

## **Social Entrepreneurship and Regional Challenges in Regulating an Eco-System Favoring Sector Development<sup>1</sup>**

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### **Abstract**

Romania, the Republic of Moldova and Ukraine are all confronted with long-term challenges and tendencies, both at national, regional and global levels, which will cause the countries to be more oriented to the individual, the environment and the community. Social entrepreneurship is one of the instruments through which we respond to these challenges and lower social disparities. Social entrepreneurship offers solutions for the future of education, workplaces, social order, the relation between the individual and the state, demographic and climate changes, social equality and social justice. In the hereby article we will analyze where are the three countries situated and which are the steps to be taken as soon as possible.

**Key words:** social entrepreneurship, social economy, social enterprise, work integration social enterprise, public policy, favorable eco-system, social inclusion, European projects

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Promoting the entrepreneurial spirit is an important part of the Lisbon Strategy and of the Europe 2020 Strategy, which see entrepreneurship as a key component of intelligent economic growth that is both sustainable and favors inclusion. Decision makers see entrepreneurship as a means to combat disparities on the labor market and exclusion in general. In this sector, key actors are the social enterprises, including the work integration social enterprises who function according to several economic and social principles, such as: a clear social mission statement, assumed through the articles of incorporation; reinvesting 90% of the profit in order to reach this mission statement; balanced payroll (in Romania the payroll ratio is 1:8, while in the Republic of Moldova – 1:5); participative decision – making processes (one individual equals one vote, whatever the number of shares owned / the invested capital); a high percentage of autonomy with respect to governmental institutions; transfer of goods to another social enterprise in case of bankruptcy, etc.

*Social businesses are much more community and individual oriented than classical businesses, hence the interest of the European Commission and of many other European countries in bringing this topic on the public agenda and in creating a framework favoring their growth. Social enterprises bring economic and social profit!*

Social enterprises are a useful tool in combating poverty and in lowering social disparities, while work integration social enterprises create workplaces for people from groups at risk and have a strong learning dimension.

Developing and promoting social enterprises may result in short or long-term gains for the public budgets by lowering public expenses and by increasing fiscal income compared to other methods of approaching social problems.

One of the main goals is to develop an eco-system favoring the field, if we want to fully use the potential of social enterprises in creating inclusive workplaces, proper for developing environmentally friendly and individually oriented products and services, as well as for developing a society in which „no one is left behind”.

*In Europe are functioning over 2.8 million social enterprises, representing 10% of EU businesses, with more than 13.6 million people working in these structures, representing 6.3% of employees in the EU. The social economy sector involves more than 82.8 million volunteers, the equivalent of 5.5 million fulltime workers. In addition, the sector includes over 232 million members of mutual aid cooperatives and companies.<sup>3</sup>*

## **Romania**

The first legislative mention of social economy in Romania occurs in 2002, the Government Decision number 829/2002 on approving the National Plan against poverty and for promoting social inclusion. The first document of this kind was very modernizing and comprehensive in its conception and inevitably included social economy.

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<sup>3</sup>Recent evolutions of the Social Economy in the European Union, by CIRIEC-International - Centre international de recherches et d'information sur l'économie publique, sociale et coopérative Directors: Jose Luis Monzón & Rafael Chaves, CES/CSS/12/2016/23406, 2017

The idea is afterwards included in the art. 6 par. 1) of the Law number 292/2011 on social assistance, social economy being presented as a sector comprising economic activities which include social objectives, in subsidiary and under the condition of maintaining economic performance.

The debates and the passing of specific legislation for the social economy sector was stimulated by the European funds allocated for the sector through the Operational Sectoral Program Human Resources Development POS-DRU. A real competition for regulating the sector was launched in Romanian Parliament between 2010-2016, with two main variants of legislative text promoted by three main initiators: The Government, the Ministry of Labor and a group of Parliament members who took over the legislative project of the Ministry of Labor and submitted it to the Government. The project became the Law 219/2015 and it brought the following main regulations: definition of social economy, its principles, definition of a social enterprise and of a work integration social enterprise, establishment of criteria and procedures for accreditation / certification of social enterprises / work integration social enterprises, defining a central public authority responsible for regulating the field within the Ministry of Labor, the mechanism for coordinating public policies for this sector – the National Commission for Social Economy, which brings together in a specific body several ministries and representatives of the sector.

Subsequently, the following documents were approved:

- The Decision no. 585/2016 on approving the methodological norms for applying the law on social economy;
- The Order no. 1986/2016, which established the specific element of visual identity of the work integration social enterprise and its specific rules of use;
- The Order no. 2034/2016, which established the procedure for organizing, updating and using the Register of Social Enterprises;
- The Order no. 406/2017, which developed guidelines on result indicators, immediate achievement / output and the impact indicators to be used by social enterprises / work integration social enterprises in their annual reports;
- The Order no. 1600/2435/2017, for the approval of the model of excerpts of the annual financial statements published by social enterprises / work integration social enterprises in the Register of Social Enterprises.

Unfortunately, except for these documents and the European funds allocated for development of start-ups in the field of social economy, there have been no other steps taken.

At least two of the articles of the Law on Social Economy should have been accomplished until this moment, but unfortunately this did not yet happen:

- Art. 26 – Establishment, organization and functioning of the National Commission for Social Economy, entity for collaboration, coordination and monitoring in the field of social economy with equal representation of ministries & social economy entities;
- Art. 21 – State aid support measures for work integration social enterprises.

During 2020-2021, will be established at least 2400 social enterprises in Romania through the financing granted to approximately 100 grant administrators within the Operational Program Human Capital.

Since the measures taken to combat the spread of the COVID-19 infection led to a significant reduction in production, trade, an increase in unemployment rates, in lowering consumption, the state should play an active role in creating tools to support entrepreneurs, especially the ones solving community issues by carrying out income-generating activities, as is the case with social enterprises.

### **Republic of Moldova**

On November 2<sup>nd</sup>, 2017, the Parliament of the Republic of Moldova passed the Law on amending and supplementing legislative acts (the Law no. 845/1992 on entrepreneurship and enterprises), which legally regulated the field of Social Entrepreneurship. According to the art. 36<sup>1</sup> the activity of social entrepreneurship is carried out by social enterprises and work integration social enterprises. The status of social enterprise / work integration social enterprise is assigned by the National Commission for Social Entrepreneurship, according to paragraph 3 of the art. 36<sup>2</sup> of the same law.

Through the Decision no. 1165 / 28.11.2018 were approved the Regulation on the organization and functioning of the National Commission for Social Entrepreneurship and the list of types of activities that may be considered as social entrepreneurship activities. The Regulation stipulates on the organization and functioning of the Commission, its nominal composition, the method of granting and withdrawing the status of social enterprise / work integration social enterprise, including the procedure for examining the application for granting this status, as well as the control on complying to the status of social enterprise / work integration social enterprise.

*Throughout 2019, the Ministry of Economy and Infrastructure, with the support of the German Agency for International Cooperation, conducted a national research on the topic "Report on the analysis of social entrepreneurship in the Republic of Moldova". This document was the basis for the elaboration in 2020 of the National Program for the Development of Social Entrepreneurship 2021-2025, which was recently in public debate, and will be officially approved, in the first half of 2021 in the Parliament of the Republic of Moldova.*

The document includes 4 specific objectives for sector development:

1. To develop and promote a culture of social entrepreneurship among the population of the Republic of Moldova.
  - a. Promoting the economic and social impact generated by social enterprises in the community.
  - b. To acknowledge the role of social enterprises in creating and maintaining quality workplace, having a major contribution to the success of the European Pillar of Social Rights, the

implementation of the National Development Strategy Moldova 2030 and of the Sustainable Development Agenda 2030.

c. Annual assembly of data on the economic and social impact of social enterprises and their role in research, promoting and creating a framework favoring development.

2. To create a legislative framework favoring social entrepreneurship and to value the potential of the sector for economic and social growth.

a. Strengthening the role of the National Commission of Social Entrepreneurship with respect to the strategic coordination for the development of social entrepreneurship in the Republic of Moldova.

b. Simplifying the procedure for obtaining the status of social enterprise.

c. Development of a package of fiscal and non-fiscal benefits for stimulating the social entrepreneurship sector to fully value the potential of social enterprises for community development.

3. To facilitate the access to the market and financial instruments specific to the field of social entrepreneurship in the Republic of Moldova.

a. Including social enterprises as entities eligible for accessing financing mechanisms and programs for social inclusion, economic growth, social innovation and employment of groups at risk.

b. Creating markets reserved for social enterprises according to art. 20 of the Directive 2014/24/UE of the European Parliament and the Council for public procurements.

4. To improve professional skills and abilities in the field of social entrepreneurship.

a. Development of educational programs in the field of social entrepreneurship

b. Development of mechanisms for monitoring and assessing the quality, social innovation and the importance of social entrepreneurship.

The next step to be taken in 2021 will be the elaboration and the approval of the National Program for Financing Social Entrepreneurship 2021-2025, to be administered by ODIMM – the Organization for the Development of Small and Medium Enterprises from the Republic of Moldova.

*In order to implement this national program for financing and mentoring the existing startups / social enterprises, the estimate is that 36 million lei (approximately 1.8 million Euro) will be allocated from the state budget for the 5 years of financing. The financing will stimulate the establishment of 50 startups in the field and the development of 54 social enterprises activating on the market.*

## **Ukraine**

This country does not have a legislation specific to the field of social entrepreneurship. During 2014 – 2015, there existed in the Parliament a legislative initiative for passing such a law, but unfortunately it was not passed.

However, this did not prevent social enterprises to be established, nor the system to be developed.

According to a research report<sup>4</sup> from 2020, currently in Ukraine are functioning approximately 1000 enterprises which may be classified as social enterprises. Within the last 6 years, the sector has grown with 82%, as a reaction to the social and economic crisis, of military conflicts from Eastern Ukraine and the emergence of new categories of individuals in need of social support, such as the refugees from Crimea and Donbas.

Most of the support addressing social enterprises comes from non-governmental not-for-profit organizations (92%), which involve entrepreneurs in social projects, offer free training, information and consultancy.

The local government supports social businesses through programs addressing small and medium enterprises. In some regions, this includes:

- Reimbursing the installments for entrepreneurial loans;
- Supplying “marketing” in the value of 50% of the payment made for attending local, national and international exhibits;
- Access to the services supplied by centers for supporting businesses, consultancy centers both for new and for already existing companies;
- Public procurement with social clauses;
- Possibility to rent at lower rates for public organizations.

### **Recommendations**

Currently, in the three countries are developed several projects which will lead to an accelerated sector growth. However, without a definite commitment of the local governments and without a public policy similar to the one proposed for approval in the Republic of Moldova, these projects will remain individual initiatives.

*The intervention should be an integrated one, aiming at:*

- *Developing a culture of social entrepreneurship;*
- *Investing in the growth of human capital;*
- *Integrating fiscal and non-fiscal benefits for the sector;*
- *Creating instruments for financing, subsidizing, loaning, investing – all adapted to market needs;*
- *Developing markets reserved especially for work integration social enterprises;*
- *Developing a “sector friendly” juridical framework.*

The “Alaturi de Voi” Romania Foundation, whose President Achitei Angela is the author of this article and an expert in social entrepreneurship / social economy, is implementing during

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<sup>4</sup>Social Entrepreneurship in Ukraine, Economic and legal analysis, EU4Youth – Unlocking the potential of young social entrepreneurs in Moldova and Ukraine, 2020

2019-2022, in partnership with several organizations, the following projects which will create synergies and will bring innovation and added value in Romania, Republic of Moldova and Ukraine:

- "Social Enterprises Accelerator", co-financed through the European Social Fund, Operational Program Human Capital. The project is implemented in Romania and supported the establishment of 42 social enterprises, for which our organization has granted financing of 4,2 Million Euro.
- "EU4Youth – Social Innovation Impact – a strategic partnership!", financed by the European Commission. The project is implemented in the Republic of Moldova and in Ukraine and aims especially at supporting young people in becoming familiar with the field, with developing social enterprises, in creating 4 social innovation labs, as well as in developing a legislative framework favoring the development of social entrepreneurship.
- "Cross-Border Partnership for the Development of Social Entrepreneurship", financed through the Romania – Republic of Moldova 2014-2020 joint operational program. The project aims at establishing 2 cross-border resource centers in the field of social economy and at the capacity building of human resources.

### **Conclusions**

It is of utmost importance to put into practice public policies for offering a framework to support the establishment of social enterprises and the growth of the already existing ones in order for these entities to be able to reach their full social and environmental potential. Policies should focus on promoting social entrepreneurship, on building a favorable legislative framework, on fiscal and non-fiscal benefits addressing especially work integration social enterprises, on establishing different systems for financing, subsidizing and loaning to social businesses, the capacity building of human resources in the field, ensure the access to reserved market, continuous research of the sector and supporting the digitalization, innovation and competitiveness on the market.

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