within these policies is entirely justified.

Three main categories of stakeholders contribute to the social economy development: public authorities and institutions, civil society and businesses.

**Public authorities and institutions** have a defining role in promoting social economy. Some of the organisations which implemented projects financed through SOP HRD concluded partnerships with public authorities and institutions in order to reach the target groups, vulnerable persons respectively.

Public authorities are able to contribute to achieving a legislative framework for the social economy, as far as the defining of principles and the scope is concerned. Institutionally, the central authorities’ involvement ensures the

general guidance, guaranteeing the respect of the fundamental principles of social economy. At local level, the autonomy to manage initiative in the social field belongs to the local authorities, citizens, through the forms of association and representation (Matei and Matei, 2012).

Public authorities are also able to offer fiscal facilities for the social enterprises and for any other type of social economy structure. The state involvement in the market economy is regularly done by the executive bodies, with the approval of the legislative ones. State economic policies are therefore generally labelled as public policies (Matei, 2003).

The involvement of public authorities and institutions in the social economy sector generates advantages such as: unloading the social assistance budgets, changing of societal mentalities as related to work and role of vulnerable groups, and the efficient implementation of EU policies.

Another category of social economy stakeholders is represented by the **civil society** (“**third sector**”). The third sector has actively involved in promoting the social economy. Through SOP HRD, social enterprises and resources centres for social enterprises have been created, the latter being a bond between the economic environment and the vulnerable groups.

The cooperative companies represent the traditional forms of organisation of social economy in Romania. They might be craft cooperative companies, consumer cooperative companies, agricultural cooperative companies. The cooperatives ensure 31% jobs in the social economy (Matei and Matei, 2012).

The organisms involved in fostering collective actions, local development, and sustainable development for people create social productivity (Cace, 2010). Profits in the third sector organisations are subject to non-distribution condition, in order to be reinvested in the qualitatively superior and efficient producing of the common good (Vlasceanu, 1999).

The third main category of stakeholders involved in social economy promotion is represented by the **businesses (economic environment)**. The economic environment supports the establishment of social enterprises or fosters the development of those already established. The CSR (Corporate Social Responsibility) strategies may contribute directly or indirectly to the development of social economy. Some big companies in Romania (Vodafone, Orange, Petrom etc.) usual jointly with the civil society undertake campaigns of social responsibility more and more visible. The businesses may also support the development of social economy in partnership with state institutions through the setting up of micro-credits guarantee funds for the establishment and development of social enterprises.

As a result of the social economy development, the economic environment benefits of certain advantages. The involvement of the companies in social activities creates a new type of entrepreneurship – the social entrepreneurship – and creates an ethical business milieu. Yet, in Romania there is still a need to develop a culture specific to social entrepreneurship (Matei and Matei, 2012).

The integration on the labour market of the vulnerable persons is presently the most noticeable element of the social economy, particularly as the insertion social enterprises are concerned. The social economy entities are important stakeholders in the social innovation process by means of goods created and services delivered. There is a direct link between the development of the social economy and the local development. Thus, these entities have certain advantages over the other stakeholders: the main objective of the social economy entities is to serve a community. These entities’ democratic managing is one element that leads to local development, since this type of governance affords identification of needs and local resources and gives optimal solutions to local problems. The autonomous character of the social economy entities constitutes an added value element, as they are not managed by public institutions and therefore not subject to political factor decisions.

#### 4. Added value of social economy

The **added value** of the social economy is indisputable. The social economy supports in many ways the employment: directly, by means of employing in own organisations (associations, foundations, and more recently social enterprises) and indirectly through the multiple functions it conveys. The cooperatives organise and keep alive the economic activities of independent workers, crofters, small craftsmen. As for the insertion social enterprises, the job creation for persons in social exclusion situations is the ultimate purpose.

The dominant typology of the insertion social enterprises at the European level consists in the creation of temporary jobs (which is a transitory stage between training and employment) with a view to increasing the disadvantaged worker’s level of productivity and employability at the level he is expected to be able to find a job on the open labour market.

Besides the job offer, the social economy organisations with a significant integration activity propose the employees a series of complementary services such as training, psychological and legal counselling, recovery service, transport services, or partially or totally finance medical interventions for the disabled employees. Only in the case of such organisations employed persons who would later on find a job on the labour market outside the sheltered workshop can be pinpointed (Constantinescu, 2013, p. 5).

The added value of the social economy can be seen in terms of:

**ECONOMIC AND SOCIAL BENEFITS** for households. Thus, in one single action, economic and social results are brought together: development of enterprises, increase of finance, employment fostering, community development.

**BENEFITS RELATED TO SISTEMIC AND INSTITUTIONAL CHANGE.** By means of investment in social economy, major changes are stirred up at the level of policies, attitudes or organisational structures.

Through accessing EU funds financed projects, the civil society organisations acquire a greater financial autonomy towards the public authorities, and rise the innovation opportunities. An added value linked to social economy structures is to be found especially in small communities, where success is closely related to attitudinal and compartmental changes, and links between the members are strong. In poor regions generally admitted as disadvantaged areas, the insertion of some members in social economy structures represents paragons, all the more so the rest of the community acknowledges that the persons involved undergo major changes both from an economic point of view (they become providers for own families) and from a social point of view (they acquire social abilities). Those organisations succeed in mobilising local resources, in stimulating the social capital gain at the level of community, in assuring the welfare for the community members.

The social economy structures have proved that they can contribute to innovating the services providing, to social cohesion, to promoting new forms of local democratic participation and self-financing, as well as to solving social problems that affect a large scale of social vulnerable categories (Cace, 2010, p. 21). Local development in Romania has involved bringing in elements of social innovation such as the participative approach to the socio-economical process, the creation of new institutional structures realised in partnership, the partnership between communities. All the programmes and policies for the stimulation of local development stress the public-private partnership in solving the community problems and the involvement of local stakeholders in decision making process.

The main effects of the activities of the social enterprises over the local development are related to the increase of the social capital (fostering the confidence in members and institutions, building stronger relations between the members, creating networks with communities), to the stimulation of innovation and the insertion of innovation into the activity of local institutions, to the employment, to the creation of local development structures.

The added value of the social economy consists therefore in a higher inclusion rate, proved by the increased involvement of the vulnerable persons into the civic affairs and community decision making, in shareholding of social enterprises by a large number of vulnerable persons. Moreover, the education time span, the alphabetising rate, the on the job training have increased, and the social assistance use rate and the poverty rate have decreased at the same time, all these having brought a better healthy situation and a lower incidence of alimentary insecurity. The employment opportunities have thus indisputably increased for the low income persons

According to the latest Annual Implementation Report for SOP HRD – Annual Implementation Reports are sent to the European Commission and yield information on SOP HRD implementation status – , on June, 16<sup>th</sup> 2014<sup>†</sup>, the social economy structures created amount to 346 (as compared to the 830 official target at the level of 2015). As for the number of jobs created by the social economy structures, the value realised at the level of 2013 is 6046 (which exceeds the 5000 target at the level of 2015). Two calls for proposals financed under the Key Area of Intervention 6.1 “Social economy development” were launched in 2014. In can be foreseen that during the implementation the assumed target will be outrun also for the indicator related to the social economy structures created, while the value of indicator related to the number of jobs created by the social economy structures will reach a good output of the social economy financing.

The social economy contributes to the building up of a social cohesion generating economy and leads to the implementation of the European Union priorities, in particular of the Europe 2020 Strategy.

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