THE ROLE OF THE SOCIAL ENTREPRENEUR IN LOCAL DEVELOPMENT

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Abstract: *Businesses have the ability to significantly transform society by improving the living standards of a country's population. The importance of social entrepreneurship lies in the fact that it offers an innovative approach to addressing social issues that traditional methods cannot effectively tackle. The main reasons highlighting the importance of social entrepreneurship are: creating lasting social impact, filling gaps in conventional approaches, stimulating economic growth, and inspiring change. Social entrepreneurs play a crucial role, acting as drivers of change and mobilizing communities to take action.*
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Introduction

Businesses have the ability to significantly transform society by improving the standard of living in a country. It has long been recognized that the entrepreneurial function is essential for increasing production and productivity. However, there are certain areas that are exclusively addressed by traditional businesses, where social enterprises cannot intervene. Thus, social entrepreneurship becomes highly relevant during a time when society faces various needs. It refers to a business that does not seek profits and does not distribute dividends, being created to address the problems of the community.

The main objective of social entrepreneurship is not to generate profit, but to solve social problems through sustainable businesses. It focuses on finding solutions to identified social issues through innovative ideas, with the aim of increasing social value. Constant efforts are made to seek new opportunities for social benefits rather than creating private wealth. (Challenges and Determining Factors for the Development of Social Entrepreneurship, PhD Thesis Summary, PhD graduate Grigorov (Durac) Lucia, Galati, 2023)

Social entrepreneurship has become increasingly popular in recent years, as people and organizations seek new solutions to address social and environmental issues. It involves applying entrepreneurial principles to create, organize, and manage initiatives whose primary goal is a social or environmental mission.
In the current context, social entrepreneurship is extremely important as it offers an innovative approach to addressing social problems that traditional methods cannot effectively tackle. Key reasons highlighting the importance of social

entrepreneurship include: creating a lasting social impact, filling gaps in conventional approaches, stimulating economic growth, and inspiring change. Social entrepreneurs play a crucial role, acting as drivers of change and mobilizing communities to take action.

Social entrepreneurship has become a global phenomenon, widely recognized at the highest levels. In 2021, the topic of social entrepreneurship took a central place on the agenda of the World Economic Forum in Davos, being considered an essential sector for post-pandemic economic recovery. According to data provided by the World Economic Forum, during the last two financial crises, the social economy performed better than other sectors, generating up to 12% of jobs while simultaneously providing solutions to urgent social issues. Both large nonprofit organizations and companies have recognized the importance of social entrepreneurship and are investing significant resources to support the development of this sector.

Although the role of social enterprises in providing social services and integrating people into the labor market is well recognized, their role in local economic development, especially in the restructuring of local economies in disadvantaged communities, has not been explored as much. Restructuring local economies has become an increasingly urgent need following economic crises, as well as due to polarization and social segregation processes across Europe. Social enterprises play an increasingly important role in addressing these issues.

Elaboration

The role of the social entrepreneur in local development

From the perspective of Cohesion Policy, according to the Seventh Cohesion Report (October 2017), the social economy represents an important pillar in the context of the need to reduce social disparities between and within member states and their regions. The European Social Fund helps social enterprises to support people facing social challenges in finding employment, such as young unemployed individuals, people with disabilities, and those from rural areas. Overall, member states allocated over 1 billion euros to this sector during the 2014-2020 period, and several member states use the ESF to stimulate the social investment market. Notable examples in this regard include Portugal, through the Social Innovation Fund, and Poland, through the National Social Entrepreneurship Fund.

In Romania, from a conceptual perspective, the discussion about the social economy is relatively recent, primarily stimulated by promotional measures included in projects funded by the European Social Fund, especially through the Human Resources Development Operational Program 2007–2013. The discussion regarding income generation by social-purpose organizations to support their specific goals is older, and it is estimated that it began shortly after the year 2000. At that time, the perspective of European integration led traditional international donors, both public and private, as well as their beneficiaries, especially those who developed social services, to consider the long-term sustainability of these types of activities.

The concept of the social economy was introduced after 2005, shortly after Romania's accession to the European Union, thus opening the way for a new policy concerning social inclusion through **Work Integration Social Enterprises (WISEs)** and social entrepreneurship. WISEs and social entrepreneurship play a crucial role in promoting social inclusion, particularly for marginalized or disadvantaged groups. These enterprises aim not only to generate profit but also to provide job and professional training opportunities for people facing difficulties in accessing the traditional labor market, such as long-term unemployed individuals, people with disabilities, immigrants, or other vulnerable groups. WISEs offer a platform where beneficiaries can acquire skills, work experience, and confidence, thereby creating a path toward sustainable socio-economic integration. By combining economic activities with their social mission, these enterprises contribute to reducing inequalities and improving social cohesion within communities.

Social entrepreneurship supports this approach by providing innovative solutions to social and environmental challenges, making a direct impact on the lives of excluded or vulnerable individuals. Thus, both WISEs and social entrepreneurship become essential drivers of social inclusion and equitable economic development.

Romania faces a significant deficit compared to the EU-27 average in the provision of social, educational, and healthcare services. Additionally, Romania has a serious deficit in environmental protection, particularly in waste collection, recycling, and disposal, as well as the management of protected areas. This deficit should be seen as a natural and necessary area in which social enterprises should be supported.

In the social field, the state, at both central and local levels, is hesitant to subcontract non-governmental partners for the provision of social and environmental services. Moreover, there is currently no clear strategy for viewing environmental protection activities as potential sources of resources and economic growth—a situation that could also be improved through social economy initiatives.

The national legal framework is represented by **Law no. 219/2015 on the Social Economy**. This law establishes that the social economy is "the set of activities organized independently from the public sector, aimed at serving the general interest, the interests of a community, and/or non-patrimonial personal interests, through increasing employment for vulnerable group members and/or the production and provision of goods, services, and/or the execution of works."

The social economy is based on initiatives from the private sector, characterized by voluntarism, solidarity, a high degree of autonomy and responsibility, and limited profit distribution to associates. The aforementioned law provides the framework for defining important concepts within this field, with the most relevant being: **work integration social enterprises**, **social branding** (a concept that also includes the certificate regarding the enterprise's status), and the **funding mechanisms** for social enterprises.

According to the Barometer of the Social Economy in Romania, published in April 2024, in Romania, in 2022, there were 180,323 social economy organizations part of the private administration sector. According to the data presented in the Atlas of Social and Solidarity Economy (which includes associations, cooperatives, mutual societies, foundations, and social purpose commercial companies), in France, global indicators regarding the social and solidarity economy evolved very little during the period 2020-2023, despite variations caused by the health crisis. There are still approximately 150,000 ESS (Social and Solidarity Economy) entities, representing around 2.6 million employees (2 million in full-time equivalents), which constitutes 13.6% of jobs in the private sector. This sector consists of nearly 150,000 employer structures (associations, cooperatives, mutual societies, foundations, commercial companies) and 1.5 million active associations. (https://chorum.fr/actualite/latlas-2023-de-leconomie-sociale-et-solidaire-est-disponible)

Between 2010 and 2022, there was a nearly constant increase in the number of registered organizations, from 83,222 in 2011 to 180,323 in 2022. This growth is attributed to a change in the National Institute of Statistics (INS) classification methodology for entities within this category. From that year onward, INS included more entities that were previously classified under other categories: homeowners' associations, mutual aid houses, village communities, and forest associations (obștile and composesoratele). This decision reflects the recognition of the distinctly economic nature of these entities, thereby integrating them more clearly into the social economy sphere.

Table 1. Evolution of the Number of Private Administration Organizations as Part of the Social Economy, Types of Organizations, 2012, 2019-2022

Private administration organizations that are part of the social economy	**2012**	**2019**	**2020**	**2021**	**2022**	**% annual growth rate 2012-2022**	**% annual growth rate 2020-2022**
Foundations	17,442	17800	17752	17811	17888	0.30%	0.40%
Cultural associations	35,980	55502	57745	61012	64038	7.80%	5.40%
Sports associations/clubs	9,807	14943	15315	16055	16921	7.30%	5.20%
Asociații locatari/proprietari	51,658	59773	60913	62307	63773	2.30%	2.30%
Homeowners/tenants associations	3,120	3177	3132	3111	3097	-0.10%	-0.60%
Mutual aid houses	5,781	5458	5258	5216	5134	-1.10%	-1.20%
Other organizations	8,168	8302	8766	9198	9472	1.60%	4.00%
TOTAL	131,956	164,955	168,881	174,710	180,323	3.70%	3.40%

Source: The Social Economy Barometer of Romania, RISE Romania, April 2024

According to the report *The Social Economy Barometer of Romania*, developed within the framework of the project "SEEDing - Enterprising for Tomorrow", carried out by RISE Romania – the Romanian Social Economy Network, published in April 2024, the number of social organizations active in the field of social economy increased by 37% between 2012 and 2022. In the last two years, these organizations grew by 3.7%, with the highest increase being recorded among cultural and sports associations.

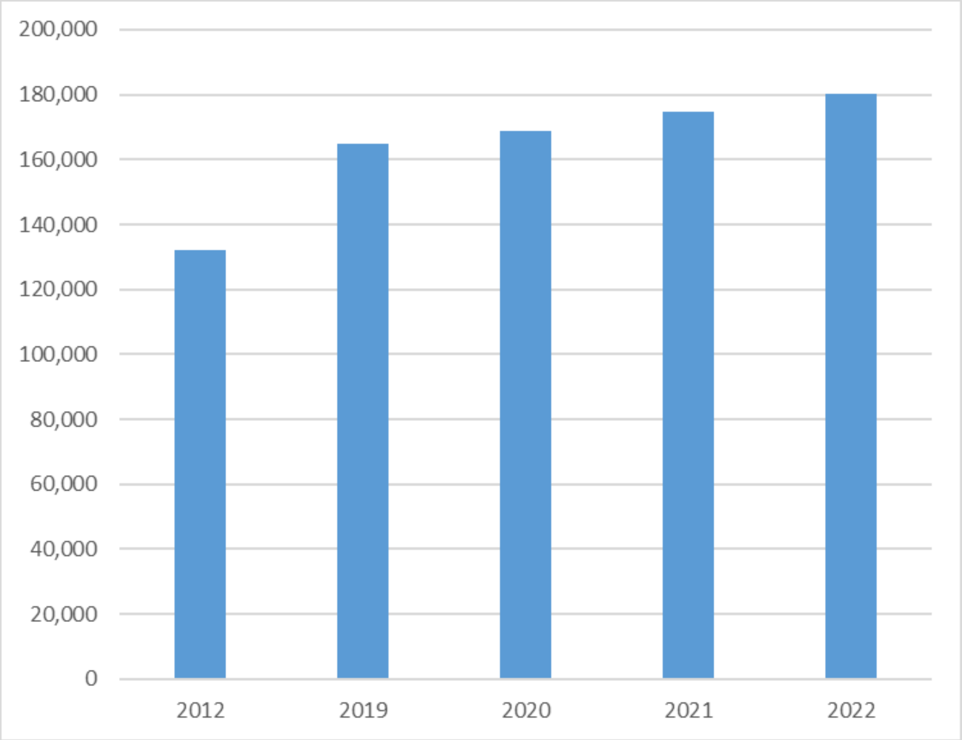

Figure 1. The evolution of number of private administration organizations as part of the social economy, type of organizations 2021 - 2022
Source: The Social Economy Barometer of Romania, RISE Romania, April 2024

From the perspective of the type of social organization, it can be observed that mutual aid houses are the only ones that have recorded a decrease in the number of organizations. This is due to their strategy of consolidation and mergers, which are necessary to increase operational capacity in order to survive in the financial services market. As for the evolution of the number of foundations, it can be observed that their trend has been an upward one.

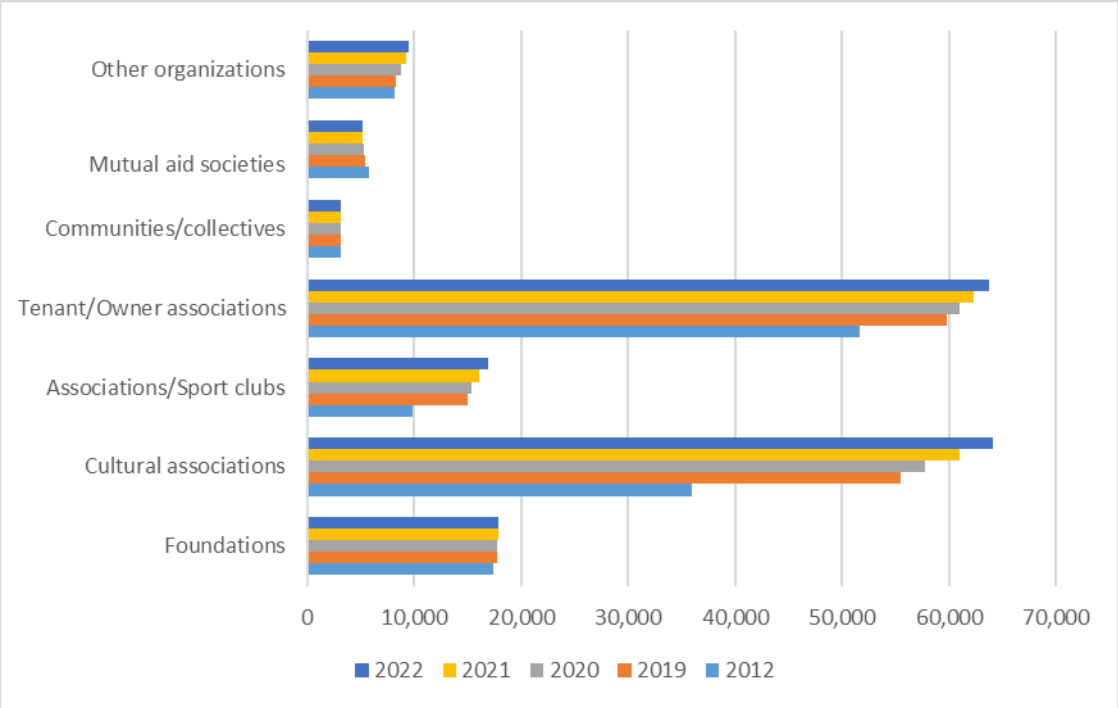

Figure 2. The evolution of number of private administration organzations as part of the social economy, types of organizations, 2012 - 2022
Source: The Social Economy Barometer of Romania, RISE Romania, April 2024

The most representative categories are cultural associations, with a share of 36%, followed by homeowners/tenants associations, which hold 35%. Foundations, active in all sectors of the economy, constitute 10% of the total, while sports associations/clubs represent 9%.

According to the report *The Social Economy Barometer of Romania, RISE, 2024*, regarding the number of enterprises with other legal forms – partnerships, cooperatives, associations – it can be observed that in 2021, at the level of the European Union (27 countries), out of a total of 31,508,884 enterprises, 2,134,435 were enterprises with other legal forms – partnerships, cooperatives, associations. In Romania, there were 3,050 such entities, representing 0.33% of the total in the EU.

In the category of social enterprises, there are included commercial companies owned and controlled by social economy entities, as well as organizations and commercial and cooperative societies that hold a social enterprise certification, according to the Social Economy Law no. 219/2015. Specifically, these are private legal entities that engage in activities within the field of social economy and hold a social enterprise certification. The social enterprise certification is granted to those enterprises that are established and operate for social purposes and/or in the general interest of the community, allocate at least 90% of their profit to social goals and statutory reserves, and are obligated to transfer the assets remaining after liquidation to one or more social enterprises. They must apply the principle of social equity towards employees, ensuring fair salary levels, with no wage disparities exceeding a 1 to 8 ratio.

As of December 2023, the Unique Register of Social Enterprises listed a total of 2,915 organizations and companies that had been certified as social enterprises at some point during their existence. Of these, 29 certifications had expired – for enterprises that were certified between 2015 and 2018 and chose not to renew their certification. Additionally, 427 certifications were revoked – some of them after a period of suspension, 5 had their social enterprise certification suspended, and 2,454 held a valid social enterprise certification. It can be observed that a significant percentage, 15%, of social enterprises had their certifications suspended by the county employment agencies.

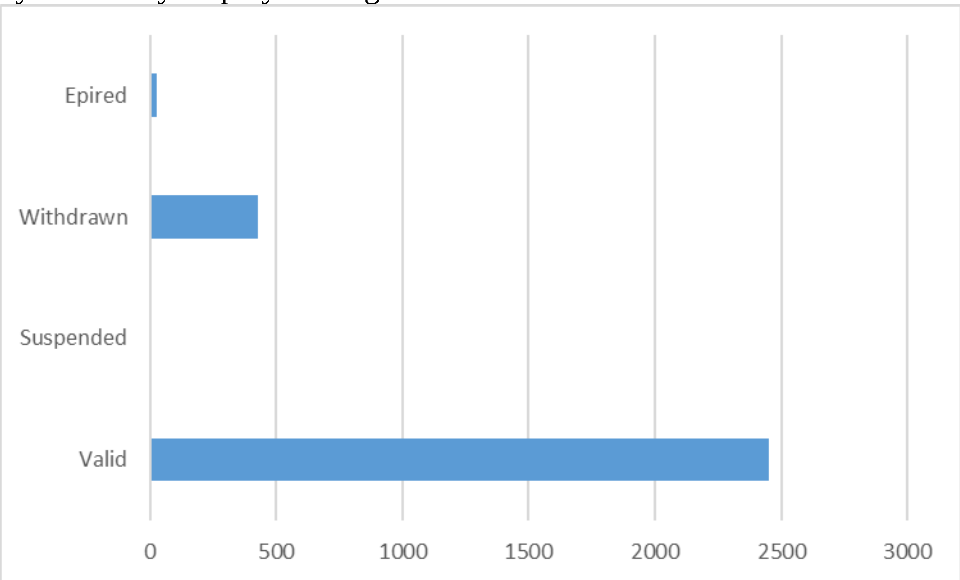

Figure 3. Social enterprises in the RUIS Register, certified status-december 2023
Source: The Social Economy Barometer of Romania, RISE Romania, April 2024 (processed data)

The Barometer of Social Economy in Romania report mentions that the large number of social enterprises established between 2020 and 2022 is due to the implementation of programs funded through the Human Capital Operational Program (POCU), where certification as a social enterprise was a condition for obtaining funding. According to data from the impact evaluation report, through POCU funding calls, 2,899 social enterprises were established by April 2023.

Thus, we deduce that at least 445 of the social enterprises funded with European funds withdrew their certification less than a year after the completion of the projects, considering that by December 2023, only 2,454 enterprises still held a valid certification. Most enterprises on the market have held their certification for less than 3 years, according to official data from December 2023.

In August 2024, the Unique Register of Social Enterprises listed a total of 2,926 organizations and companies that had been certified as social enterprises, of which 310 were established as associations, foundations, mutual aid houses, etc. The largest share among these was held by associations.

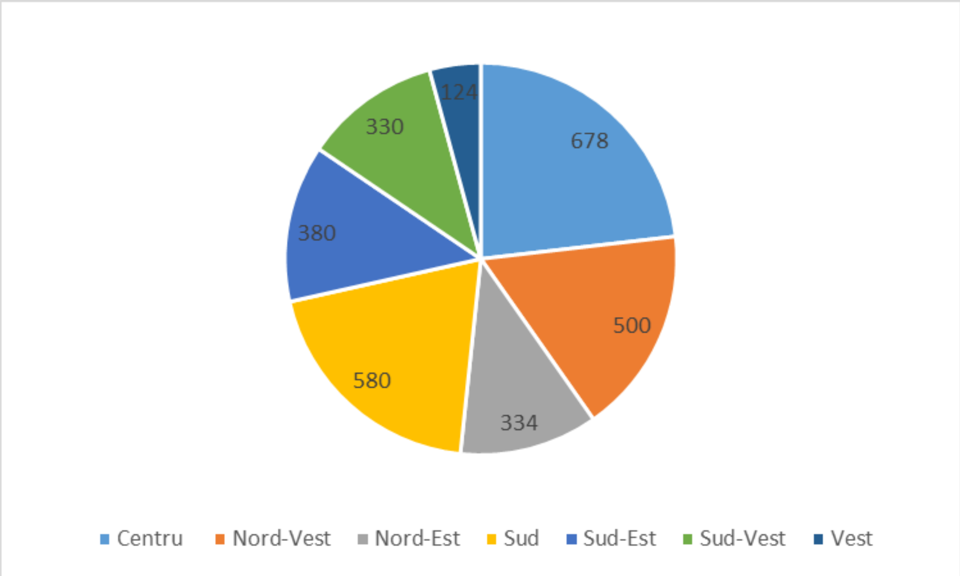

Figure 4. Distribution of social enterprises by development regions in Romania, august 2024
Source: The Social Economy Barometer of Romania, RISE Romania, April 2024

From the analysis of the data regarding the geographical distribution of social enterprises, it can be observed that the leading region is the Center, with 678 social enterprises, followed by the South (including Bucharest and Ilfov) with 580 social enterprises. The third place is occupied by the North-East development region.

Conclusion

In Romania, the continuous development of social enterprises faces various challenges. Although recognized by law, they do not receive adequate support from central and local public authorities. Public support schemes are limited and mainly provide funding through European funds managed by central authorities. It is essential that state institutions support these enterprises, as they can become valuable partners for the authorities..

One obstacle is represented by the legislative framework, which acts as a restrictive factor. Law 219/2015 regarding the social economy offers a limited vision on the development of social enterprises, focusing exclusively on professional integration social enterprises. It is necessary to harmonize the legislation to protect and encourage the development of this sector.

Social entrepreneurship is generally perceived as a career option for young or middle-aged individuals who have the ability to identify both the social needs that the market has not met or cannot meet, as well as new ways to address these needs.

The social economy sector faces numerous challenges within an ecosystem that is far from the one recommended in the European Action Plan and the recent

Recommendation adopted by the Organization for Economic Cooperation and Development (OECD), an organization that Romania aspires to join. The emergence of the European Action Plan for the social economy should bring a significant shift in both the paradigm and vision of decision-makers and social economy actors in Romania.

The social enterprise sector needs support to adapt to and benefit from the green and digital transition, which the social economy, with its diverse actors, can sustain, as highlighted in this report.

In conclusion, social entrepreneurship is not just a buzzword; it is a powerful force that has the potential to transform communities and address pressing social and environmental challenges. By defining social entrepreneurship and understanding its significance, we can appreciate the immense impact that social entrepreneurs have on local communities and beyond.

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