

SOCIAL ENTERPRISES AND MICROFINANCE AS TOOLS FOR POVERTY ALLEVIATION IN ROMANIA

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Abstract

Poverty is a dangerous indicator that situates Romania in top positions in many EU statistics: 40% of the population is at risk of poverty or social exclusion and 29% have severe material deprivation. Even though it has been stated on several occasions that funds for the eradication of poverty in Romania do exist, the lack of interest and focus on solving this problem have led to the mismanagement of these funds. In contrast with the previous EU financing programme, a new perspective on the policy creation regarding poverty alleviation has been recently developed and is presented as an integrated package. This wishes to bring together disparate programmes/projects and different stakeholders. This proposal is a very different approach from institutional/methodological point of view, and it has *been said to mark “the start of an effective capacity building effort”*. The purpose of this literature exploration is focused on the potential Romanian social enterprises and microfinance have in poverty alleviation, taking into consideration that these tools have been created especially for poverty eradication. Our conclusion has been that policy makers have to sustain the development of social enterprises through microfinance, which most of the times can be the single financial instrument available to them.

Keywords: Social enterprises, microfinance, poverty eradication, government policy, development strategies

Classification JEL: I38, L31

1. Introduction

United Nations has placed poverty eradication in its fundamental goals, and in order to achieve this the organization dedicates resources for the research of poverty phenomenon around the world. In this context, a report on the assessment of the Romanian Government's efforts to eradicate poverty and how international obligations on human rights have been taken into account has been presented in 2015 by UN Special Rapporteur on extreme poverty issues and human rights, Philip Alston [1]. According to this report, Romania ranks high on poverty and social exclusion in the EU: 40% of the population is at risk of poverty or social exclusion, 29% have severe material deprivation, which is three times more than the EU average. The conclusion is stated to be that many officials are in a state of denial about the extent of poverty and discrimination of those in extreme poverty. And this is the reason why even though there is stated to exist funds for poverty eradication in Romania, the lack of interest from behalf of politicians keeps funds away from achieving their purpose.

One model worth analyzing/mentioning in eradicating poverty is that of Professor Muhammad Yunus, a Nobel peace prize recipient in 2006, who theorizes the concept of social business, exemplifying this model by creating companies such as Grameen Danone or Grameen Bank – the first microcrediting institution. If in the developed countries solving the inequities created by the capitalist system, such as poverty and social inequities, is undertaken by the state, in the underdeveloped countries, “governments do not have the moral authority, managing abilities or the material resources to create well-being” [2]. Having as purpose the eradication of poverty, professor Yunus has initiated a crediting process without guaranty for 42 locals of the Jobra community in Bangladesh, who owed money lenders the amount of 27 dollars and thus created the first crediting institution for poor people in the world: Grameen Bank (grameen meaning „rural” in Bengali).

According to professor Yunus, „poverty is not created by the poor” [3] but it is a result of the deficiency of the policies created by governments over time, thus, he tried to introduce new ideas and ways regarding the way to diminish poverty and has proven that business can be “a force of good” [4] and that “to do good is good for business” [4]. In many situations, inertial thinking creates states that are opposed to change, but the two ways for diminishing

poverty have succeeded to be adopted both world-wide and nation-wide and to expand more and more, even if this expansion is still quite timid, at least in Romania.

According to Yunus, selflessness can play a major role in economy, and poverty must only be found in museums. People who couldn't guarantee the restitution of the loan were financed; in the first 4 years 100 000 beggars, 18 000 of which have given up beggary. One of the objectives was to promote entrepreneurship and personal autonomy, granting financing for studies provided that the future graduates become job creators, not employees. The purpose of this financing model is to reduce the consequences of the problems humankind has long been suffering for: hunger, lack of housing, lack of education, disease, pollution. Once taken out of poverty, these people will become productive for society. The financing model and its success have led to a new type of business in parallel with the profit-oriented businesses: the social business.

The paper is organized in three parts, the first two offering an overview on poverty and existing measures of fighting poverty in Romania and the last one trying to explain the strong points brought to poverty alleviation by combining the work on developing social enterprises with microfinance. Finally, the paper shortly concludes on the implications for policy development, practice and research.

2. Overview on poverty in Romania

Poverty, on a conceptual level, has been interpreted in slightly different manners, but a clearer view on the relational elements is offered by the Council of Europe and European Commission [5]. The 1975 Council of Europe's definition of poverty is this:

“individuals or families whose resources are so small as to exclude them from the minimum acceptable way of life of the Member State in which they live.” [6]

Later on, in 1984, the European Commission extended the previous definition to this one:

“the poor shall be taken to mean persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live.” [7]

Based on this perspective, European Commission has focused a large part of its attention to the leveling and diminishing of poverty. According to a fieldwork run under the European Commission in 2009, nearly 16% of the EU population live below the poverty line [8].

Completing the Human Development Report 2014 that analyzes the development in several directions of each analyzed country, the European Commission has issued the EU Regional Human Development Index in 2014 with the purpose of identifying the indicators that measure and monitor the human development in the regions of the EU member states. Since the United Nations Development Programme measured the IDU at country level, it is necessary to perform the measurement on regions of the same country in order to quantify the development differences between them and to create measures and policies for areas as narrow as possible.

The EU-RHDI (European Index for Human Development for Europe) indicator is calculated as geometric mean of three dimensions: health, knowledge, income.

In 2014, the situation of some regions in the EU is presented according to the table below, the data for 2014 being compared with that for 2006.

Table 1: The EU regions in human development in 2012

RA NK	REGIONS	EU-RHDI SCORE 2012	RANK 2012 (2006)	HEALTH DIMENSIO N RANK 2012 (2006)	KNOWLEDG E DIMENSION RANK 2012 (2006)	INKOME DIMENSIO N RANK 2012 (2006)
THE TOP 20-EU REGIONS						
	EU regional average	0,54	156 (175)	182 (194)	149 (139)	154 (169)
1	Aland (FI)	0,75	1 (1)	1 (1)	21 (27)	2 (23)
2	Stockholm (SE)	0,75	2 (2)	2 (5)	9 (8)	9 (17)
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20	Prov. Vlaams- Brabant (BE)	0.68	20 (26)	100 (78)	8 (6)	49 (63)
THE BOTTOM 20-EU REGIONS						
1	Nord-Vest (RO)	0,33	253 (262)	262 (265)	207 (228)	212 (258)
2	Calabria (IT)	0,32	254(230)	206 (188)	268 (267)	267 (241)
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8	Vest(RO)	0.29	260 (267)	265 (270)	208 (230)	229 (239)
9	Sud-Vest Oltenia (RO)	0,29	261 (259)	267 (259)	217 (248)	224 (240)
10	Nord-Est (RO)	0,28	262(258)	270 (258)	215 (239)	203 (245)
.
16	Centru(RO)	0.24	268 (261)	266 (263)	259 (247)	249 (262)
.
18	Sud-Muntenia (RO)	0,24	270 (265)	269 (266)	255 (254)	251 (244)
19	Sud-Est(RO)	0.21	271 (264)	271 (262)	250 (256)	265 (260)
20	Severozapadem (BG)	0,19	272 (270)	268 (262)	272 (272)	272 (271)

Source: ([9] JRC Science and Policy Reports, 2014)

Note: the EU regional average has been calculated as the population weighted average of the scores of all regions.

By analyzing the data above, observations can be made regarding the fact that most of the regions register increases as compared to 2006 for all indicators, that also the regions that rank the highest do not have high values for all indicators and that the measures that have led to their increase should be analyzed in order to take them as best practice models if they can be applied in the regions in Romania as well. Also, between the first places and the last, the development differences are very big. For the regions in Romania it is seen that aside from the București-Ilfov region, which is listed on position 185 out of 272 in 2012, all the other regions are found at the bottom of the list, and with the adhesion of Romania to the EU in 2007, not all increase expectations are met as a result of using European funds, but decreases are also registered according to this method of calculation, that is: for the North-West and Western regions - increase at the level of all indicators, for the South-West regions of Oltenia and the North-East – increase at the level of knowledge and income, decrease of the IDU and health level, for the Center region – increase only for income, for the South-Muntenia region – decrease at the level of all indicators, and for the South-East region – increase only at the level of knowledge. It can also be noticed, by analyzing all the data in the report, that the North-West region is above some regions in Italy (Calabria, Campania, Sicilia), the French provinces Guadeloupe and Reunion, the Vychodne Slovensko region in Slovakia.

As we can see from previously mentioned statistics but also from the 2014 Social Protection Performance Monitor [10], Romania is a special case in the EU countries. It leads in the social exclusion rate of children, the percentage of early school leavers and in-work at-risk-of-poverty rate. Also, Romania has the highest level at-risk-of-poverty and the lowest impact of social transfers on poverty reduction. It is important to find through future policies, especially those involving the young population and those who have abandoned school, ways through which they are included with those who want a work place and not state benefits, whatever they may be. The deepening of poverty for several generations of one family forms behaviors of accepting it and it installs on a psychological level. Most people do not have a qualification, but they do not want a job either or to get a qualification after school, thus also including future generations in the “poverty trap”.

Human development is a process, but at the same time it must be seen as objective also, both individually, and as of society as a whole. The way to measure human development in all its aspects varies, but the purpose why this measurement is performed is the same: to find the ways through which any individual has a chance at his/her own development, to know how to do it, thus contributing to the development of the group or of the society they are part of, becoming an involved actor for themselves and for others. The state of poverty enables the existence of unused human potential, which is why it is important for people to have the opportunity to come out of this state and to prove their abilities and capacities as active citizens.

The United Nations Development Programme shows that development through work must be made through policies and strategies taking three action directions: creating job opportunities, ensuring well-being through work and developing actions to facilitate jobs through interventions on specific groups.

And the most unhappy fact is that the level of spending on social protection as percentage of GDP is in Romania one of the lowest from the EU, which puts a question mark on the effectiveness of social transfers which are not adjusted to the local economic context [11].

3. How is Romania addressing poverty

Poverty, as perpetual problem of humankind, has been analyzed under all its aspects ever since ancient times, when Plato was transmitting his negative attitude both towards poverty and towards wealth. International bodies such as the World Bank, The United Nations Development Programme, the United Nations Organization, UNESCO, the European Commission, etc. are especially preoccupied by this aspect of society, both economically and socially. Since it is also a problem for the societies where the development indicators are high, reducing poverty is an on-going

preoccupation on all decision levels both world-wide and on an European level and on the level of each country in part over the past years. The World Bank reports data that show that, over the past 20 years, significant successes have been obtained in diminishing poverty and social inclusion. Starting from the causes that generate poverty, analyzing its effects on medium and long term, at micro and macro level, it is necessary to find viable solutions that can be set into practice so that most individuals found in this situation can benefit from them and to become, from state or community-aided individuals, persons who contribute to their own well-being and to the well-being of the society they belong to.

“By supporting the member states in fighting poverty, social exclusion and discrimination, the European Union aims to consolidate the inclusive character and the cohesion of the European society and to allow all its citizens to benefit from equal access to the available opportunities and resources.” [12]

The Europa 2020 strategy is a 10-year programme (2010-2020) through which the EU intends to create conditions for intelligent, lasting and inclusion-favorable economic increase, being adopted within the European Council on July 17th 2010. From its objectives that concern the theme under discussion, we mention: ensuring a 75% rate of work-force occupation for individuals aged between 20 and 64; decreasing the rate of early school abandonment below 10%; decreasing by 25% the individuals found in poverty or at risk of social exclusion (by 20 million).

Romania is addressing the problem of poverty at least from a declaratory perspective quite optimistic, through three sets of actions: measures of poverty alleviation and support of people’s entry into the labor market, investments in the welfare of children and measures for fostering the social inclusion of ethnic minorities [11].

The tools chosen for these measures are the following strategies: National Strategy on Social inclusion and Poverty Reduction 2015-2020; *National Strategy for the protection and promotion of child’s rights 2014-2020*; Early School Leaving Strategy; and National Strategy on the inclusion of Romanian citizens belonging to the Roma minority for the period 2014-2020.

A new approach meant to address the issue of poverty is the ‘Integrated package to fight poverty’, which is thought to be part of the National Strategy on Social Inclusion and Poverty Reduction [13]. Romania’s objectives as they result from the Europa 2020 strategy are: increasing by 40% the population under 30 who has graduated tertiary education; decreasing early school abandonment; increasing social inclusion [14].

Table 2: 2020 objectives targeted through the Integrated package for fighting poverty

The Europa 2020 strategy objectives		EU	Romania 2020 objective
1	The rate of employment of the population aged between 20-64	75%	70%
2	Investments into research and development	3% GDP	2% of GDP
3	Energy and climate changes		
	Decreasing the greenhouse gas emissions (as compared to 1990)	20%	20%
	The average of renewable energy in the final gross consumption	20%	24%
	Increasing energy efficiency	20%	29%
4	Education		
	Rate of early school abandonment	10%	11,4%
	Rate of the population aged between 30-34 graduating a form of tertiary education	40%	26,7%
5	Promoting social inclusion, especially by decreasing poverty – decreasing the number of individuals found at risk of poverty and social exclusion	By at least 20 million	By at least 580 000 individuals

Source : The Prime Minister Chancellery, 2016

This wishes to bring together disparate programmes/projects and different stakeholders. This proposal is a very different approach from institutional/methodological point of view, and it has been said to mark “the start of an effective capacity building effort [15].

Beside its ambitious goals regarding lowering the value of poverty indicators in Romania and getting them near to the EU levels by 2020, it is relevant for us to observe some of the 47 actions stipulated in the proposal: social entrepreneurship, microfinance guarantee for entrepreneurs from disadvantaged environments and the support offered to the approval of methodological norms of the law on social economy. The social entrepreneurship action is directly linked with the microfinance one, since a measure for supporting social enterprises is stated to become the possibility

of accessing financial instruments. This would be an extremely beneficial measure for the development of social enterprises, which until now was rudimentary developed or nonexistent in East European countries [16].

4. A duo of instruments in poverty alleviation: social enterprises and microfinance

Microfinance and social entrepreneurship have often been included in the same policies aimed at increasing employment and the social inclusion of vulnerable people (for example Microfinance and Social Entrepreneurship axis of EU Programme for Employment and Social Innovation (EaSI) and Romanian ‘Integrated package to fight poverty’).

By analyzing the integrated package for fighting poverty, measure F4, it is noticed that microcrediting, used to a large extent by individuals who do not have access to credits, is envisioned to be correlated as own contribution of the applicant for obtaining European funds. As it is known that individuals found at risk of poverty and social exclusion are also found in the situation of financial exclusion, it is unlikely that this opportunity where the interests for microcredits are subsidized is used by this type of persons. Another way of obtaining results is, in our opinion, to create, in the areas considered to be underprivileged, companies or to develop the existing ones thus offering jobs to poor people.

The use of microcrediting as means of financing is also shown within the Safety net for the 24-65 age group, in objective 24.4 Social entrepreneurship. The Ministry of European Funds, the Ministry of Labor, Family, Social Protection and Elderly – global grant administrator for the entrepreneurship measures on Priority axis 4 – Modernization of the Public Employment Service - belonging to the Sectoral Operational Program Human Resources Development 2007-2013 (program financed by the European Social Fund), potential beneficiaries according to the provisions of the operational programs and to the national legislation in force, aim, through this measure applied both in urban environment and in rural environment, to ensure the necessary support in order to establish/develop social insertion enterprises, which can benefit from counseling/mentoring activities, vocational training in the social field (and for the existing enterprises) by accessing financial instruments (microcredits and guarantees) in order to function in a sustainable manner and to employ vulnerable individuals within them. The benefits obtained will be financial (supporting entrepreneurship and self-employment can be a solution for decreasing the unemployment rate by activating the individuals in the rural environment, thus contributing to the increase of income to the state budget through taxes and fees, contributions to the Unemployment Insurance budget, the Social Security budget and the Unique National Fund of Health Insurances, contributing, at the same time, to decreasing social insurance services), social (contributes to involving individuals belonging to the vulnerable group, mentioned by the current law, in activities with a social character and/or economic activities, facilitating their access to the resources and services of the community) and economic (contributes to the development of local communities, creating new jobs). The financing will be made through the Operational Programme Human Capital – Priority Axis 4 – Social inclusion and poverty reduction, Investment priority 9v – Promoting social enterprises and professional integration into social enterprises and of the social economy and solidarity with the purpose of facilitating access to jobs, Specific objective 4.16 – Consolidating the ability of the social economy enterprise to function in a self-sustainable manner and Investment priority 9.ii – Social-economic integration of marginalized communities, 9.iv. - Increasing access to accessible, lasting and high-quality services, including medical assistance and general social services, 9.vi – Local development placed under the responsibility of the community. This measure is correlated with the priorities of the Ministry of Labor, Family, Social Protection and Elderly, Objective A – Increase of employment, has as stage target October 2016 when they will start implementing the social entrepreneurship programmes, the costs are afferent to the investments, and as necessary changes – the Ministry of Labor, Family, Social Protection and Elderly becomes global grant administrator for the entrepreneurship measures on Priority Axis 4 – Social inclusion and poverty reduction.

In the Atlas of Social Economy 2014 the statistic picture of the years 2011-2012 is presented, these being the last updated statistical data. According to them, the situation is as follows:

Table 3: Indicators of the social economy organizations in Romania in 2012

2012	Number of active organizations	Fixed assets (thousands of lei)	Income (thousands of lei)	Employees	Members (thousands)
Associations and foundations	33.670	7.198.847	7.742.043	76.902	-
Cooperatives, out of which	2.228	1.122.805	1.764.363	31.428	u.d.
Handicraft cooperatives	846	599.352	719.036	22.082	u.d.
Consumer cooperatives	940	265.295	571.711	7.050	u.d.
Credit cooperatives	86	86.371	156.339	2.049	u.d.

Agricultural cooperatives	356	171.787	317.277	247	u.d.
Mutual Help Association (MHA), from which:	2.767	3.624.190	589.143	5.403	3.028
Retirees MHA	198	768.865	159.879	2.240	1.811*
Employees MHA	2.569	2.855.325	429.264	3.163	1.217**
Commercial companies owned by social economy organizations	682	1.971.666	2.202.562	17.394	-
Total	39.347	13.917.508	12.298.111	131.127	-

Source: INS 2012, other secondary data; FDSC – IES processing

* according to the data provided by the “Omenia” National Federation for Retirees Mutual Help Associations in Romania; IES estimations for unaffiliated organizations

** according to the data provided by the National Union of the Employees Mutual Help Associations in Romania; IES estimations for unaffiliated organizations

Even if the number of active organizations has increased in the past 2 years, it is seen that the reduction of poverty by employing vulnerable individuals can only be made by accessing European funds, which implies certain costs and knowledge from those who should start or develop a social enterprise, and microcrediting must be used as adjacent financial instrument.

Even though the beneficial potential social enterprises may have in societies has been stated by different academics [17]–[19], one important factor in transforming the potential social enterprises into real impact is the lack of financing instruments.

Muhammad Yunus’ model of Grameen Bank has been widely promoted [20] as a microfinance instrument which, targeting the poor to develop small scale businesses, helped them overcome deep poverty. If this model of microcredit managed to create such a positive impact, it may mean that microfinance for social enterprises could have a greater impact on poverty alleviation, provided there is legislative support on a national level which regulates and encourages the two adjacent fields.

5. Conclusions

Social enterprises, through their focus on solving social problems, inevitably help in different manners the alleviation of poverty. However, in order to do so, governments have to sustain these entities through microfinance, which most of the times can be the single financial instrument available to social enterprises. Success stories of the use of microfinance have been widely promoted, which means the support offered to start-up social enterprises and developing ones, and this will encourage the development of similar programs which will be seen in the end in poverty reduction.

The collection of thoughts presented in this article represents a baseline for further research which should lay on case studies and quantitative research in order to offer reliable information to lobbying for the development of more microfinance instruments dedicated to social enterprises.

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