

CROWDFUNDING PROMOTING – AN ALTERNATIVE FINANCING SOURCE FOR SOCIAL ENTREPRENEURSHIP

Elena, Enache¹
Cristian, Morozan²

Abstract:

Through crowdfunding an activity is financed by the contribution of a lot of people, initiators of innovative projects, people or organizations with beneficial ideas, coming to support the others, but who have no money for that, are put in contact with citizens, with thousands of users willing to support such proposals. Donors feel involved in the community and help to make a change.

This activity fits perfectly into the category which is recognized in practice and theory as "solidary economy", "the third sector of the economy" or "social entrepreneurship". In fact, it is a form of offering new and innovative solutions for older needs, proving its ability to contribute to satisfying some needs such as social, economic and environmental problems, which the countries of the world, their economies and population are confronting.

Keywords: *entrepreneurs, crowdfunding, financing, social economy, life conditions, economic sector*

JEL Classification: A13

1. The social entrepreneurship, solution which is supporting vulnerable people

Although the contemporary idea of economy and social entrepreneurship is rooted in the socio-philosophical concepts which are specific to the nineteenth century, referring to three directions of ideological thought, respectively socialism, liberalism and Christian solidarity, only in the last decade it has been widely promoted and applied.

The motivation for passing in the foreground is related to the global crisis that mainly requires more effective economic solutions, including the labor market insertion.

It is well-known that the consecrated, traditional employment possibilities of capable persons and the increasing employment are no longer available. If for a person with no physical, social or any other problem, finding a job is getting harder, the situation for disadvantaged people is more difficult. Solutions are no longer viable, attractive, employees and employers are no longer satisfied.

A major constraint on growth is the low disposable level of income, which is derived from the structure of employment. Of the 8.365 million jobs in Romania, only 4 million are salaried. The very high level of independent activities (2.1 million, 25% of total employment) is rather associated with subsistence agriculture and with the lack of alternatives, than with entrepreneurship. Other 1.4 million (20% of total employment) represent unpaid family activities, a category that in more developed EU economies are barely mentioned. Over the past ten years the growth has been more tilted to Bucharest - Ilfov Development Region, which became the main functioning market economy, with a mixture of jobs in manufacturing and services and a GDP per capita exceeding EU average. (http://www.fonduri-ue.ro/res/filepicker_users/cd25a597fd-62/2014-2020/acord-parteneriat/AP-10.02.2014.RO.pdf)

It is probable for vulnerable individuals to remain captive in the social assistance system, for those, entering or reintegrating into the labor market being very less possible. The state hardly copes with the financial burden, which is required to support this system, with a constantly growing number of assistants.

¹ Ph.D. Professor, "Constantin Brâncoveanu" University from Pitești, Faculty of Management-Marketing in the Economic Affairs Brăila, e_enache2005@yahoo.com

² Ph.D. Associate Professor, „Constantin Brâncoveanu” University from Pitești, Faculty of Administrative and Communication Sciences Brăila

There are also included people who are out of the system, but who don't have appropriate sources of income.

Thus, there is a chance for the social economy to provide opportunities to obtain employment and reduce social exclusion. In our country, the number of private organizations activating in the social economy has considerably grown during the transition period: 2,000 cooperatives, 3,000 mutual benefit societies of employees and retirees and 20,000 other non-governmental organizations active in all areas of the national economy. From these, according to experts, over 3,000 achieve regular economic activities, meeting the criteria to be classified as social economy enterprises, many of them created workshops protected units for employment of persons with disabilities and 2,000 provide social and employment services, including work integration of disadvantaged people in Romania. (Elena Enache, Cristian Morozan, 2013).

The future is associated with the idea of corporate social responsibility - CSR, which refers to the inclusion of social and environmental issues in the business, to the simultaneous solution of several issues related to customer satisfaction on one hand and expectations of other categories (employees, providers and community residents in general), on the other hand.

Romania is the 11th state that has signed with the European Commission the Partnership Agreement 2014 - 2020 (www.fonduri-ue.ro). The Ministry of European Funds (MFE) in our country aims through the Agreement 11 thematic objectives funded by the five large funds (ERDF, ESF, CF, EAFRD, EMFF), except for the territorial cooperation. The social economy is reflected as a priority in Objective 9: Promoting social inclusion and combating poverty or any other form of discrimination. Within this objective, Romania has aimed as a target to reduce by 580,000 the number of people in poverty in the 2008-2020 period. The financial allocation for this purpose amounts to 3.4 billion euros, of which ERDF 0.52, ESF 1.13 and EAFRD 1.75. We have the following priorities: Development of the social assistance system; Integration of vulnerable groups and communities, including the Roma; to support the social economy and social enterprises; to promote and support the national health reform.

The Ministry of European Funds has also sent to the European Commission the official versions of three programs through which Romania will attract European structural and investment funds in the period 2014 – 2020 including the social economy. These are: Human Capital Operational Programme, Competitiveness Operational Programme and Technical Assistance Operational Programme (<http://www.ies.org.ro/info-stiri/vrs/IDstire/999/t/antreprenoriatul-social-si-economia-soci>).

Social entrepreneurship and social economy are clearly reflected in the Human Capital Operational Programme, in the Investment Priority "Promoting social entrepreneurship and vocational integration in social enterprises and the social and Solidarity Economy in order to facilitated access to employment". The current version of the document considerably limits the spectrum of interventions. The expected results are:

- increasing the number of social economy entities / developing the existing entities;
- increasing the number of people employed in the social economy entities.

Actions will be aimed at providing support for the establishment of the insertion social enterprises. Social entrepreneurs will benefit from counseling / mentoring activities as well as training in the social field. In addition, there will be the possibility of accessing financial instruments (eg. In the form of micro-loans and guarantees for business development).

2. Definitions

The social economy has become an important subject, from the academic debates or research studies to a European priority in the period 2014-2020. Europe aims to rethink

and reinvent economic and social models. Social enterprises are placed in the foreground and should become engines of change, of social innovation, of inclusive and sustainable economic growth. The potential of the social economy is recognized at an European level, thus the Social Business Initiative and the Strasbourg Declaration from 16-17 January 2014, practically creating the terms, starting and calling for action to promote and develop this sector(<http://www.yunusfb.com/social-business>).

Recognized as "solidarity economy" or "the third economic sector" the social economy has proved its ability to contribute in an innovative way in satisfying certain needs of the social, economic and environmental challenges which the countries of the world, their economies and population are facing with. Those needs are either ignored or inadequately solved by the public and private sectors, which cannot find effective settlement possibilities.

The definitions were steadily developed, desiring to include as accurately as possible the content of this activity.

In 1990, Romania discovered the social economy in modern versions, along with the market economy.

The definition provided by the Walloon Council of Social Economy from Belgium shows that: the social economy „consists of the economic activities of companies, especially cooperatives, mutual societies and other associations in which ethics is consistent with the following principles: the ultimate goal is rather in the service of the members or the public, than for profit, management autonomy, democratic decision process, priority given in the income distribution to the people and labor over capital” (http://www.encyclopedie-enligne.com/e/ec/economie_sociale.html).

After more than a decade, in 2002, at the European Permanent Conference of Cooperatives, Mutualities, Associations and Foundations a complete definition for the social economy was suggested as a result of its evolution: "Social economy organizations are economic and social actors, active in all sectors mainly characterized by their specific goals and form of entrepreneurship. The social economy includes organizations such as cooperatives, mutual societies, associations and foundations. These companies are particularly active in areas such as social protection, social services, health, banking, insurance, agricultural production, local services, education and training, culture, sport and recreation. " (<http://www.alternativesociale.ro>).

Muhammad Yunus, Nobel Peace Award winner, who is very familiar with this problem shows that the "definition of the social enterprise is very wide. A social enterprise can be any initiative to help people. The initiative can be economic, non-economic, that aims the profit or not. The distribution of free medicines to the poor can be a form of social enterprise. On the other hand, a social business is a special deal. It is a business with a social purpose, not monetary. It can be said that social business is a subset of social enterprises. " (<http://economie-sociala.org>).

A Social business is a cause-driven business. It must be financially sustainable and mission-oriented. The company must achieve its social objective and at the same time cover all costs through a revenue model. The success of the business is not measured by the amount of profit made in a given period, but through the impact of the business on people or the environment. Investments in social businesses purely support the accomplishment of a social objective, and an investor should desire no financial gain. In fact, in a social business, investors/owners can gradually retrieve the money invested, but cannot take any dividend beyond that point. In short, Social businesses are non-loss, non-dividend companies created to solve social or environmental problems. Examples of social objectives are: healthcare for the poor, housing for the poor, financial services for the poor, nutrition for malnourished children, safe drinking water, renewable energy, etc. (<http://www.yunusfb.com/social-business>).

In summary, the social economy is a form of offering new, innovative solutions to older needs.

3. National legislation

Unfortunately, Romania has no legislation specifically dedicated to this third sector yet, but there is a regulatory and public policy framework defined by a series of regulations governing the establishment and operation of social economy organizations (cooperatives, insurance and mutuality, mutual benefit societies, protected units, NGOs) (<http://www.ies.org.ro/resurse/legislatie>); laws governing business activity in general (Tax Code, the Public Procurement Act, etc.); legislation governing specific fields as social services and employment - labor insertion of people with disabilities or, more generally disadvantaged groups (sub-contracting, outsourcing procedures); special measures dedicated to the social economy provided by regulations or new types of social enterprises (businesses insertion, social cooperatives etc.).

Since the beginning of 2014, the Social Economy Act has been debated in specialized commissions of the Senate, and then reached the Chamber of Deputies, as decision forum. In its current form, the draft of Social Economy Law:

- will define for the first time the social economy, social enterprises and insertion social enterprises,
- will regulate how a social enterprise will be certificate and will receive the social mark or the mark of an insertion social enterprise,
- will define some generic support measures for insertion social enterprises.

The main concern of the organizations was that the law will not bring any concrete measures in support of those who are active in this field and, through a number of uncertainties, will perpetuate confusion in this area. Therefore, the Institute of Social Economy, the Insertion Social Enterprise Network - RISE Romania, various foundations and the National Association of Credit Unions of Employees - UNCARS drafted numerous amendments which, if they were adopted, would make the Social Economy Law to come more in support of the sector.

The SOPHRD Management Authority published, in order to clarify even partially the problems, the document called Specific Terms no. 168 "Developing the social economy", in which, the company involved in the social economy represents:

- a) any company owned and controlled entirely or partly (more than 50% ownership) by social economy organizations (associations, foundations, cooperatives, unions of employees and retirees) or
- b) any large enterprise or SME (micro, small or medium) according to the national legislation, which can prove, according to the line of business, that it operates in the market including the social domain, by making at least one of the following activities: providing social services, providing health services, providing services for education, providing jobs for people belonging to vulnerable groups. (<http://www.ies.org.ro/info-stiri/vrs/IDstire/992/t/amposdru-transforma-intreprinderile-mari>).

4. Crowdfunding – o short overview

It is an evolved form of fundraising, which eliminates the classic donation system and replaces it with a reward type methodology. The initiators of the project create around them a network whose members offer money in exchange for services or products generated by the project.

The principle is one known in Romania due to the successful campaign that was „Give one leu for the Athenaeum!”. Very often used in the common language, embedded

in the Romanians minds, it became virtually a saying, though sometimes it is not used in the proper sense.

Specifically, through crowdfunding an activity is financed activities by a lot of people, are put in contact originators of innovative projects, people and organizations with beneficial ideas that support our fellow men, but who have no money, with citizens, thousands of users willing to support such proposals. Donors feel involved in the community and help to make a change.

By making a comparison, from a point of view, crowdfunding looks like the support for an investment in the classical way: if there is a business idea that deserves to be realized, the first step is to identify a source of funding, an investor.

This can be a bank or a person which became "business angel".

But there are also two big differences. The first one is that instead of existing relationship with just one person or entity there it is getting in contact, a relationship with a lot of people easily converted to investors. The second one is the fact that it expects not cash profit, but significant social results.

In crowdfunding the competition exists, because there are many problems to be funded and transformed into projects, and money is not easy to get. The pressure is therefore on the promotional campaigns. It matters a lot how convincing they are to make someone provide the money. Crowdfunding expert, Sally Outlaw explains some of the basics that a promotional campaign needs (<http://ideideafaceri.manager.ro/articole/piata-marketing/poate-concura-campania-ta-crowdfunding-11007.html>):

- **getting interest from the media.** It is important for journalists to understand in order to send the right and motivating message, to explain why the idea is current;

- **producing a "must-watch pitch video"**. The requirements for this film are high: to be captivating, informative, but mainly short - to attract people for 30 to 60 seconds;

- **creating value.** A crowdfunding campaign is a negotiation, and the potential donor must be motivated to act from the beginning, to get something attractive that cannot be obtained elsewhere, to be convinced that his money goes to noble goals. It is required in besides to originality, sincerity and persuasion;

- **keeping interest.** This is necessary for both sides, both the applicant and the sponsor. But the first has greater obligations, starting with the continuity to obtain necessary funding to permanently inform the donor about the situation of the utilization of the money he or she invested. It is important that aid should not be forgotten, and the effect should be presented as a donor effort.

The most important strengths of crowdfunding activity are:

- **financing sources with medium or low effort.** Physical labor is not overwhelming, but intellectual work must give 100% yield. It depends both on the project and the initiator;

- **the social media power.** Today power means globalization, social networks that provide access to information with little financial effort, meaning Facebook, Twitter etc.;

- **safe distribution and promotion,** only that they entirely depend on raising money to create the final product.

As normal, we can identify some **weaknesses**:

- **reduction at a certain point of the power of social created network.** It is important to choose the target audience, to set the exact niche and to communicate within the network, thus creating fast, efficient and long lasting links;

- **the required sum cannot be very large.** Suspicions exist almost always about using large sums and the well-known solution in such cases is the bank loan;

- **the credibility of the final product.** The more credible the product is, the easier it is to raise funds;

- **equal opportunities of success or failure.** Therefore, a risk strategy and a backup plan must be developed;

- if **the reward system** is not well organized, there is the risk not to raise the required sum. Rewards must be personalized and differentiated, organized in a well implemented hierarchical structure. For example, for amounts of 100 lei, a shirt with a printed message is enough, but for 1,000 lei it is needed more than a souvenir.

5. Romanian experiences

At the end of 2013, the Institute of Social Economy, desiring to find new solutions, new themes for financing entrepreneurship and social economy oriented towards crowdfunding. IES has become one of the PotsiEu.ro crowdfunding platform supporters, which aims to finance, social entrepreneurship initiatives in particular.

PotSiEu.ro is a tool through which social entrepreneurs mobilized funding from individuals, in order to obtain the minimum capital needed to start a business that aims to solve social problems. By PotsiEu.ro safe and transparency conditions are guaranteed.

Supporters of a campaign choose between the rewards offered by the initiators and contribute to its corresponding amount, thus having the opportunity to do good things with minimal effort, and at the same time, to receive a product or service that they want. They are involved and help to solve a problem that matters to the community.

Among the projects on this platform lists:

- **the Entrance of the cello:** creative Center of cultural and urban expression, funded with 7638.02 lei, by 99 supporters; Specifically, they were built from recycled materials an eco-pavilion and a summer garden for organizing various events: educational activities, creative recycling workshops, exhibitions and other socio-cultural activities.

- **Homefest Campaign,** a cultural event with 20 shows that takes place in the houses of the people of Bucharest, willing to temporarily transform their living space into an open art one. It was funded with 7190.16 lei, by 77 supporters.

- **Yes we can!** Five technology high schools with weak results to baccalaureate were selected, the Zburd program - Education through coaching was added, and they were activated by volunteering for over a year. The graduation rate has doubled or even tripled in these high schools from Bucharest, Sibiu, Braşov, Iaşi and Câmpulung (compared to the 20 % nationally increase average)! The 67 supporters contributed with 29,520 lei.

Another example is the platform **Sosisesa.ro** - Sociability, Sympathy, Service, Rescue which, since 1996, raises money and uses it to integrate into society the poor, marginalized, disabled people etc.

Among the projects we mentioned:

- **"Cleaning brings Smiles".** A considerable quantity of automatic detergent was donated to: Center for Elders "Cuvioasa Paraschiva" Bucharest; National Institute of Infectious Diseases "Matei Bals" Bucharest; Hostel for elderly persons - Periş, Ilfov; National Sports Complex "Nicholae Navasart" Snagov, Ilfov; Placement Center Tâncăbeşti - Snagov, Ilfov; Municipal Hospital - Olteniţa, Călăraşi; Centre for Elders "Sf. Gheorghe" - Olteniţa, Călăraşi; City Hospital - Găeşti, Dâmboviţa; Placement Centre for Children with Disabilities - Găeşti, Dâmboviţa and other locations;

- **"I want to go to school!"** Every year, fully equipped school bags are provided to children from placement centers or from dysfunctional families, with low incomes.

6. Conclusions

All around us there are more and more problems of ordinary people or the environment, for which is seeking a solution. The market economy is based on profit, so

businessmen are not willing to support what the state is unable to provide: a decent life, public health, environmental cleanliness etc.

There are always solutions, one of them being crowdfunding or crowdsourcing.

It is that accessible way to do something for ordinary people, using that ordinary people's money, who understand that the expected "money from heaven" is an illusion!

References:

1. Enache E., Morozan C., 2013, *Social Economy - A Solution for Entrepreneurship Development*. Management Strategies Review, Year VI, Special Issue / 2013
2. http://www.fonduri-ue.ro/res/filepicker_users/cd25a597fd-62/2014-2020/acord-parteneriat/AP-10.02.2014.RO.pdf
3. www.fonduri-ue.ro
4. <http://www.ies.org.ro/info-stiri/vrs/IDstire/999/t/antreprenoriatul-social-si-economia-soci>
5. <http://www.yunusfb.com/social-business>
6. http://www.encyclopedie-enligne.com/e/ec/economie_sociale.html
7. <http://www.alternativesociale.ro>
8. <http://economie-sociala.org>
9. <http://www.ies.org.ro/resurse/legislatie>
10. <http://www.ies.org.ro/info-stiri/vrs/IDstire/992/t/amposdru-transforma-intreprinderile-mari>
11. <http://ideideafaceri.manager.ro/articole/piata-marketing/poate-concura-campania-ta-crowdfunding-11007.html>