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THE ATLAS OF SOCIAL ECONOMY

ROMANIA 2012

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BUCHAREST

Social Economy- Abstract

In 2010, the social economy in Romania included a total of over 31.000 organizations¹ holding non-current assets amounting to about 10 billion lei (equivalent to 2.5 billion euros), achieving annual incomes of 7.7 billion lei (approximately 2 billion euros) and employed a total of over 100 thousand people, equivalent to 1.7% of wage-earning population and 1.1% of total employed population².

The main actors of the social economy in Romania are summarized in the table below:

Table 1: Indicators of social economy organizations in Romania: 2010

2010	Number of organizations	Non-current assets (thousand lei)	Incomes (thousand lei)	Employees	Members (thousand)
Asociations and Foundations	26,322	5.800.096	5,674,974	60,947	-
Cooperative societies, of which:	2,017	975,050	1,620,129	34,843	-
Handicraft cooperatives	857	592,123	749,972	25,109	30
Consumers cooperatives	958	199,204	565,039	7,485	20
Credit cooperatives	75	115,723	185.118	2,003	-
Agricultural cooperatives	127	68,000	120,000	246	-
Credit Unions (CAR) of which	2,983	3,142,642	426,263	4,801	3,237
Employees CAR	203	674,163	81,574	2,510	2,000
Pensioners CAR	2,780	2,468,479	344,689	2,291	1,237
Total	-	9,917,788	7,721,366	100,591	-

Source: INS, 2010, other secondary data sources

Associations are the most popular forms of social economy in Romania, representing more than two thirds of the total; their establishment is relatively easy, requiring a small number of members, allow carrying out of lucrative activities directly or by setting up companies. Growth rates of social economy, in terms of number of organizations, is exclusively due to new entrances of associations, the other forms of organization being on a downward trend (foundations, mutual funds) or stagnation (cooperatives); only a small part of the associations are statistically visible, because nearly two thirds of them fail to submit balance sheet at the end of the fiscal year.

¹ This report includes data of „statistically visible” organizations, which organizations submitted a balance sheet at the end of each fiscal year, the number of social economy organizations being significantly higher if we consider entities that do not submit a balance sheet; thus, at the end of 2010, in Romania there were 66.804 associations and foundations entered in the NGO Register, at the Ministry of Justice, of which only 26.322 submitted a balance sheet at the end of fiscal year 2010.

² According to the Press Release no. 130 of June, the 14th 2011 of INS on employment and unemployment in 2010, Romania's active population was 9,965,000 people, of which 9,240,000 were employed people and 6,062,000 were remunerated people.

Associations and Foundations show a steady upward trend on all economic indicators and on all years analyzed, with a predominant contribution within incomes (74% of total), assets (58%) or employees (61%) of the Romanian social economy in 2010. Compared to 2009, in 2010, the incomes and assets of the AF (Associations and Foundations) have increased by 51% and 48% respectively, while the employed personnel increased by 25%.

Within the Associations and Foundations, there is the segment of organizations performing economic activities that, even though they represent only 10.4% of total organizations, their incomes and assets represent 40%, as well as 44% of total incomes and assets of the domain of Associations and Foundations; within the commercial subsegment of Associations and Foundations are found the main service providers to the general public, families, households or to their own members, such as social service, training or formal education providers.

Cooperatives included, at the end of 2010, a total of over two thousand organizations, with a slight increase as compared to 2009, holding non-current assets worth around 1 billion lei (equivalent to 250 million euros), with an increase of + 9% as compared to 2009, achieved annual incomes amounting to 1.6 billion lei (400 million euros), with an increase of + 4% as compared to 2009 and hired a number of 35.000 people, with a decrease of - 20% as compared to 2009, representing a little over a third of employment in the social economy.

Most of the assets, incomes and employees of the cooperative originate from the handicraft and consumers cooperatives and consumer (traditional forms that kept their existence during the communist regime), both organizational forms registering a significant decline of their members and employees during 1990-2010. Instead, Credit unions have known a revival since 2007, a process due to lack of credit opportunities at low cost in rural areas.

Number of association members is currently difficult to estimate, but it is unlikely that it may exceed the impressive number of credit union members, forms comparable to savings and loan mutual associations; cumulatively they report 3.2 million members, one in three pensioners being a member of a credit union.

Pensioners CAR also have the most members in the organization, about 10,000 members on each union, a key feature for a savings institution and which also explain the financial robustness of these organizations; in contrast, the cooperatives show a dramatic decrease in their membership, especially for consumers cooperatives.

Pensioners and employees credit unions amounted to a total of about 3000 organizations in late 2010, in a slight decrease,- 6% as compared to 2009, had non-current assets (mainly financial) worth 3.15 billion lei (equivalent to over euro 750 million euros), in an increase with +15% as compared to 2009, achieved incomes amounting to 426 million lei, -3% as compared to 2009 and employed a number of approximately 4800 people, in a decrease by -5% as compared to 2009.

Social economy organizations in Romania have a well-defined geographical location; credit unions operate mainly in urban areas (93% of total), their role being taken over by the credit cooperatives in rural areas; the consumers cooperatives also operate in rural areas (over 75% located in rural areas). Instead, the handicraft cooperatives, foundations and associations are predominantly urban (99% of total are handicraft cooperatives and 80% of associations and foundations) provided that the latter (associations), although located in the urban areas, often carry out business in both residence environments; associations and foundations have a relatively higher frequency in areas that traditionally have higher development levels (Center, North-West and Bucharest-Ilfov), as opposed to other forms of social economy, more common in under-developed regions.

The evolution of economic indices show that, in general, social economy organizations have responded well to first difficult economic years, namely 2009 and 2010, both incomes and non-current assets continuing their trend of growth or stabilization. Only the pensioners unions reported decreasing incomes in 2010 compared to 2009, probably due to lower interest rates and lower rates of investments made by them.

On the average, the highest incomes are achieved by the cooperatives and mutual unions and within the Associations and Foundations, by private universities, set up as Foundations.

Non-current assets have a very high degree of concentration, over three quarters of the social economy assets being reported within a minority segment of mutual unions, communities, handicraft cooperatives, (Religious) associations and Foundations, private universities.

Social Economy employed a total of over 100.000 people at the end of 2010, representing 1.1% of total employed population and around 1.7% of the wage-earning population; considering the average number of employees per organization, cooperatives and pensioners unions mainly fall into the category of small and medium-sized enterprises, while most of Associations and Foundations have a micro-enterprise character, the typical situation being of 2-4 employees, to be noted that more than two thirds of Associations and Foundations employees did not report employees at the end of 2010, the same proportion being found otherwise in the other years; the lowest level of employment is found in the employees mutual unions.

Associations and Foundations- Abstract

Associations and Foundations³ (AF) are private, formal, voluntary and independent organizations which do not share any surpluses or profits to their members, administrators or to any other category of "owners"; unlike other social economy organizations, these entities apply the coercion of *total* nedistributiviness of surpluses.

Foundations are assets assigned to conducting general interest purposes, established by one or more founders; foundations have no democratic members or structures, but are accepted as part of the social economy, due to the social mission and constraint of total nedistributiviness of financial surpluses.

In the national accounts system, prepared based on the methodological principles of the European System of Accounts 1995 (ESA 1995), Associations and Foundations are embedded in a specific institutional sector, namely the *Sector „Non-profit institutions serving the households of people grouping organizations that mainly reduce non-market (non-trade⁴) services”* for households and families, services provided free of charge or at economically insignificant prices.

In Romania, associations and foundations are organizations whose primary purpose is non-patrimonial, but may conduct patrimonial, economic⁵ activities directly or by setting up companies as service providers for families or distinct social groups, whose prices are or not economically significant and possibly under competitive system along with companies or public institutions.

Currently, there is a debate among the community of practitioners and researchers in the field as regards the classification of various functional forms of Associations and Foundations in the social economy (social enterprises), which debate is intensified by the process of developing a legal framework in the field of social economy in Romania; are all Associations, Foundations integral part of the social economy or just Associations and Foundations that are explicitly and continuously developing, good production/sales business operations, services for families or specific social groups?

³ Particularly known in Romania as non-governmental organizations (NGO's); in this report, we refer only to associations and foundations and not to the other forms of non-governmental organizations, such as trade unions, political parties, cults which, although included in the same institutional sector, in the national accounts systems they are generally not framed within the concept of social economy, therefore we shall further use the term associations and foundations, often abbreviated as AF.

⁴ In 2008, the gross value added of non-profit institutions sector was 3.8 billion lei (0.8% of total gross value added of the national economy).

⁵ From an accounting point of view, incomes of associations and foundations come from non-patrimonial activities, patrimonial (economic) activities, as well as from special purpose activities; within the Atlas of Social Economy, we consider organizations performing economic activities those institutions that included balance sheet data in the category "income from economic activities"; the legal provision stating that economic activities must be ancillary and be closely related to the main prerogatives generate ambiguous interpretations; usually, economic activities of associations and foundations refer to direct sales of goods or services and service supply contracts through public procurement operations.

As I mentioned in the conceptual point section, debate is somewhat hindered due to the fact that it often and wrongly put an equality sign between the social economy and social enterprise; the latter is a qualification form to which it may apply any legal form of organization, a subgroup of social economy.

From the perspective of CIRIEC, to which we refer and which we adopt in this Atlas, *all Associations and Foundations are part of the social economy*, with the mention that the (minority) segment that predominantly achieved incomes from economic activities through market mechanisms is classified in the commercial subsegment of the social economy, most AF being found in the non-commercial segment.

On the other hand, *only some Associations and Foundations are classified as social enterprises* as far as they prove their ability to provide services to individuals or households continuously by selling to them or by public contracting and such capacity cannot be demonstrated only by simply raising funds through economic activities that can be occasional, from investments, interests etc.

In this debate context, the Social Economy Atlas shows both the current situation and recent development of the whole AF sector, as well as that of AF with economic activities just to make as clear as possible the economic orientation of the associative sector and to contribute to the documentation of developing a relevant public policy framework.

The Associations and Foundations sector has undergone a remarkable evolution since the early 1990s. At the end of 2010, there were 66.804 registered organizations (of which three quarters are Associations); the highest rates (in absolute value) are recorded after Romania's EU accession (2007) with over 3.000 new organizations registered each year.

Among the registered associations, only about 40% submit a balance sheet at the end of each fiscal year, indicating a high degree of informality in the Associations and Foundations sector, submission of the balance giving account of the extent to which organization carries out formal activities involving the conduct of various financial flows or transactions, on the market or outside it.

At the end of 2010, AF patrimony amounted to about 12 billion lei, equivalent to 3 billion euros, increasing by 83% as compared to 2007 and + 48% as compared to 2009. Non-current assets have a high concentration degree, the first 50 organizations (0.1% of total) in terms of assets, incorporating more than 55% of the total AF assets.

Tend to concentrate assets on a relatively small segment of organizations is less clear in case of incomes reaching 5.67 billion lei (equivalent to 1.4 billion euros) in 2010, with an increase of + 176% as compared to 2005 and +51% as compared to 2009.

Associations and Foundations employ an estimated number of 61.000 employees (with an increase of +27% as compared to 2005), representing 1.3% of the employed population in the private sector and 0.66% of the total engaged population. Typical organization has a

number of up to 5 employees given that, although declining as a share, organizations without employed staff represent 70% of total Associations and Foundations.

Fields with high incidence of organizations are social / charitable and sporting, followed in approximately equal weights by educational field and cultural organizations. Organizations in the social / charitable field and those in education field are the biggest employers and the highest incomes were also achieved by social/charitable organizations, sports and religious organizations; organizations possessing the most significant assets belong to the social / charity domain, communities, education and religion.

Associations and Foundations in Romania are located mainly in urban areas and have a relatively higher rate in areas that traditionally have higher development levels (Center, North- West and Bucharest-Ilfov), unlike the other forms of social economy, more common in under-developed regions.

Associations and Foundations (AF) performing economic, lucrative activities belong to commercial segment of social economy; within them are found the main service providers to the general public, families, households or to their own members, such as social, medical, training or formal education service providers. Evolution of AF with economic activities indicates a steady increase until 2007 (the year of Romania's accession to the EU), followed by a steep decline in 2008 probably due to AF economic guidance to accession of EU non-reimbursable financing instruments; period 2008-2010 knows a revival of economic activities, without reaching the peak level of 2007.

Organizations with economic activities are found in all fields of activity, smaller weights being encountered in the civic and environment field. Although representing only 10% of the total AF, incomes and assets of associations and foundations developing economic activities sum up 40%, as well as 44% of total AF incomes and assets. Incomes generated solely by economic activities experienced a steady upward trend, reaching the value of 760 million, which means a contribution of 34% in total AF economic incomes and 13.4% in AF total incomes.

Cooperative-Abstract

Cooperatives are independent and voluntary individual associations pursuing the achievement of their members's common goals, particularly of economic nature, in very different domains such as agriculture, trade, craft, housing, utilities and more recently, social services.

Their purpose is to provide, particularly for their members, joint services such as access to outlets or general good consumption services or low cost lending services; often, the cooperative members may be, at the same time, employees or direct beneficiaries of cooperative activities mentioned above.

In Romania, cooperative associations are compared to trade enterprises within the national accounts system.

Unlike Associations, cooperatives can distribute part or all of any profits in proportion to the capital contribution of cooperative members, which also constitutes a possible attraction for social economy practitioners when choosing a particular legal form or another.

Incomes is mainly obtained by marketing of products and services. Although they have operating mechanisms specific for trade enterprises, the government (democratic) mechanisms and their mission (serving the common economic interests of members), draw them near to the social economy sector and the social economy operating principles are originating in the historical tradition of cooperative motion.

In Romania, the most common forms at the level of general public are handicraft, consumer, credit and agricultural cooperatives, representing more than 95% of the total, which we will present in detail further in this section; other cooperative fields of activity, such as housing, utilities or social services are almost non-existent in Romania.

Table 29: Main cooperative indicators, 2010

2010	Number of organizations	Assets (thousand lei)	Incomes (thousand lei)	Employees	Members (thousand)
Cooperatives, of which:	2,017	975,050	1,620,129	34,843	-
Handicraft cooperatives	857	592,123	749,972	25,109	30
Consumers cooperatives	958	199,204	565,039	7,485	20
Credit cooperatives	75	115,723	185.118	2,003	-
Agricultural cooperatives	127	68,000	120,000	246	-

Source: INS 2010

Since 1990, cooperatives in Romania experienced a constant involution, more pregnant between 1990-2000, in terms of number of organizations, members and employees. At the same time, both non-current assets, as well as incomes rose / increased and stabilized, reaching in 2010 values of 790 million lei (approximately 200 million euros) for assets and total incomes of 1.3 billion lei (325 million euros); also, comparative data 2010/2009 indicate a possible revival of cooperative at least in terms of number of organizations.

Non-current assets (majority, tangible, fixed assets: buildings, lands, machinery) and the most significant incomes belong to the handicraft cooperatives.

Low share of incomes originating from sales of products shows that much of the incomes is achieved from the operation of fixed assets. The decline in the number of members and employees may be due to a natural exit process (members and employees in search of better economic opportunities) and also to a strategic process of streamlining business of the cooperative management; at the end of 2010, cooperative had an estimated number of 50.000 members, two of three members being employed and earned incomes of 6,500 euros per member and about 10 thousand euros per employee.

Handicraft cooperatives are located exclusively in urban areas (99% of total), while consumer and credit cooperatives operate mainly in rural areas (75% of total); regional distribution of these cooperative institutions is relatively uniform, higher rates being recorded into regions with low economic and associative development indices.

Credit Unions (CAR)

Houses of Mutual Aid (CAR), which are legally established as non-profit associations are forms of social economy companies similar to *savings mutual institutions or credit unions*, having the purpose of raising funds and providing beneficial interest loans to its members, especially for consumer needs, but also to support or cover special situations (i.e. funeral expenses, marriage costs); in Romania, Pensioners' Houses of Mutual Aid also provide access to certain types of social services, some of which are accredited for this purpose.

This type of company operates with its own funds, which, unlike cooperatives, are collective and indivisible, with no capital divided into distinct parts between members (capital is not divided into shares). Source of loans granted by the Houses of Mutual Aid is represented by the deposition of members into a personal account called "social fund", bearing interest, but which does not have a deposit account character. Houses of Mutual Aid are similar to *non-bank financial institutions, but they have not a status of institutions engaged in lending activities, on a professional basis*; Houses of Mutual Aid are financial, but not credit institutions and the legal framework prohibits granting credits to legal entities and collecting deposits; Houses of Mutual Aid are required to be registered with NBR Register, but their business is not supervised by the Central Bank.

Activity related to the work performed by the Houses of Mutual Aid is exempt from taxes and fees, incomes obtained by those mutual aid funds not being deemed profitable (incomes from economic activities).

In the NBR Register, at the end of 2010 (February the 28th, 2011) were recorded 2983 employees and pensioners as members at the House of Mutual Aid, while the records of the most significant employee mutual fund federation of employees, the National Association of Employees' Credit Unions (UNCARS) included a number of 2083 mutual fund houses belonging to UNCARS at the end of 2010.

At the same time, in INS databases for 2010, the number of organizations that have filed balance sheet for 2010 was 887 Houses of Mutual Aid, of which 684 belonged to employees and 203 belonged to pensioners. Also, only a very small number of employees' Houses of Mutual Aid, namely 32 organizations belonging to UNCARS register (30 CARS and 2 UJCARS) were found in the balance sheet databases of NIS⁶.

⁶ Most houses affiliated to UNCARS submit their balance sheets to UJCARS or directly to UNCARS federation, without submitting it also to the Ministry of Finance and therefore, they are not included in the NIS database under a protocol signed between UNCARS and the Ministry of Finance.

Therefore, we estimate that, at the end of 2010, there were a total of 2983 Houses of Mutual Aid, of which a number of 203 were pensioners' type (7% of the total number of Houses of Mutual Aid) and a number of 2780 belonging to employees, of which 2083 houses were affiliated to the main federation in the field, UNCARS (75% of the total of employees' Houses of Mutual Aid) and the rest of 697 houses were affiliated to other federations or unaffiliated and they predominantly belong to employees' associations in the military units, police or other central government bodies.

Table 45: Estimates of the main indicators of Houses of Mutual Aid, 2010

2010	Number of organizations	Assets (thousand lei)	Incomes (thousand lei)	Employees	Members (thousand)
CAR (Houses of Mutual Aid), of which	2,983	3,142,642	426,263	4,801	3,237
CARP (Pensioners' Houses of Mutual Aid)	203	674,163	81,574	2,510	2,000
CARS (Employees' Houses of Mutual Aid)	2,780	2,468,479	344,689	2,291	1,237

Like any other forms of savings and lending, development of Houses of Mutual Aid is strongly correlated with the number of joined members; among all forms of association of the social economy, Houses of Mutual Aid have the most members (about 3.2 million people), 36% of total pensioners and 16% of employees being members of a certain credit union at the end of 2010.

From the viewpoint of each house members, the pensioners' houses attracts, on average, approximately 10.000 members, which explains the relative financial soundness of these organizations; in this regard, employee's houses show a higher fragmentation, which explains the low potential to attract money and lending, except organizations related to large economic units, usually state-owned or recently privatized, public institutions or representing large professional groups of education, army, police type.

Houses of Mutual Aid meet the needs of employees and pensioners, mainly residing in urban areas (93% of houses are located in urban areas) in regions with low levels of economic and associative development (North-East, South and South-West), which are almost non-existent in rural areas and the degree of financial exclusion of people from rural areas is significantly higher than that experienced by employees or pensioners; also, the Houses of Mutual Aid are almost non-existent in the SME's private sector, which phenomenon is similar to the lack of trade unions in the private sector.

In general, pensioners houses have a greater financial strength, the average of financial assets per house approaching 1 million euros; on the other hand, some pensioners' houses obtain incomes from economic activities (sales of products and services at low costs to their own members), which reflects both a tradition of providing additional

services to its members and a tendency of diversifying activities beyond savings and loan; economic conditions of 2010 seem to have led to a decrease of incomes in 2010 compared to 2009 of pensioners' mutual aid funds, which can be explained by the decrease of interests applied by those pensioners' houses, as well as of the efficiency of investments made by them, but assets (mainly financial) of both houses continue their upward trend, reaching a value of 3.1 billion lei at the end of 2010.

It should be noted that, despite economic difficulties, Houses of Mutual Aid, along with AF (Associations and Foundations) carrying out economic activities are the best social economy entities in Romania.

Due to the operating model incidental to savings companies (pressure of constant decrease of operating costs) and low level of houses development, level of employment in Houses of Mutual Aid is low, especially in case of employees' houses (many companies have only one accountant, who is generally external); employment in the pensioners' houses follows the rules and trends appropriate to other forms of social economy, Associations and Foundations, with higher level of payment.



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