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FINANCING MECHANISMS OF SOCIAL ECONOMY

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From its origins, social economy was designed to answer the problem of poverty. Employability businesses as a form of organization specific to social economy respond effectively to the labor market insertion of people at risk of social exclusion. Over time, the social economy has demonstrated the ability to adapt to difficult economic and social contexts and created new forms of intervention which essentially respond to the requirements of economic activity and contribute to the active inclusion of beneficiaries. An important role in strengthening the field is played by the public - private partnership by implementing SE initiatives by NGOs, with support from the state, especially from local authorities.

Keywords: financing mechanisms, social economy, European Social Found

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Introduction

A management specific to SE leads, in time, to a harmonious combination of individual interest with the general interest of the community. The profit of social economy enterprises is reinvested for enterprise development, services for its members or services focused on collective welfare. In the process of developing, enlarging and strengthening opportunities for the development of an occupational network active in the community, through increased professional skills and educational performance for those at risk of social exclusion, social economy consolidates its principles. They refer explicitly, to solidarity and active involvement at Community level of the individual, the development of activities that result in increasing the living level of the citizen, and creating a culture of work. There are thus explicitly formulated demands of social dialogue in the community to support stability in employment through alternative economic development. The increase in concern for occupational rate and innovation of forms and mechanisms of institutional organization that stimulate the inclusion of socially disadvantaged groups coincides with the priorities of the new EU 2020 strategy to supplement and revise the Lisbon Strategy.

1. Measures of support and financing of the social economy in the European Union

Recent data show that the amounts made available to social economy organizations Governments in Western Europe ranges from 29% in Sweden and 35% in Norway to 77% in Belgium and Ireland. In CEE countries, government funding varies on average between 20 and 30%. It should be also taken into account the rules governing the distribution and monitoring the use of funds. Specifically, social economy organizations in SE of Europe have difficulties in accessing funds from the government, mainly because the implementation of funding mechanisms is not transparent, it lacks professionalism in the development of grants, there are no clear criteria and decisions about who may receive a grant are politicized and there is no effective monitoring mechanism to oversee the use of funds to ensure accountability of social economy organizations receiving these funds.

a) Direct funding - direct forms of support.

Government funding can be distributed through more traditional forms: subsidies, grants, purchase, and price per person. Among the mechanisms of government funding, subsidies and grants are the most common form in the CEE region. Subsidies are generally distributed to social economy organizations whose contribution to the implementation of government policy is considerable and can therefore serve as a general indicator of the recognition of civil society by the public sector. Subsidies are prescribed by law and are distributed by the authority in charge of issuing them. Funding through subsidies is usually directed towards the major international agencies, to groups representative of national interests (eg pensioners associations), the main organizations that provide services to several organizations and promotion. Grants, on the other hand, are awarded through open competition and provide funding for the provision of social services (Germany, Croatia, UK) or to implement programs related to international obligations country for development aid (Sweden, Denmark, Germany) . The procurement mechanism governs the purchase of goods and services provided by social economy organizations. The problem with this mechanism is that social economy organizations are bidding normally with other service providers (such as various business) and they cannot meet the technical requirements (guarantees) or cannot reach high standards (system quality assurance) usually required by government.

Some countries have amended their legislation to remove the ban on participation in social economy organizations procurement procedures (Bulgaria). Other countries have created specific mechanisms, such as public benefit contract in Hungary. In general, social economy organizations involved in the provision of social services can benefit most from this mechanism.

Schemes of payments to third parties, common in Western Europe, such as rates per person certificates are not yet widespread in CEE, but proved to be useful mechanisms for public support, especially for social economy organizations providing social services. Prices per person or the normative support system, common in Hungary, enables social economy organizations to seek reimbursement from the government based on the volume of services provided. Social economy organizations that provide services in areas such as health and education are beneficiaries of this system. The certificates mechanism (voucher), which was introduced in the Czech Republic, allows municipalities to provide certificates for services within their competence and leave citizens to choose their supplier. Besides the fact that these two mechanisms are a form of financial support, they suggest that social economy organizations compete with service providers in other sectors (public and private), which ultimately contributes to a better quality of services provided and more responsibility. (*Raport de cercetare privind economia socială în România din perspectivă europeană comparată, Ministerul Muncii, familiei si protectiei sociale, 2010).*

b) Indirect financing

Funds directed to social economy institutions. Of all the regional examples of sources of public support we must mention two models: use of the profit from privatization and creation of a public fund to support civil society.

Both are important, as they were introduced as a result of concerted government efforts to strengthen the third sector by adopting innovative tools. Distribution of profit to the foundations of privatization was introduced in the Czech Republic as a result of privatization of state enterprises. The Czech government has allocated 1% of the profits from the privatization of a Investment Fund Foundation, which redistributed funds of several local foundations as facilities.

The purpose of this mechanism is to strengthen the construction of facilities as a secure base of resources for social economy organizations. In 2002, 27 million euros were distributed to 64 foundations, which at the time represented a third of all foundations in the country. Nowadays, the Czech Republic registered 375 foundations, the value of their facilities exceeding EUR 80 million. This instrument also led to a better cooperation between foundations that have joined facilities to establish a joint investment portfolio designed specifically for this purpose. In 2003, the Hungarian government established the National Civil Fund in order to provide a mechanism for institutional support of social economy organizations.

The National Civil Fund virtually supplements the mechanism of percentage allocation, in that the government also contributes the same amount of funds allocated for social economy organizations through the percentage system. 60% of the resources of the National Civil Fund are allocated to the social economy organizations to adjust their operation costs. In addition, funds from this source also support and development programs (research, education, international representation). The elected representatives of social economy organizations are members of all committees that decide the distribution of funds. In the first year, EUR 28 million were distributed to more than 3,500 organizations in support for operational costs. Although the potential funding of this mechanism is considerable, its impact on overall long-term financial viability will depend on the willingness of governments and governing board of the Fund to learn from the challenges of the first year of activity and to try to review the objectives set for the improvement of the effectiveness of the system.

2. European Social Fund 2014–2020

The ESF is one of the five European Structural and Investment Funds (ESIF). From 2014, these operate under a common framework and pursue complementary policy objectives. They are the main source of investment at EU level to help Member States to restore and increase growth and ensure a job rich recovery while ensuring sustainable development, in line with the Europe 2020 objectives.

From 2014, the role of the ESF will be reinforced:

- A critical mass of human capital investment will be ensured through a minimum guaranteed share of the ESF within the cohesion policy funding in each Member State. Together with the 3 billion € special allocation for the Youth Employment Initiative, this means that more than 80 billion € will be invested in Europe's people over the next 7 years;
- Allocating at least 20% of the Fund to social inclusion will mean that people in difficulties and those from disadvantaged groups will get more support to have the same opportunities as others to integrate into society;
- Promoting equality between women and men and equal opportunities for all without any discrimination will be integrated in all actions and also supported through specific initiatives;
- A greater emphasis is placed on combating youth unemployment. The Youth Employment Initiative will help young people not in employment, education or training in regions experiencing youth unemployment rates above 25%. At least €6.4 billion will come in support of Member States' efforts to put their Youth guarantee implementation plans in practice;(*http://ec.europa.eu/esf*)
- Concentrating funding for achieving results: the ESF will focus its interventions on a limited number of priorities in order to ensure a sufficiently high critical mass of funding to make a real impact in addressing Member States' key challenges.
- Greater support will be provided to social innovation, i.e. testing and scaling up innovative solutions to address social, employment and education needs;
- The ESF will be implemented in close cooperation between public authorities, social partners and bodies representing the civil society at national, regional and local levels throughout the whole programme cycle;
- The European Social Fund will be at the forefront of innovative managing rules to **simplify** implementation of projects. The Commission is helping Member States to simplify ESF implementation in order to focus more on the results and make ESF easier and safer for the beneficiaries.

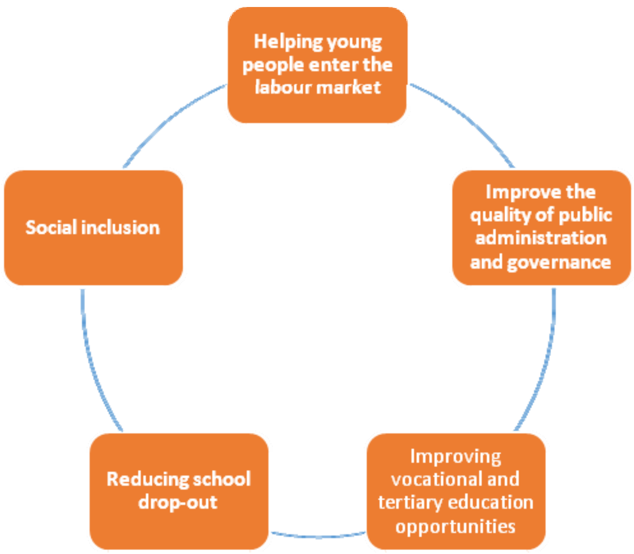

Figure 1 Objectives for the ESF in 2014-2020
Source performed by the author

Getting people into jobs: the ESF will support organisations around the EU to put in place projects aimed at training people and helping them get work. Initiatives supporting entrepreneurs with start-up funding and companies who need to cope with restructuring or a lack of qualified workers will also be funded. Helping young people enter the labour market will be a top priority for the ESF in all EU countries.

Social inclusion: employment is the most effective way of giving people independence, financial security and a sense of belonging. The ESF will continue to finance many thousands of projects that help people in difficulty and those from disadvantaged groups to get skills and jobs and have the same opportunities as others do.

Better education: Across the EU the ESF is financing initiatives to improve education and training and ensure young people complete their education and get the skills that make them more competitive on the job market. Reducing school drop-out is a priority here, along with improving vocational and tertiary education opportunities.

Stronger public administration: The ESF will support Member States' efforts to improve the **quality of public administration and governance** and so support their structural reforms by giving them the necessary administrative and institutional capacities.

The table below gives an overview of budget allocations by country.

Table no 1 ESF budget by country: 2007-2013

Country	ESF co-funding breakdown			
	EU	**National**	**Private***	**Total**
Austria	€524,412,560	€556,090,082	€80,000,000	**€1,160,502,642**
Belgium	€1,073,217,594	€1,163,472,928	€92,532,777	**€2,329,223,299**
Bulgaria	€1,179,738,062	€208,189,069	€0	**€1,387,927,131**
Cyprus	€119,769,154	€21,135,734	€0	**€140,904,888**
Czech Republic	€3,673,107,340	€641,862,682	€1,500,000	**€4,316,470,022**
Germany	€9,380,654,763	€4,988,143,339	€1,526,316,798	**€15,895,114,900**
Denmark	€254,788,619	€175,229,442	€79,559,177	**€509,577,238**
Estonia	€391,517,329	€52,642,230	€17,178,031	**€461,337,590**
Spain	€8,018,292,796	€3,069,372,347	€114,677,045	**€11,202,342,188**
Finland	€618,564,064	€801,836,655	€0	**€1,420,400,719**
France	€5,494,547,990	€3,724,734,676	€1,205,253,190	**€10,424,535,856**
Greece	€4,363,800,403	€770,082,816	€0	**€5,133,883,219**
Croatia	€152,413,106	€25,621,018	€1,275,467	**€179,309,591**
Hungary	€3,612,105,277	€635,336,123	€2,094,225	**€4,249,535,625**
Ireland	€375,362,370	€372,362,370	€3,000,000	**€750,724,740**
Italy	€6,960,542,469	€7,057,364,485	€0	**€14,017,906,954**
Lithuania	€1,028,306,727	€119,392,408	€62,073,486	**€1,209,772,621**
Luxembourg	€25,243,666	€25,243,666	€0	**€50,487,332**
Latvia	€583,103,717	€70,210,559	€32,690,097	**€686,004,373**
Malta	€112,000,000	€19,764,707	€0	**€131,764,707**
Netherlands	€830,002,737	€728,844,717	€400,985,149	**€1,959,832,603**
Poland	€10,007,397,937	€1,766,011,401	€0	**€11,773,409,338**
Portugal	€6,853,387,865	€2,344,937,802	€0	**€9,198,325,667**
Romania	€3,684,147,618	€649,920,063	€0	**€4,334,067,681**
Sweden	€691,551,158	€691,551,158	€0	**€1,383,102,316**
Slovenia	€755,699,370	€133,358,718	€0	**€889,058,088**
Slovakia	€1,484,030,338	€261,887,713	€0	**€1,745,918,051**
United Kingdom	€4,498,917,728	€4,050,113,275	€106,280,008	**€8,655,311,011**
	€76,746,622,757	**€35,124,712,183**	**€3,725,415,450**	**€115,596,750,390**

Source: http://ec.europa.eu/esf, at 12.02.2015

The European Social Fund will be at the forefront of innovative managing rules to simplify implementation of projects. The Commission is helping Member States to simplify ESF implementation in order to focus more on the results and make ESF easier and safer for the beneficiaries.The ESF is Europe's main instrument for supporting jobs, helping people get better jobs and ensuring fairer job

opportunities for all EU citizens. It works by investing in Europe's human capital – its workers, its young people and all those seeking a job. ESF financing of EUR 10 billion a year is improving job prospects for millions of Europeans, in particular those who find it difficult to get work. The strategy and the budget of the fund is negotiated and decided between the EU Member States, the European Parliament and the Commission. On this basis, seven-year Operational Programmes are planned by Member States together with the European Commission. These Operational Programmes are then implemented at a national level by a managing authority.
In 2014-2020, ESF allocations amount to 24.8% of the Structural Funds budget. The minimum share that has been introduced for the first time as from 2014 is effectively putting an end to the gradual decrease of the ESF share in the past 25 years. 18 Member States have decided to allocate additional funds to the ESF beyond the minimum share.

Table no 2 ESF budget by country: 2014-2020

	Minimum allocation		Actual allocation (Partnership agreement adopted)	
	% of Structural Funds	**€ current prices**	**€ current prices**	**% of Structural Funds**
Belgium	52.0%	1 028 719 649	1 028 719 649	52.0%
Bulgaria	28.7%	1 460 627 776	1 521 627 776	29.9%
Czech Republic	22.1%	3 396 923 124	3 430 003 238	22.3%
Denmark*	50.0%	163 252 509	206 615 841	50.0%
Germany	36.8%	6 723 160 961	7 495 616 321	41.0%
Estonia	18.0%	443 022 913	586 977 010	23.9%
Ireland	51.7%	491 999 478	542 436 561	57.0%
Greece	28.1%	3 335 044 542	3 690 994 020	31.1%
Spain	27.7%	7 478 571 457	7 589 569 137	28.1%
France	41.7%	6 026 907 278	6 026 907 278	41.7%
Croatia	24.6%	1 436 033 035	1 516 033 073	26.0%
Italy	26.5%	8 246 466 857	10 467 243 230	33.6%
Cyprus	30.7%	129 488 887	129 488 887	30.7%
Latvia	20.7%	629 240 231	638 555 428	21.0%
Lithuania	24.2%	1 120 144 401	1 127 284 104	24.4%
Luxembourg	50.7%	20 056 223	20 056 223	50.7%
Hungary	24.0%	3 712 540 948	4 712 139 925	30.5%
Malta	21.6%	105 893 448	105 893 448	21.6%
Netherlands	50.0%	507 318 228	507 318 228	50.0%
Austria	43.5%	425 582 003	442 087 353	45.2%
Poland	24.0%	12 817 448 274	13 192 164 238	24.7%
Portugal	38.5%	7 053 210 773	7 546 532 269	41.2%
Romania	30.8%	4 774 035 918	4 774 035 918	30.8%
Slovenia	29.3%	617 444 136	716 924 970	34.0%
Slovakia	20.9%	1 991 329 107	2 167 595 080	22.8%
Finland	39.5%	515 260 355	515 357 139	39.5%

	Minimum allocation		Actual allocation (Partnership agreement adopted)	
	% of Structural Funds	€ current prices	€ current prices	% of Structural Funds
Sweden	42.5%	730 722 851	774 349 654	45.0%
United Kingdom	45.9%	4 942 593 693	4 942 593 693	45.9%
EU28		**80 323 039 055**	**86 428 676 444**	

Source: http://ec.europa.eu/esf, at 12.02.2015

The European Union is committed to creating more and better jobs and a socially inclusive society. These goals are at the core of the Europe 2020 strategy for generating smart, sustainable and inclusive growth in the EU. The current economic crisis is making this an even more demanding challenge. The ESF is playing an important role in meeting Europe's goals, and in mitigating the consequences of the economic crisis – especially the rise in unemployment and poverty levels.

Conclusions

Indirect support often comes in the form of tax benefits, the use of municipal property or the provision of services at reduced prices. Support is considered "indirect" because, instead of distributing public funds, governments do not collect revenue to which they would have been entitled. The appearance of the tax benefits is considered as the most important since it is related to the amount of revenue generated indirectly that social economy organizations can use to achieve their goals. The benefits come in the form of tax exempt certain types of income from income tax. Almost all countries exempt from taxation income from membership fees, grants and donations. There is also a general agreement that all social economy organizations, whether pursuing mutual benefit or public purposes shall be exempt in this case. In Bulgaria, mutual benefit organizations are charged for donations. In addition, tax benefits are associated to income from investment, real estate and customs.

The VAT scheme for social economy organizations is also an important topic of discussion. The VAT Act in Macedonia exempts from payment only the services and supply of certain goods by institutions providing social welfare and not for social economy organizations. This aspect greatly hinders the ability of social economy organizations to financially support their social service activities. Some countries such as the Czech Republic, Serbia and Montenegro, have introduced tax exemptions, income is taxed only above a certain level. Other countries fully tax social economy organizations (Albania, Bulgaria, Slovenia).

The percentage mechanism is a relatively new example of state support for social economy organizations. It was first introduced in Hungary in 1997, and although some countries in the region have gladly embraced this mechanism, its effect is still debatable. The percentage mechanism is a form of tax allocation and allows taxpayers to allocate a part of the fees paid to them a certain organization. After the adoption in Hungary so-called "Law of 1%", a similar legislation was introduced in Lithuania, Poland, Slovakia and Romania. Hungary is the only country that has over 7 years of the implementation of this law, so that we can draw lessons from this experience. Implementation of laws in Hungary, as in other countries, sent signals to be carefully considered by the new wave of countries (such as the Czech Republic, Ukraine, Georgia and Macedonia), which plan to implement such a mechanism. Although the mechanism percentage seems to be gaining in popularity in CEE, lessons from implementation in countries that already exists should not be ignored. These examples show that even though social economy organizations and governments estimate that the mechanism can significantly contribute to the viability of the sector, its conceptualization must be made while taking into account all factors. It is important that this mechanism should be introduced, but it should complement, not replace existing mechanisms, because it will not be the remedy for the issue of financial sustainability.

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