

Chapter 6.

The Social Economy in Central East and South East Europe

by

Ewa Leś and Maria Jeliazkova

The chapter explores the evolution of the social economy in Central East and South East Europe and highlights the way in which the development of the contemporary social economy is deeply rooted in the historical traditions established before the Second World War and the effects of the Communist era. Highlighting the impact of the transition, the strengths and weaknesses in the development of the social economy in the region are explained as being embedded in the similar national and international policies that have produced similar paths of developments. The mainstreaming of social inclusion policies and programmes, and decentralisation and local development, can hardly be successful if social economy organisations in the region are not provided with an environment which enables them to fulfil their potential.

Introduction

The idea of delineating certain general features or models of the social economy in Central East and South East Europe is undoubtedly very attractive but it is also a challenging one. Although recognising the scale of the task, this chapter offers an attempt to trace some possible trajectories of the development of the social economy in the region rather than suggest solutions. The outlining of past, present and emerging trajectories leads to a consideration of the social economy as a component of the broader and more universal mechanisms of social inclusion. Consequently the birth and evolution of the social economy as a specific mechanism of inclusion is deeply embedded in the changes of the broader mechanisms of social inclusion.

Social economy in Central East and South East Europe prior to the Second World War

Despite common opinion, the social economy sector in Central East and South East Europe did not develop as a direct “product” of the breakthroughs of 1989. Foundations, associations and co-operatives have a long-lasting and diverse history in this region. Prior to the Second World War, social economy organisations played an important role in many countries of the regions, although the sector’s size and field of activity varied significantly from country to country. They represented the interests and developing survival strategies of disadvantaged populations – such as credit co-operatives which were popular among poor farmers all over the region for enabling access to lending facilities. In Poland, pre-war social economy organisations complemented the government by providing social, educational and health services and developing social entrepreneurship via the co-operative movement; in 1927 there were 3 539 credit co-operatives with over one million members. In Bulgaria, co-operatives based in villages increased in number from 492 in 1909 to 2 852 in 1927 and to 4 476 in 1941 (Keliyan, 1992).

In parts of South East Europe, the rural community played an important role in fostering social inclusion. The rural community not only used to be a bearer of economic development but was, to a certain degree, also a defender of the political interests of a large part of the population. These communities were characterised by a high degree of self-government, at least as far as the control and use of common resources was concerned, even in the long period in which many South East European countries did not have their own nation states. Indeed, it has been argued that Thomas Moore,

in his famous *Utopia*, followed the social structure and forms of social control from the South Slavic small societies. Throughout the years, the rural communities preserved and even increased their informal role in addressing social exclusion and influenced and determined the development of the social economy in the region.

The second important feature is the comparatively late establishment of modern nation states in Central East and South East Europe. This has had considerable influence on citizenship, and the structures within civil society, as well as on the dimensions of social inclusion (and social exclusion). The late arrival of nation states allowed for the consolidation of the ethical and legal equality of all people regardless of ethnicity and religious affiliation. Moreover, people were incorporated by a form of social inclusion, namely citizenship with a strong connection to nationalism. This process was valid for Western Europe as well as Central East and South East Europe. However, a difference soon appeared as a result of the different types of citizenship. Wallerstein described the situation in the West: “What citizenship did was to shift exclusion from an open class barrier to a national or hidden class barrier” (Wallerstein, 1998: 21). When the nation states in South East Europe emerged, the concept of citizenship was somewhat different – it was not class, but ethnicity which was important and went from being an open division to a hidden one in the new states.

The particularities of the citizenship which emerged have undoubtedly influenced the various civil society structures. After nation states were established, the number of civil society organisations quickly increased and greatly developed their activity. Indeed, the social economy, which came into being in the second half of the 19th century in the region, developed widespread charitable activities, mainly mobilising private resources for welfare and educational activities.

Long-term impact of communism on the social economy

After the Second World War the long-standing traditions of the social economy in the countries under consideration, were destroyed and their continuity broken. In the late 1940’s and early 1950’s their activities were already under strict political and administrative control. The status of social economy organisations was significantly eroded, as the adverse political, legal and financial conditions almost totally inhibited a truly free working of social economy organisations. The communist authorities dissolved many foundations and associations, and deprived co-operatives and the remaining voluntary organisations of their greatest strengths – namely, defining democratic principles, meeting needs and representing interests independently from government. While truly independent civil society

initiatives of a socio-economic nature were drastically limited in Central East and South East European societies, various quasi-non-governmental organisations and co-operatives were allowed and even forced to exist. Deemed “social organisations” and “social actions”, they basically promoted the objectives of the totalitarian state and legitimised it via very high levels of, often coerced, membership and volunteerism. As a result, social economy institutions which existed under communism played the role of quasi-public agencies in nationalised economies, where central governments became the main providers and organisers of goods and services, without the independent involvement of citizens. The main mechanisms for implementing “socialist democracy” and social inclusion were accelerated industrialisation, state-dominated welfare regimes and the communist apparatus. The negative impact of the communist period on social economy institutions can be evidenced by:

- A distortion of the notions of philanthropy, charity, pluralism, mutuality and self-help, and voluntary work, and their endowment with a pejorative and contemptuous meaning.
- A dramatic drop in the size of social economy institutions: in most countries of the region, they were limited to only one allowable type of association and quasi-co-operative sector.
- The nationalisation and incorporation of a portion of civil society organisations into the state infrastructure.
- Forced and imposed co-operatives and participation, led to a proliferation of quasi-social economy organisations which were effectively tools of the state and were utilised and manipulated accordingly, thereby negatively impacting upon social capital.

Consequently, these factors have led to a process of disorganisation, demobilisation, fragmentation, a decline in the levels of social capital and even a distrust of social economy institutions, thus contributing to a growing social anomie. Discouraging citizens’ involvement contributed heavily to weakening and shrinking civil society initiatives.

Of course, it should be pointed out that there were considerable differences amongst the countries in question as to the extent of the communist state interference in the functioning of social economy organisations. In Romania, for example, even quasi-non-governmental professional associations were banned in the 1970’s, whereas in Hungary and Poland self-help networks and other circles of voluntary groupings, such as professional associations and certain mutual benefit societies, were allowed to exist.

Nevertheless, the imposed and ostensibly named “public initiatives” hampered spontaneous civil society initiatives and undermined the untapped reserves of genuine participatory motivation in different countries in the region. The Central European experience shows that severe limitations, such as an unfavourable ideological climate and legal and financial restrictions, prevented citizens from active involvement in socio-economic initiatives rather than any lack of desire to participate *per se* (Leś, 1994).

During the communist period, co-operatives existed as quasi-state agencies as they were an integral part of the planned economic system. Although formally co-operatives maintained different property status, co-operative private ownership was effectively liquidated (Kolin, 2004; Huncova, 2004; Les and Piekara, 1998). As happened to many associations and foundations, numerous assets and properties held by co-operatives were taken over by the state (Les, 2004: 187). For example, in Czechoslovakia “credit and saving co-operatives with all their assets and liabilities were taken over by the state savings bank in 1954” (Huncova, 2004: 216). They were incorporated into national economic policies and their economic activity was subjected to central and regional economic plans. During the communist era, the state administration appointed its own people (the so-called “nomenclature”) to key positions in co-operatives. Bureaucratisation and centralisation of co-operative organisations (as well as subordination to the totalitarian state and monopolistic position that co-operatives enjoyed under communism in some areas of the national economy) were all factors that contributed heavily to the rather unfavourable reputation that co-operatives developed and which has hindered their development in the period since 1989 in Central East and South East European societies.

After the Second World War, modernisation theories defined development as a specific form of industrialisation: an accelerated one, with a high degree of state interference and isolation from the developed centres of the world economy, although, influenced by the dominant ideologies, it had also been labelled “socialism”. Whatever we call this development, a main feature is industrialisation, which determined the basic changes in the mechanisms of social inclusion throughout this period. The accelerated, state-induced industrialisation turned the industrial enterprise workplace into a key component of the new mechanism of social inclusion. It is upon this that all other components of the inclusion mechanism were built, such as the state/social regime with national social insurance, national health system, social support, etc.. Whereas, after the Second World War, the central planning governments had adverse policies towards democratic civil society, they did promote the growth of human capital that gave rise to a new urban professional class. This, in turn, became an enduring presence, to a certain extent, in civil society culture and later “translated into leadership of civil

society organisations capable of challenging the state socialist regime” (Les, *et al.*, 2004: 282).

This post-Second World War mechanism of social inclusion in Central East and South East Europe exercised its oppressive effect upon the previous mechanisms of social inclusion. The decline in civil society organisations is usually associated with an explicit ban, due to the absence of democracy. However true this may be, the explanation is hardly complete, especially against the background of the specificity of citizenship in the region. The influence of accelerated industrialisation upon the changes in the social inclusion mechanisms is worth mentioning. Thus, it might partially explain why, and how, the number of social economy organisations were considerably reduced and instead several other types of mass organisations – such as sport and recreation associations, societies for the dissemination of knowledge, professional organisations, co-operatives for the disabled, consumers’ co-operatives and certain mutual benefit societies in various countries – developed instead.

The re-emergence of the social economy in Central East and South East Europe: the impact of transition

The growth of the social economy in Central East and South East Europe can hardly be attributed solely to the processes of democratisation and decentralisation that followed the overthrow of the communist governments and adherence to European integration policies. The re-emergence of institutions of the social economy, notably foundations and associations who received significant early support from external actors, also finds its explanation in the deterioration of the socialist welfare state. Last, but not least, sources of inspiration for the upsurge of the Central East and South East European social economy were rooted in local, historical and religious traditions. The renaissance of the social economy was particularly strong during the first years of transition (Nałęcz and Bartkowski, 2002). Indeed, in the decade, 1989-1999, the size of associations grew 123 times in Slovakia, 81 times in the Czech Republic, 14 times in Poland and three times in Hungary. There is the potential for further untapped reserves of participatory motivation among societies in this region to materialise.

The model of the socialist welfare state had been eroding in Hungary and Poland since the late 1970’s. The symptoms of this erosion included reduced subsidies for goods and services, the modification of state social policies and the increasing number of organised groups addressing issues independently of state control. The communist governments were forced by economic hardships to reform social welfare systems and to tolerate and

recognise the voluntary organisations working in this field. In order to increase the role of the voluntary sector, laws on foundations were passed by the governments of Poland in 1984 and Hungary in 1987. At the same time, countries of the former Soviet bloc manifested a growing dissatisfaction with the communist system that could not fulfil the promise of social justice and economic plenty. Political disappointment with the communist regime gradually led to the creation of the “alternative”, “parallel” or “second society”, which expressed itself through voluntary groupings and informal networks concerned with public and economic life in several Central East and South East European countries during the late 1970’s and the 1980’s. The rise of social economy institutions from the beginning of the 1990’s finds explanation as well in the untapped potential of voluntary structures under communism.

Thus, it is no exaggeration to claim that the civil society organisations emerging in Central East Europe prior to 1989 constituted one of the principal mechanisms of breaking citizens’ apathy and setting up “small circles of freedom”. As the cradle for multiparty politics, organisations such as the Workers’ Defence Committee and the *Solidarność* (Solidarity) trade union in Poland, the Fund for Poverty Relief *Szeta* in Hungary, Charter 77 in the former Czechoslovakia, and the Popular Front in Estonia provided an institutional and moral basis for the peaceful democratisation process in the region.

The rapid growth of civil society organisations in Central East and South East Europe was influenced as well by the processes of autonomisation of certain professions, such as the medical profession. This was a phenomenon described as “pressures for occupational autonomy”. For example “[t]hese groups pressed for the formation of alternative, independent, professional outlets such as centres specialising in preventive and therapeutic services for children” (Leś, 1994).

However, at least three other arguments seem relevant to these evolutionary and endogenous factors. Firstly, the transition period has had two important aspects connected with the social economy: political changes were accompanied by the reconstruction and liberalisation of former mechanisms of social inclusion. These were connected to a considerable reduction in social rights and access to social services. Both types of changes have greatly influenced the emergence and development of the social economy. To a great extent the sector itself had been created mainly as a result of, and in conjunction with, the political breakthroughs and they were one of the most important instruments for the implementation of changes (some were ecological, some came from charity organisations, and, in Poland, some from the Solidarity trade union movement). At the beginning of the transition, when the state withdrew from the provision of

various social services, it made room for some social economy organisations to penetrate into this sphere, and indeed the severe lack of services made the role of the social economy inevitable. However, in many cases, social economy organisations, representing local interests and needs, had engaged in local survival strategies and during the transition were left without public support and foreign aid and were not able to fully develop their potential, whereas organisations with an advocacy function proliferated and accumulated ample resources designated for “civil society development”.

Secondly, the socio-economic transition of the late 20th and the early 21st century in most countries of the region has largely had a monolithic pattern. In Poland, for example, economic institutions of advanced capitalism were introduced immediately at the beginning of the transformation (such as the liberalisation of the Polish currency and the de-industrialisation policy) have been widely inadequate to the local economic situation and have inhibited society from developing local coping mechanisms relevant to the level of post-communist economy and local traditions. Staniszkis, an eminent Polish sociologist has recently coined the term “structural violence” for this phenomenon, a result of the pressures of international institutions and the trends of globalisation (Staniszkis, 2005). The same pressures towards homogenisation could be observed in social reforms in certain countries of this region, such as in pension reform, health care reform, social service delivery reform. It is hardly possible to explain the similarities of the reforms by internal (national) factors. These reforms have resulted in restricted access to, or even exclusion (through unemployment), from income as well as healthcare and social services, and thus enhanced the development of the social economy as a part of social inclusion mechanisms. These processes have largely been accompanied by the difficulties associated with economic restructuring, the presence of weak democratic institutions and a patchy legal framework, and have resulted in immense social crises in most countries under analysis (with high unemployment rates, dramatic increases in poverty and inequalities, and social fragmentation being common outcomes).

Finally, the different international and foreign donors that had provided practical and financial support for the development of some aspects of the social economy, notably associations and foundations, in Central East and South East Europe introduced programmes based on similar aims and target groups with the expectation of similar results in different countries. This was hardly supportive towards the development of co-operatives or local/territorial civil society organisations representing local interests and developing pro-active coping strategies. At the same time, in most of the countries there was little state support or subsidies available. Perhaps it could be argued that the re-emergence of a civil spirit in the region was

conditioned more or less endogenously by political changes and the legal frameworks. However, to a greater extent, the real opportunities for the development of the social economy were, and still are, provided exogenously. This is demonstrated by the fact that, despite the political changes and the available legal framework, rural co-operatives have hardly survived as they were not supported by foreign donors.

Thus, there are many grounds upon which to argue that international and foreign donors have provided a degree of impetus for the development of the certain segments of the social economy both in the broader and more narrow sense of the concept: 1) indirectly, by the impact on political changes and social inclusion mechanisms; and, 2) directly, by programmes and activities providing financial support for the social economy. The policies of international and foreign donors, and the logistical and financial support given by them have, largely, defined the social economy. Indeed, this complex (and still nationally differentiated) exogenous-endogenous interplay has greatly influenced the establishment and development of the social economy.

Roughly speaking, two stages can be outlined in process of transition. In the first period (during the 1990's) the basic direction seemed to be a shift from over-centralised forced mechanisms of inclusion based on industrialisation to over-liberalisation, de-regulation and the consequent lack of new mechanisms of inclusion. Most of the countries considered had undergone an economic and social crisis, characterised by high levels of anomie and distrust. At best, such societies could support the instrumental character of social economy. Put under strong institutionalised and non-institutionalised pressure, the social economy organisations of this period served mainly as a shelter for the excess labour of previous middle-class representatives of the sector due to growing unemployment and decreases in real wages.

In the second period, more evident after 2000, a mild shift could be observed which may, albeit with many reservations, be called a “re-socialisation” of some institutions of the social economy. Some of its characteristics are seen in the enforcement of public-private partnerships, the growing importance of localities/territories and a community-based approach. In any case, it is worth pointing out the coincidence of this shift, which is also a consequence of an on-going process of decentralisation, with: a) the emergence of new mechanisms of social inclusion; b) the increased importance of social economy organisations; and, c) a change in the main direction of financial support from non-European to European Union (EU) actors.

The evolving legal frameworks

After the breakthrough of 1989, the fundamental principles underpinning social economy organisations – freedom of expression and freedom of association – were generally guaranteed and enforced in Central East and South East European countries by the Constitutions and Charters of Human Rights and Freedoms. New legislation was conducive to the development of some social economy institutions and enabled a process of restoring and setting up the legal and fiscal structures for this set of institutions. The significant upsurge in the formation of foundations, associations and unincorporated civil society groups after 1989 was evidence of the lifting of political and legal restrictions on voluntary organisations. It is important to recognise that co-operatives actually declined as a result of a failure to politically recognise their economic and social function, and their contribution to the social economy. This was as a result of the focus on for-profit enterprises and the perception of their primacy in filling the gap left by the withdrawal of the state, complemented by the belief that foundations in particular could ameliorate the worse consequences of the market *vis-à-vis* social exclusion.

The legal institutionalisation of some social economy institutions gradually improved during the transition period, simultaneously following and supporting the stages outlined above. In the 1990's, especially in the first half, general legal frameworks were put into place in the countries of Central East and South East Europe. The development of these legal frameworks reflected and responded to grass-roots level activity to re-establish the social economy, as well as pressure to conform to basic democratic standards. Associations and foundations are the most widespread organisational form, with co-operatives and other income-generating non-profit organisations also being recognised by legislation.

Framework laws regulated social relations concerning the rights of citizens to associate and stipulated the principles of creation, registration, development, and the termination of the activities of civil society organisations. Their importance lay in the way they legitimised both the involvement of civil society organisations in the political changes and the implementation of different projects, financed by donors' programmes. Generally these first generation laws provided room for the recognition of social economy institutions and their support by foreign donors, without differentiating between different forms and purposes of the social economy, and "liberally" providing a high level of freedom of activities and autonomy, both in contextual and financial terms. The withdrawal by governments from many welfare activities had left civil society organisations to cope

themselves with the growing uncertainties which people confronted, dependent upon their own human and social capital.

As time passed, the need and pressure for better harmonised legislation gained force in all countries of the region. The evolutionary adjustment followed, more or less, three interconnected lines.

Development of more specialised social economy legislation

In almost all of the countries, new legislation for the social economy was developed and adjustments were made both to the new realities of the social economy, and to address the abuse, corrupt practices and violation of different laws (for example, taxation law and inappropriate duty free imports) to which inadequate legislation had contributed. Similarly, new legislation attempted to differentiate between the organisations which focused on general and private interests, and socially useful organisations/foundations. This enabled the development of new requirements towards the general interest social economy.

However, legal obstacles continue to be seen as one of the barriers for the development of social economy organisations, and there exists pressure for new reforms in certain countries (including the Czech Republic, Bulgaria and Poland). The legal basis is seen as being inappropriate for the successful functioning, fundraising and sustainability of social economy organisations. All the countries of Central Europe suffer from incomplete and unstable legal and fiscal frameworks for social economy organisations, especially those organisations evolving towards producing goods and services. A general impression is that there is a need for fiscal systems and support services for the social economy sector comparable to those established for small and medium enterprises.

In most countries of the region, perspectives on regulations conducive to social enterprises exist, but further active policies at the level of framework regulation, taxation, financing infrastructure, governmental incentives and subsidies, contracting out services and, improving the public's awareness of social enterprises are required. New laws that attempt to legitimise social entrepreneurship have been enacted in Poland and Hungary (Social Co-operatives), in the Czech Republic, Slovakia and Hungary (Public Benefit Companies), Slovenia (Not-for-Profit Institutes) and Lithuania (Social Enterprises). In other countries, the legislative framework does not yet recognise a legal form of social enterprise and the understanding of their role is rather poor and based on existing co-operative law (such as in Bulgaria, Croatia and Serbia). Whilst these laws were built on and improved the first framework laws, there are still significant short-comings which prevent the full exploitation of the legal form. For example, in Poland the

law on social co-operatives (Law of April 27 2006 on social cooperatives (DZ. U. 2006 Nr 94, poz. 651), only allows for social co-operatives to be founded by people threatened by social exclusion) and 80% of the members must come from the target group. This law is currently being revised, with the percentage of members required from the target group expected to be reduced.

Creating an enabling environment

To ensure that social economy organisations can fulfil their potential it is important to provide an environment that enhances the role of social economy organisations and encourages stronger linkages between social economy organisations, local authorities and other actors, as well as acknowledging the important role of users of social economy organisations.

Providing space for the social economy with laws on social assistance and social service delivery

Legislative reforms in the provision of social services have provided a role for social economy organisations and the involvement of local authorities by institutionalising their functions and enabling local authorities to delegate tasks to social economy organisations. Examples of this include: Law No. 34/1998 adopted to give associations and foundations the legal right to establish and manage social assistance in Romania; Social Assistance Act/2003 and the Regulations for its implementation in Bulgaria; the Humanitarian Assistance Act of 2003 in Croatia; and, the Law on Social Assistance of 2004 in Poland.

These legislative reforms enabled the provision of social services to be contracted out and entitled the social economy organisations to deliver selected social, education, healthcare and other general interest services financed by the local authorities and the state budget. In addition to this, in many of the countries the changes in these laws have gone through a consultation process with selected social economy organisations.

Improving the linkages between the social economy and local authorities

Another factor contributing to the institutionalisation of the non-profit sector in Central East and South East Europe is the decentralisation of public administration. In most countries of Central East and South East Europe, public administration reform led to a three-tiered system, except for Poland where a four-tiered system was introduced. Although the overall impact of

decentralisation on the development of the social economy had been positive and contributed to the involvement of non-profit organisations in consultation, service delivery and local development, the reforms have not been particularly helpful in strengthening the capacities of non-profit organisations, particularly at the grass-roots level.

Examples of such developments are: the Public Administration Reform 2001-02 in the Czech Republic; the Public Administration Reform of 1999 in Poland and the Act on Public Benefit and Volunteering, which became effective 1st January 2004. Whilst the Polish regulation did not replace the discretionary character of delegating public tasks to the social economy by central and local governments, it was a significant step forward as it obliged local authorities to co-operate with social economy organisations based on yearly and long-term programmes of co-operation.

Promoting state support and partnerships

The legislative framework has provided a new role for the state in the development of social economy organisations. In most of the countries, legal arrangements for budgeting and auditing, and formalising the relations between state structures and social economy organisations were implemented. These arrangements followed two main directions:

Enforcing partnerships between the state, local authorities, and social economy organisations

By way of illustration, in an attempt to give the social economy the role of an equal partner in the implementation of social policy, the government of Croatia adopted, in 2001, a Programme for Co-operation between the government and the social economy. In 2002 the Council for the Development of Civil Society was established, aimed at the elaboration of strategies for the development of civil society (Zganec, 2004). Another example of this trend are the amendments to the Polish Act on Public Benefit and Volunteering of April 2007, which envisages welfare partnerships as a form of co-operation and co-production of services between local authorities and social economy organisations.

Providing public finance for the social economy

In most of these countries, legislation already permitted the social economy to receive state government contracts for service delivery; in the Czech Republic, the subsidy reached 70% of the proven costs of the social economy. In addition, in Hungary, Lithuania, Poland and Slovakia, the laws

provided citizens with the right to devote one percent of their income for socially useful causes performed by public benefit organisations as well as public sector institutions (the case of Hungary). In Bulgaria 10% of the income of individuals is exempted from taxation, if it is given to public benefit organisations.

Better addressing the needs of vulnerable groups and introducing pro-active measures

During the early 21st century, laws concerning different vulnerable groups, notably children and the disabled, were also adopted in many countries. The national legal frameworks especially addressed some vulnerable groups. For example, in the Czech Republic, the valid legal framework distinguished several groups of citizens (mostly those vulnerable to social exclusion and requiring social services): families and children, the disabled, elderly citizens, people who require social assistance and people who could not adapt socially.¹ In Poland two legal acts, one on social employment and one on social co-operatives, have provided the homeless, the long-term unemployed, the disabled, refugees, drug addicts and ex-prisoners, with such measures as supported employment and the possibility to establish social co-operatives.²

Better adjustment to the European inclusion process

The period after 2000, unlike the previous one, witnessed the official recognition of poverty and exclusion as problems within Central East and South East European societies. Influenced by European developments and supported by European and international institutions (such as the United Nations Development Programme and the World Bank) countries in Central East and South East Europe devised “Poverty Reduction Strategies” and “Strategies for Development”.

The European Inclusion Process and the Lisbon Agenda played an important role. In many countries the Joint Inclusion Memoranda and National Action Plans were the first reports illustrating the overall picture of poverty and social exclusion. The focus on European programmes, the requirements to mobilise all stakeholders, the implementation of active pro-employment policies, and the involvement of social economy in projects connected with pre-accession and structural funds had all started to influence the activities of the social economy (legislative changes included). Furthermore, these programmes have acted to enhance the role of the social economy as welfare providers and to improve their visibility both to policy makers and the public.

General overview of the social economy in the region

Key Areas of Activity and Types of Organisation

Considering the types of social economy organisations and their activities, three points of particular importance can be made:

The re-emerging social economy and the lack of vision for the development of co-operatives

Public opinion is very often strongly negative towards many social economy organisations in Central East and South East Europe, not necessarily without reason. Two basic reasons for the public negativism can be identified. The first is the lack of financial transparency and the opportunities for corrupt practices. The second reason is rooted in historical antipathy to the co-operative form following their use by the state during the communist era.

Thus, despite the general legal frameworks that guarantee freedom of expression and freedom of association, which were put into place in the countries of Central East and South East Europe, the process of establishing a supportive political climate, and a sound legal and fiscal basis for the social economy to deliver public services, thereby enhancing the inclusion and integration of the marginalised parts of these societies remains incomplete.

This is particularly valid for co-operatives. In contrast to the remarkable proliferation of foundations and associations since 1989, the Central East and South East European co-operative sector has not experienced vigorous growth and similar political and legal institutionalisation. In many of the countries, such as the Czech Republic, law and policy have not, as yet, given co-operatives a chance to participate in the development and implementation of policies for employment, social cohesion and regional development (Huncova, 2004: 219). As in many countries of the region, in Lithuania, the co-operative social economy sub-sector suffers from “the lack of effective legislation, the mistrust of people in one another, as well as a certain fear of a return to the kolkhoz or collective farm” (Bubnys and Kaupelyte, 2004: 254). In Poland, with the exception of credit unions, the co-operative sector is still overlooked either as the mechanism of local economic self-sufficiency and socio-economic development, or as a means of transforming the public welfare system. In the span of transitions in most of the countries under analysis, the co-operative sectors were also overlooked as a possible form of privatisation via co-operative ownership structures, though they

could have preserved jobs and contributed by decreasing unemployment and preventing bankruptcies.

Whilst co-operatives are an indispensable element of a democratic system and a modern market economy and should play a vital role in restoring the sense of trust, solidarity, local economic sustainability, it will be necessary for considerable public hostility to be overcome before co-operatives can effectively play such a role. Instead, as the Polish case indicates, the co-operative sector had been left alone lacking political recognition, public financial support and other national (internal) and foreign (external) investments. As a result, instead of investing in the restructuring of co-operatives, the co-operative sector in Poland saw a dramatic decay through dissolution or the transfer to private ownership. Indeed, as with many actors, co-operatives were unprepared to face the conditions which the implementation of a market economy brought. Three main problems were identified at the time: 1) a shortage or complete lack of capital (co-operatives were weakest in terms of capital); 2) a low-skilled labour force; and, 3) a low-skilled management unable to run co-operatives in free-market conditions (Sztanderska, 1997: 96).

A clear exception is the sub-sector of credit co-operatives which has undergone, and is undergoing, a remarkable renaissance since the transition. By April 2007, they had over one million and a half members. They render financial services to individual employees in a form of savings and credits as well as providing credits to small enterprises.

Promoting “development”: social economy organisations in the field of employment

An important tendency seems also to indicate a different direction in the rise of the social economy in new EU member states. Instead of the traditional provision of social services, this tendency is focused on development and has to do with the pro-active, pro-employment EU policies. Perhaps one of the most important examples comes from Poland, where a new generation of social economy organisations of unemployed, low-income and low-employability groups have developed. Among new co-operatives are agricultural producers’ marketing groups and social co-operatives established to create jobs and address social exclusion issues. In 1999, the first Polish institution aimed at the promotion and support of local co-operative initiatives – the Co-operative Development and Local Entrepreneurship Association in Olsztyn (WAMA-COOP) was established. Its main goals are to:

- Help the development of new co-operatives.

- Promote good economic practices and the sound management of co-operatives.
- Create employment opportunities.
- Encourage entrepreneurship and local development.
- Foster social inclusion in the region.

An important category of social economy organisations is that of organisations which focus their activities on assisting groups threatened with social exclusion by combining humanitarian aid along with socio-occupational/economic activation. Indeed, they increase the potential of the sector in the area of socio-economic re-integration of the disadvantaged populations. Comprising about three thousand civil society organisations, this includes organisations that benefit particularly those groups threatened with social exclusion, including the homeless, people with disabilities, and minorities, as well as populations where combating unemployment is of great importance, such as young people and rural populations.

Distortion in the composition of resources and financial assets

An underestimation of the innovative roles that local social economy organisations can play in local development, produces financial constraints on the vast majority of this sector in the region. This, consequently, has led to diminishing numbers of social economy organisations and puts a limit upon their scope of activities. In 2002 only 58% of Polish associations and foundations had adequately met their stated role and functions, whereas 30% were inactive, mainly due to a lack of financial resources. Indeed, a high death rate within the social economy was reported in most countries in Central East and South East Europe.

The model of financing the social economy in South East Europe differs to a large extent depending on the way it is institutionalised. Some countries have adopted special legislation in this field, such as in Croatia where funding is secured from the government budget and from gambling. In Macedonia, most social economy organisations receive funds for specific projects from donors and international organisations, with an insignificant part coming from the state. The social economy typically submits financing applications directly to donors; it is very rare for the donors themselves to contact the social economy. Subsequently, there is no regulatory organ that supervises performance standards or effectiveness of services rendered by social economy organisations.

In turn, in the majority of countries, the share of social economy organisations actually delivering services is limited. The Polish findings

reveal the small share that Polish organisations have in the market of services ranging from 0.01% in general health care, 0.6% in primary education, 3% in secondary education, to 14% in nursing homes (Leś and Nałęcz, 2001). According to Hungarian data “[t]he third sector contribution to the total output is 5% and 3% in education, and health and social care respectively” (Kuti and Sebesteny, 2004).

Thus, a crucial factor in terms of the social economy organisations’ economic status in the countries of Central East and South East Europe is revealed as a distorted composition of their financial assets. The prevailing majority of resources belong to a relatively small group of social economy organisations, a phenomenon which might be called the “oligarchisation” of the financial base of some of the social economy in Central East and South East Europe: 9% of Polish organisations possess almost two-thirds of financial assets in the sector and 75% of organisations have only one-tenth. In Hungary, 94% of the total revenue of the social economy profit organisations’ belongs to one-third of the organisations (Kuti and Sebesteny, 2004). Another contributing factor to the analysis of these organisations’ economic potential in the region is that their paid workforce and material assets are concentrated in big cities and that local organisations often lack paid personnel and public support. This reflects the fact that a good part of the social economy in Central East and South East Europe have not evolved from the traditions and interests of local communities. Moreover, in some countries a notable element of local social capital retains its informal character rather than being incorporated into formal organisations.

Conclusion

In Central East and South East Europe the re-emergence of institutions of the social economy has occurred mainly in conjunction with the transition process and associated socio-economic restructuring. In most countries, its re-development had to do with massive unemployment and poverty experienced as a result of the economic transformation, and deficiencies in the market mechanisms of the national economy. Growing institutional and administrative vacuums in the social welfare system, and the decline in public service coverage during the transition, have led socially-minded leaders to establish new organisations and institutions, such as foundations and associations. They, then, have attempted to bridge the post-communist welfare gap albeit with varying levels of success. At the beginning, they were oriented towards reactive measures, addressing the social and material needs of the weakest groups and, gradually, following the financial flows, have expanded the scope of their activities, seeking far more effective

modes of assisting groups with low employability by providing skills training and job creation services.

In addition to creating innovative instruments of social inclusion, the potential of the social economy in Central East and South East Europe is slowly being increasingly utilised for the citizen-led production of local public services. Co-operative run schools managed by parents and teachers, associations running small village-based schools managed by parents, local public entities transformed into limited companies owned by local authorities and citizens' groups, and new women's co-operatives are all examples of the new generation of social economy institutions in the region, revitalising solidarity, democracy, and economic self-reliance.

Presently, the main roles of the social economy sector in Central East and South East Europe are:

- Filling the gaps generated by market failures in the credit, housing, consumer and agricultural sectors.
- Bridging the post-communist welfare gaps in social services, services of general interest and public utility services.
- Filling the gaps in government policies and programmes for inclusive labour policies and social inclusion via the provision of work and social integration programmes for the long-term unemployed and other groups of special needs.
- Building partnerships for local development.

Although the social economy sector has been re-discovered in most of the countries of Central East and South East Europe, many of them are at the crossroads of their development. Whereas in some countries, such as the Czech Republic and Romania, service oriented foundations and associations have enabled a financial basis for development, in other countries many local social economy organisations and most of the co-operative sector do not benefit from pro-active policies.

The most basic strategies to re-establish social economy institutions in the countries of Central East and South East Europe as meaningful mechanisms of inclusion, integration and local development require:

- The use of different policies by national and international institutions which support largely grass-roots, territorial innovative initiatives and different local structures as primary mechanisms of social inclusion and local sustainable development. The contribution of the social economy to social, economic and political developments in the region will be strengthened while retaining the

local cultures of coping with social and economic problems, as well as through building modern effective institutions and procedures locally.

- The means by which to foster the development of social enterprises in the work integration sector, as well as in the provision of social services, general interest services and public utility services.
- Creating an enabling environment for social economy organisations, especially financial and business support bodies.
- Ensuring fair compensation from the state and local authorities for the production and delivery of goods and services by social economy organisations.
- Supporting, both organisationally and financially, grass-roots social economy organisations.
- Building training capacity for social economy entrepreneurs.

Well developed social economy structures can successfully counterbalance the negative effects of globalisation and protect local communities against pauperisation. The analysis herein shows that social economy organisations have considerable, but as yet sufficiently untapped potential to develop innovative forms of action in socio-economic policies and local development.

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Notes

1. Social assistance benefits are provided in accordance with: Act No. 482/1991 Coll., On Social Neediness; Act No. 100/1988 Coll., On Social Security; Act No. 114/1988 Coll., On the Jurisdiction of the Czech Republic Bodies in Social Security; MPSV Decree No. 182/1991 Coll.. The state social support benefit system is codified by Act No. 117/1995 Coll.
2. Law of April 27 2006 on Social Co-operatives (DZ. U. 2006 Nr 94, poz. 651); Law of June 13 2003 on Social Employment (DZ. U. 2006 Nr 94, poz. 651).

Notes on Contributors

Carlo Borzaga

Carlo Borzaga is the Dean of the Faculty of Economics at the University of Trento, where he is also a Professor of Economics. Since 1997, he has served as President of the *Istituto Studi Sviluppo Aziende Non-Profit* (ISSAN), a research and training institute of the University of Trento that focuses on non-profit research and, since 2002, he has been the Vice-President of the EMES (The Emergence of Social Enterprise in Europe) Network. He is currently the scientific co-ordinator of the OECD LEED Centre for Local Development on social economy research. Professor Borzaga has worked with the European Commission (DGV), as a member of the Capitalisation Committee and also as an advisor to the Italian government in the development of a number of bills focusing on the non-profit sector. Professor Borzaga has authored and co-edited numerous works on the theory of non-profit enterprises and social enterprises.

Nilda Bullain

Nilda Bullain is Executive Director of the European Center for Not-for-Profit Law (ECNL). ECNL previously operated as the Budapest branch office of the International Center for Not-for-Profit Law (ICNL), an international organisation headquartered in Washington, DC, where Ms. Bullain has been serving as Senior Legal Advisor. She has been working in CSO legal reform in several Central European countries joining the EU. Ms. Bullain has expertise in legal and fiscal areas concerning CSO and civil society development, especially the CSO-government cooperation framework, CSO taxation, philanthropy, public benefit status, volunteering, and delivery of social services.

Prior to joining ICNL, Ms. Bullain was Executive Director of the Civil Society Development Foundation Hungary (CSDF), a leading resource and support centre for CSOs in Hungary and Central and Eastern Europe. Before her involvement with CSDF, Ms. Bullain worked as a parliamentary aide in

the Foreign Affairs Committee of the Hungarian Parliament and assisted the Alliance of Free Democrats. She has been involved in human rights organisations in Hungary since 1988 and was editor of the feminist journal *Nőszemély*.

Emma Clarence

Emma Clarence is a policy analyst with the OECD LEED Programme based at the Trento Centre in Italy, where she started working in 2007, focused on social inclusion and the social economy. Prior to joining the OECD, Dr Clarence had worked as a research associate in various universities in the United Kingdom and had been a lecturer in politics at the University of Aberdeen (Scotland), as well as doing part-time consultancy work. She has published widely in the field of public policy.

Vanna Gonzales

Vanna Gonzales obtained her Ph.D. in political science from the University of California Berkeley (2006). She is currently an Assistant Professor at the School of Justice and Social Inquiry at Arizona State University (USA). Her teaching and research interests include the welfare state, community and non-profit organisations, and social and economic justice. Currently, she is working on projects related to social exclusion and the impact of governance on social capital formation. Her latest work is “Globalization, Welfare Reform and the Social Economy: Developing an Alternative Approach to Analyzing Social Welfare Systems in the Post-Industrial Era,” *Journal of Sociology and Social Welfare*, Vol. 34, No. 2, 2007.

Xavier Greffe

Xavier Greffe is Professor of Economics at the University Paris I - Sorbonne where he manages the doctoral program in Economics, having taught in Algiers, Los Angeles (UCLA), Poitiers and Orléans where he was Rector. For twelve years he worked with the French administration, where he was Director of New Technologies in the Department of National Education, and Director of Training and Apprenticeship in the Department of Labour and Employment. He is a consultant for the European Union Commission, where he managed the Local Employment Development Action Program (LEDA) between 1995 and 1999, and the OECD, where he is currently serving on the Trento Scientific Committee on Local

Governance. Professor Greffe is a specialist in the fields of local development, economic policy and the economics of culture.

Katerina Hadzi-Miceva

Katerina Hadzi-Miceva is working as a Legal Advisor of the European Center for Not-for-Profit Law (ECNL) in Budapest. She implements programs on legal reform affecting civil society organisations (CSOs) in Europe and particularly the Balkan region since 2000. She provides assistance in development of policies affecting the sustainability of CSOs and public participation by working closely with government officials, CSOs, judges, lawyers, and international donors. She provides legislative assistance and is building the capacity of local stakeholders on legal issues affecting CSOs, such as public benefit status, public funding, cross-sectoral partnerships, public participation in policy-making, self-regulation mechanisms, taxation of CSOs, corporate and individual philanthropy and the legal framework for volunteering. She has been developing multi-country comparative analysis in the areas of sustainability of CSOs. She has experience in fundraising, planning and implementing projects within the frameworks of various project management models.

Prior joining ECNL she co-founded and managed the Human Rights Students' Organisation at the Central European University in Budapest, when she initiated courses to supplement the curriculum of the Human Rights Program of the University and developed human rights awareness raising and capacity building projects. Also, she volunteered for the Civil Society Resource Center in Macedonia, during which time she worked on projects aiming to raise awareness about the rights of pre-trial detainees and refugees, and has conducted comparative legal analysis in these fields.

Maria Jeliaskova

Maria Jeliaskova is a sociologist and Research Associate at the Institute of Sociology, Bulgarian Academy of Sciences. She is an Affiliate Lecturer on Social Policy and Social Work at Sofia University and Associate Professor on European Projects at the University for National and World Economy, Sofia. She has more than 10 years of experience in the activities of non-governmental activities in the field of poverty eradication and social economy and is Executive Director of the Anti-Poverty Information Centre, the co-ordination unit for the European Anti-Poverty Network (EAPN) in Bulgaria. She is a member of EAPN Task Force on Social Inclusion and consultant on national preparation processes for EU integration at the

Bulgarian Ministry of Labour and Social Policy. Maria Jeliaskova has participated and managed many national and international projects for the European Commission, national government departments and development agencies.

Jean-Louis Laville

Jean-Louis Laville is a professor at CNAM (*Conservatoire National des Arts et Métiers*) in Paris, he is also the co-director of LISE (*Laboratoire Interdisciplinaire pour la Sociologie Économique*) and at the French department of research of (CNAM-CNRS). Recent publications include: *Action Publique et Économie Solidaire*, Toulouse, Erès, 2005 (avec P. Magnen, G.C. de França Filho, A. Medeiros); *The Third Sector In Europe*, Cheltenham, Edward Elgar, 2004 (with A. Evers) and *Sociologie des Services*, Toulouse, Erès, 2005.

Ewa Leś

Ewa Leś is currently a Professor at the Polish Academy and Institute of Science and Political Studies and also serves as the Chair of the Research Centre on Non-Profit Organizations at the Institute of Political Studies, as well as Director of the Post-Graduate Programme on Non-Profit Management. Professor Leś was a recently elected member of the advisory group to the Executive Committee of the Polish Association of Social Workers, where she has also held positions as Co-founder and President. Her experience in co-ordinating major research projects includes, most recently, a Non-Profit Sector Project in Poland, funded by the Polish Committee for Scientific Research (2000-2002) and a Comparative Non-Profit Sector Project funded by the John Hopkins University (1997-2001)

Benoît Lévesque

Benoît Lévesque is an Associate Professor at the National School of Public Administration (ÉNA) and at the University of Québec in Montréal. He is a member of the research centre on social innovations (CRISES) and at the Alliance of University Research and Communication (ARUC), an economic society where he was the co-founder and the director until 2003. He is co-author of *The New Social Economy* (DDB, 2001). Benoît Lévesque is the President of the International Scientific Commission of CIRIEC International. His fields of study include theories of the social economy as it relates to regional and local development.

He is the author of numerous articles and works which include *Economic Recovery and Territorial Development* (in collaboration with Jean-Marc Fontan and Juan-Luis Klein, Université of Québec Press, 2003), and *Work, Social Economy and Local Development* (in collaboration with Y. Comeau, L. Favreau et M. Mendell, Québec, Université of Québec Press).

Peter Lloyd

Professor Peter Lloyd is an Emeritus Professor and former Dean of Social Sciences at the University of Liverpool. He is a recognised European authority on regional and local economic development. He left the academic world in 2001 to pursue a career in private consultancy after 40 years as an academic Geographer. He is currently a part-time Technical Director at Ecotec Research and Consulting Ltd and works part-time in an independent capacity.

During the last decade Peter's most important role has been as an "expert" advisor to the European Commission. He has contributed to European Commission research programmes on Local Development and Employment Initiatives, New Sources of Employment, Jobs for the Long Term Unemployed, Community Economic Development, Territorial Employment Pacts and the Third System and Employment. In association with ECOTEC Research and Consulting, he has just completed two major projects for DG Employment and Social Affairs. IDELE reviewed policy and best practice in local employment development across the EU25 and FALDE carried out a "stocktake" of the available capacity for local employment development in the EU12 new accession states.

Marguerite Mendell

Marguerite Mendell is Vice Principal and Associate Professor, in the School of Community and Public Affairs, Concordia University, and is also Director of the Karl Polanyi Institute of Political Economy, Concordia University. Professor Mendell is a member of the Editorial Committee of the journal *Economie et Solidarité*, and Member of the Advisory Board of Studies in Political Economy. She is also member of *Centre de Recherche sur les Innovations Sociales dans Économie Sociale, les Entreprises et les Syndicats* (CRISES); and, member and Director for Concordia University of the SSHRC Community University Research Alliances (CURA) program. (Project: *L'Économie Sociale*). Professor Mendell is Member of the Board of Directors, *Chantier de l'Économie Sociale* and former President of the Montreal Community Loan Association.

Antonella Noya

Antonella Noya is a policy analyst with the OECD LEED Programme, where she has been working since 1997. She is responsible for LEED activities on social inclusion at the local level and Manager of the OECD/LEED Forum on Social Innovations. Prior to joining the OECD, Ms Noya was for several years a lecturer in Industrial Relations and Labour and Trade Union Law at the LUISS University in Rome, where she also worked as a manager in the Legislative Directorate of INTERSIND (the former employers' association for state-owned business). Parallel to this she did part-time work for leading Italian research centres.

At the OECD, Ms Noya has developed new areas of work, including: the role of the non-profit sector in local development, the role of culture in local development, asset-building for low-income people, social innovation, and community capacity building. Within this framework she has organised international conferences and study missions and coordinated studies and international reports. She is the editor and co-author of several OECD publications.

Ermanno Tortia

After graduating in economics at the University of Turin in 1995, Ermanno Tortia pursued Masters degrees in London and Rotterdam in institutional economics and the philosophy of economics, before completing his doctorate in Bologna, on labour managed firms. Since 2001 his research interests and activities have been in the field of industrial relations, human resources management and organisational innovation. From the beginning of 2004 Dr Tortia has been employed at the University of Trento as a researcher working on governance and labour relations in non-profit organisations and co-operative firms.

Glossary

Civil society

Civil society may be defined as a space or arena between households and the state, which affords possibilities of concerted action and social organisation. Thus, it encompasses all voluntary associations of citizens, whether politically motivated or active or not (although the term carries an implication of political consciousness and activity): business, labour, non-governmental organisations, churches, special interest or purpose groups. These elements are the constituents of civil society, but none can individually be representative of it. Business is often excluded, although the OECD does include it, given that channels of communication between traditional organised business and labour and government are generally well established. Most frequently the term is used interchangeably with “NGOs” where the term “NGO” refers specifically to activist groups, although these are simply one category of civil society as a whole.

Co-operative

A co-operative is an association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Examples of co-operatives in Europe can be traced back to the 19th century. The International Labour Organisation has recently (2003) suggested that co-operatives should be based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity and share the principles of: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and, concern for the community, which were identified by the International Co-operative Alliance in 1995. A co-operative includes one or more kinds of users or stakeholders: 1) consumers who use the enterprise to acquire products or services (such as a retail co-operative, housing, healthcare or day-care co-operative); 2) producers (such as independent entrepreneurs, artisans, or

farmers) who use the enterprise to process and market the goods or services they produced, or to buy products or services necessary to their professional activities; and 3) workers who use the enterprise to secure their employment and control their working conditions. Co-operatives operate democratically (one person, one vote) through two bodies (general meeting of the members or delegates, and the board of directors, which is composed of members elected at a general meeting). The delegate structure may be required to reflect the size of the organisation or the distance covered by the co-operative. The co-operative's start-up capital usually comes from co-op shares purchased by members. Since 1980, special co-operatives, known as social co-operatives, have become more widespread in OECD member countries.

Foundation(s)

Foundations are philanthropic organisations, organised and operated primarily as a permanent collection of endowed funds, the earnings of which are used for the long-term benefit of a defined geographical community or non-profit sector activity. Foundations operate as grant-making institutions, and also as providers of social, health and cultural services. It thus provides a significant link between the private and non-profit sectors, acting as a recipient of private capital and a funder of non-profit organisations. Foundations are tax-exempt, incorporated, not-for-profit, organisationally autonomous, and cannot be controlled directly or indirectly by government at any level, corporations, associations and their members, or individuals). Because they occupy a unique and central place in the non-profit sector, the development of foundations will strongly affect the future of the sector as a whole.

Mutual organisations/societies

A mutual organisation is an organisation owned and managed by its members and that serves the interests of its members. Mutual organisations can take the form of self-help groups, friendly societies and co-operatives. Mutual organisations exclude shareholding as they bring together members who seek to provide a shared service from which they all benefit. They are widely represented in the insurance sector.

Non-profit sector

The best known definition, while not commonly shared, particularly in European countries, is undoubtedly that supplied by the Johns Hopkins University in Baltimore (www.jhu.edu/~cnp/). According to this definition,

the sector includes organisations which are voluntary, formal, private, self-governing and which do not distribute profits, such as hospitals, universities, social clubs, professional organisations, day-care centres, environmental groups, family counselling agencies, sports clubs, job training centres, human rights organisations and others. In fact, entities belonging to the non-profit sector can vary from country to country according to national history and tradition. The term non-profit, born in the USA, refers mainly to the absence of profit distribution. This is substantially different to the European approach of “social economy”, which includes co-operatives. However, this difference is less significant when investigated through empirical research. C. Borzaga and J. Defourny (*The Emergence of Social Enterprise*, 2001, Routledge, London) argue that the distribution of profits is in any case limited by internal and external regulations in co-operatives and mutual organisations in European countries.

Social economy

The term “social economy” first appeared at the beginning of the 19th century in France. It was, nevertheless, only at the beginning of the 20th century that it began to be employed to indicate various entities aimed at improving collective working conditions and individual lives. This concept is now also used by Anglo-Saxon countries to refer to the production of goods and services provided not solely by the non-profit sector, but also, in some cases, by private enterprises with shareholder agreements that force the majority of shareholders to agree to social objectives undertaken by the firm. Among the organisations belonging to the social economy, one can find associations, co-operatives, mutual organisations and foundations. This type of economy is essentially regulated by the stakeholder principle, which stands in stark contrast to the notion of shareholder capitalism. The “social economy” is a broader concept than the non-profit sector, as it is less strictly bound to the non-distributional constraint, according to which organisations cannot legally redistribute their surplus to their owners (see also “Third sector”).

Social enterprise

An organisation form which has flourished in recent years, many definitions of social enterprise exist. Apart from academic definitions, and those elaborated by international organisations, which are built around general criteria, definitions used within countries are specific to the national understanding of the phenomenon of social enterprises. Increasingly countries are developing legal definition of social enterprises. Generally, this concept refers to any private activity conducted in the public interest,

organised with an entrepreneurial strategy and whose main purpose is not the maximisation of profit, but the attainment of certain economic and social goals, and which, through the production of goods and services, brings innovative solutions to problems such as social exclusion and unemployment (see *Social Enterprises*, OECD, 1999). In this way, social enterprises combine the entrepreneurial skills of the private sector with a strong social mission that is characteristic of the social economy as a whole. Social enterprises are part of the thriving and growing collection of organisations that exist between the private and public sectors. They come in a variety of forms including employee owned businesses, credit unions, co-operatives, social co-operatives, development trusts, social firms, intermediate labour market organisations, community businesses, or charities' trading arms. They mainly operate in two fields of activity: the training and integration into employment of persons excluded from the labour market, and the delivery of personal and welfare services.

Solidarity economy (économie solidaire)

The idea of the solidarity economy is mainly used in France and Canada (Quebec), and is also widespread in Latin America. It has different meanings according to the geographical context in which it is used: in the South American context, it mainly refers to fair trade and the popular economy, in Quebec it is linked to cooperatives, non-profit enterprises as well as to community economic development (*mouvement économique communautaire*) and in Europe to solidarity initiatives, mainly, but not exclusively, in the proximity services. Sometimes the term is used in association with the term social economy (as in Quebec) and sometimes in opposition to it, notably where the social economy is seen as composed of established organisations, while the solidarity economy mainly refers to non-established citizens' initiatives aimed at experimenting with new paths of economic development. In the European context, examples such as the fair trade movement are developing inside the sector, together with innovative forms of financial/non monetary-exchanges based on reciprocity.

Third sector

The concept of “third sector” is often used as a synonym to the non-profit sector and, more recently, also to “social economy”, particularly in European literature. The term was chosen to reflect the idea that the sector assembles these otherwise disjointed entities, and that it sits between the public and private sectors and follows unique social goals and internal organisational rules. Its mode of financing is mixed, as it can seek both private and public funding. The idea of establishing a distinct “third sector”

has given rise to many hefty debates, which have centred upon the danger of using the third sector as a residual sphere or “dumping ground” for those individuals excluded from the private and public sectors. To avoid the danger of social polarisation, the third sector should not merely be seen as an alternative route or juxtaposition to the public and private sectors, but as an interactive and reflexive component of economy and society. Others have argued that the boundaries of the third sector cannot be established with certainty, and for this controversial reason the European Commission preferred the use of the term “Third System”.

Third system

The term “Third System” was first utilised by the European Commission in 1997 and refers to the economic and social fields represented by co-operatives, mutual companies, associations and foundations, as well as all local job creation initiatives intended to respond, through the provision of goods and services, to needs for which neither the market nor the public sector appear able to make adequate provision. On the initiative of the European Parliament, in 1997 the European Commission introduced a new pilot action entitled “Third System and Employment”. The aim of the action was to explore and enhance the employment potential of the “Third System” with an emphasis on the areas of social and neighbourhood services, the environment and the arts (http://ec.europa.eu/employment_social/publications/2002/ke4502555_en.html).

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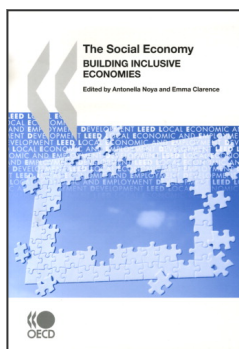
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