

# SOCIAL ENTERPRISES, AN ALTERNATIVE INSTRUMENT FOR SUPPORTING DEVELOPMENT

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## Abstract

Social entrepreneurship is an alternative instrument for the promotion of social and economic development. Social enterprises, often named as social businesses, are established out of the initiative of citizens belonging to a community, or a group, that shares a certain need or aim. Such enterprises are a good instrument for supporting civil society initiatives. They aim to contribute to the betterment of the target group conditions, through providing employment and/or through funding projects/services provided to such target group. Social entrepreneurship is a relatively new concept for Albania; it has been introduced quite recently through projects of few non-profit organizations, mainly induced by their donors. Due to the changes in funding policy from donor agencies, and channeling of development support mainly through EU, has created some difficulties for NGO funding. In such circumstances, the discussions for formalizing the social enterprise as a legal form which would serve to generate income for the non-profit, has been undertaken. The concept and development of social enterprises should integrate different fields of expertise, such as social, economic and legal. The paper aims to explore the concept of social entrepreneurship, its organization and dynamics. It draws an overview of the social enterprise initiatives in Albania through case study analysis. The paper is based on literature review, analysis of previous studies, policy documents related to the topic, related statistical data provided from national and international organizations. Social entrepreneurship is about using entrepreneurial principles, processes and operation for achieving social change. The time is right for Albania to put an emphasis on such initiatives, as an alternative instrument for supporting civil society initiatives, employment generation, and reintegration of vulnerable groups.

**Keywords:** social enterprise, social business, civil society, development

## **Problem statement**

Social enterprises are an innovative approach for the promotion of social and economic development. Social entrepreneurship is a relatively new concept for Albania; it has been introduced quite recently through projects of few non-profit organizations, mainly induced by their donors. Social enterprises are part of the so called social economy which includes all social and development initiatives run the non-profit sector and where social business is included.

The time is right for Albania to put an emphasis on such initiatives, as an alternative instrument for supporting civil society initiatives, employment generation, and reintegration of vulnerable groups.

## **Research Objectives and methodology**

The paper aims to explore the concept of social entrepreneurship, its organization and dynamics. It draws an overview of the social enterprise initiatives in Albania through case study analysis. The paper is based on literature review, analysis of previous studies, policy documents related to the topic, related statistical data provided from national and international organizations.

## **Results**

The non-profit sector has been playing a very important role, especially in the developing countries, in terms of providing support and services for which neither the state, nor the business sector, have been able or inclined to provide. Such initiatives have been made possible through donor support through funding, capacity development, research and methodology for interventions for both social and economic development. The non-profit sector in Albania has been established since 1992, with organizations which vary in terms of areas of intervention, number of employees, annual budget size, etc. According to TACSO<sup>i</sup>, currently in Albania there are a number of 3,094 non-profits registered at the Tirana Court Commercial Registry, specifically: 72% membership associations; 16.8% service centers and 11.2% as foundations. The mission of these organizations focuses on different social, economic and development fields, such as: human rights, democratization, gender, environment, community development, capacity development, employment, business development, agriculture, etc.

In the past years, due to policy changes amongst funding states and the opening of the European integration perspective for Albania, generating financial support for civil society has been more difficult and competitive than before, as funds have been channeled mainly through EU funding schemes and many donor agencies shifted their focus away from Eastern Europe and more towards Africa and Asia. Under such circumstances, the civil society sector has considered the need for formalization of the so called social enterprises activities, which are seen as innovative initiatives. Although small in scale, social entrepreneurship has been present in Albania, through civil society projects and programs. Recently, some debate was raised regarding the legal framework for such enterprises. A state run entity has been established for supporting creation of social enterprises, however in terms of establishing independent enterprises, their operation and tax benefits there are still gaps in the Albanian legal framework.

Social enterprises in Europe first appeared in 1980s in Italy, in the form of social cooperatives aiming to supply work integration for disadvantaged groups, excluded from the job market and filling gaps in social service delivery. The interest for social enterprises has grown in Europe in the past 15-20 years, especially amongst non-profit sector, and their funders as they have been considered a valuable tool for community development, fulfilling social mission and sustainability of non-profit sector. They are considered part of the so called social economy (ranked third after business sector and public sector), which includes civil society initiatives for creating economic and social value, community initiatives, volunteer and non-profit activities.

As defined by Bruni and Zamagni (2009), the social economy is a set of private entities within the socio-economic system, situated in between the state and the market, and oriented towards the production of goods and services for a social purpose.

Social economy is quite significant in the European Union as it employs over 11 million people, accounting for 6% of total employment, providing for about 10% of the European economy in terms of GDP.<sup>ii</sup> Based on a study performed in 2009<sup>iii</sup> the share of the population involved in social entrepreneurship in different countries in Europe is assessed to be: 4.1% in Belgium, 7.5 % in Finland, 3.1 % in France, 3.3 % in Italy, 5.4 % in Slovenia, and 5.7 % in the United Kingdom. Government data in UK (2007) suggest that there are approximately 62,000 social enterprises contributing at least 24 billion pounds and employing an estimated 800,000 people.<sup>iv</sup>

In Italy, in 2005, there were a total of 7,363 social cooperatives, contributing an amount of 6,400 million Euro. Total employment in social cooperatives was around 244,000 people, 71.2% of which were women, supplemented by 34,500 unpaid volunteers.<sup>v</sup>

Different studies show that the interest for social enterprises in Europe is increasing. The demand for their products and services is growing, as there is an increased awareness of citizens regarding social and ethical issues. Given such dynamics, the European Commission has placed social economy and social innovation under a special focus in its Europe 2020 strategy, as part of the search for new solutions to social problems, in particular the fight against poverty and exclusion.<sup>vi</sup>

***But what is a social enterprise?*** A general understanding of social enterprise is - an operator in the social economy whose main objective is to have a social impact, rather than make a profit for their owners or shareholders. In general terms, social enterprises are considered entities that have social, cultural, environmental and productive purposes, ambitions and goals; and democratic governance and social responsibilities. Examples of social enterprises include co-operatives, building societies, development trusts and credit unions, etc.

The concept and legal framework for social enterprises in Europe has changed and evolved over time, however, there is not a unified definition of what a social enterprise is. Different countries use different definitions in their legal framework. Besides, they consider different legal forms for social enterprises, varying from cooperatives and associations to modern business models, like private limited companies or joint stock companies, etc. Social enterprises take more the form of NGOs in the Central and Eastern Europe, while they are organized using more profit and business models (besides non-profit) in UK, Ireland and Northern Europe.

One of the so called traditional concepts of social enterprises is the Italian model of social cooperatives, which dates back in the 1980. Since 2005, the Italian legal framework has evolved. The status of social enterprise may be applied to diverse companies whether not-for-profit or of a commercial nature, which carry out business activities for the production of "goods of social value" with the purpose of "general interest".

The United Kingdom legal framework defines a social enterprise as: a business with primarily social objectives whose surpluses are principally re-invested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners.' This definition is rather general and includes both the input to this specific kind of enterprise (for example, provision of employment for vulnerable persons) and the output (for example, goods and services that fulfill a certain need) are seen as social target.

Other countries place the focus at different aspects when defining social enterprises.

- For example Belgium emphasizes more the fact that social enterprises answer a need for goods or services (made available at a certain price) and target a specific population of customers.
- Finland and Lithuania define social enterprises as entities that produce goods and services according to commercial principles, providing employment opportunities especially for the disabled and the long-term unemployed.
- Latvia legislation focuses more on the possible legal form social enterprises may take, which varies from associations, foundations or religious organizations/ institutes, without emphasizing neither the input nor the output.
- Norway emphasis the fact that social enterprises identify under-used resources and use them to satisfy social needs, whereby an important aspect is the creation of a different kind of value – creating and investing in social capital, the network of relationships and shared values on which economic activity depends. Practically, they help people take charge of their lives and help to create jobs.

While different countries in Europe define social enterprises in different ways and put their emphasis at the input, output, or legal form, European Commission in its policy documents<sup>vii</sup> defines social enterprises as:

- *businesses providing social services and/or goods and services to vulnerable persons (access to housing, health care, assistance for elderly or disabled persons, inclusion of vulnerable groups, child care, access to employment and training, etc.); and/or*
- *businesses with a method of production of goods or services with a social objective (social and professional integration via access to employment for people disadvantaged in particular by insufficient qualifications or social or professional problems leading to exclusion and marginalization) but whose activity may be outside the realm of the provision of social goods or services.*

The European Commission uses the term 'social business' to cover an enterprise which has a number of characteristics:

- primary objective: achieving social impact rather than generating profit for owners and shareholders;
- operating in the market using entrepreneurial and innovative ways to produce goods and services;
- using surpluses mainly to achieve social goals;
- being managed by social entrepreneurs in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activity.

Social enterprises have proven to be innovative, effective tools for increasing the effectiveness of social and development policies. They contribute to social inclusion through workforce and labour market integration of marginalized individuals, by combining market-oriented training and skills development through temporary and/or permanent employment. They have an innovative nature, through the goods or services they offer, and through the organization or production methods they resort to. They often employ society's most fragile members (socially excluded persons). They thus contribute to social cohesion, employment and the reduction of inequalities.

Social enterprises have been promoted by theorists and practitioners as 'an important revenue stream for non-profits, a new means of delivering welfare services, a consequence of a move from government (and donor grants) to contracts, and as a potential alternative to capitalism' (Teasdale: 2010).

For civil society organizations social enterprise are considered tools for:

- improving organizational self-sufficiency and long-term sustainability;
- increasing its autonomy and decreasing dependency (both financial and programmatic) on donors;
- raising overall incomes and thus the scope and effectiveness of activities;
- increasing organizational responsiveness and relevance through multi-stakeholder membership and participation in governance bodies;

Under these lenses, the European Commission has included in its policies and strategies the creation of a favorable environment for the development of social business in Europe, and of the social economy at large, through:

- Improving access to funding
- Increasing the visibility of social entrepreneurship
- Improving the legal framework

***Social enterprises, case of Albania*** - Social enterprises in Albania are at their early stage of development as independent entities. Some of them are just starting to adopt a business approach, however strongly depending on foreign donor sources. Although the concept is not much known, a number of NGOs have established social enterprise initiatives through their projects and programs, however limited in scale. Some cases of social enterprises in Albania are:

*Yaps* - is a rare example of a mission-driven business approach. It has been established in 2001 in Tirana, as the result of unique partnership between public and private sector actors brought together by UNICEF with the aim of creating business solutions to social exclusion problems. Yaps services include mail and parcel delivery, electrical and hydraulics repairs, office and house cleaning, and the monitoring of publicity and advertising contracts taken out by businesses. Its mission is to provide employment and sustainable livelihoods to the most socially excluded youth, including orphans, those with disability, minorities and migrants. While it is registered as a conventional commercial enterprise and is oriented towards the maximization of profits by operating according to standard business practices, all profits generated from its activities are reinvested in the development of the business to provide further employment opportunities to a wider group of socially excluded youth.

*Different & Equal* - is an association with a mission to provide services to protect and reintegrate victims of trafficking, both women and children. It was established in 2004 by IOM and is located in Tirana. Different & Equal provides a “package” of reintegration services by a multi-disciplinary team of experts, through providing immediate social, psychological support and medical care of victims, followed by the implementation of a structured plan for each victim’s reintegration and “empowerment,” with particular focus being paid to schooling, training and employment. Each year Different & Equal supports approximately 70 women and 15-20 children. As a means to provide work experience for their beneficiaries, on the way towards more permanent integration in the labour market, Different & Equal runs a number of income-generating activities, including a handicrafts workshop, a small catering business, a café, and a house cleaning service.

*Tjeter Vizion* - was founded in 2002 by the Italian NGO CEFA. It is located in Elbasan and is a community-oriented association dedicated to providing support and social services to children, youth and women at risk, in and around Elbasan. Through its services it targets excluded groups, such as the Roma or children who are victims of violence. The organization has been very innovative as it has introduced services not previously provided by municipal and state-run social welfare system, such as pre-natal classes for women, shelter and social re-integration for trafficked women and victims of domestic violence. Tjeter Vizion has created some activities such as a restaurant, a car-washing service and a tyre repair workshop, which appear to follow the work integration model of social enterprise.

*Rozafa Foundation* - was established in 2005 as a non-profit organization with a business-oriented mission for the promotion and encouragement of women micro-enterprises in Albania. The mission of the foundation is to provide employment to disadvantaged and marginalized women, by contributing to their capacity development and access to market. Rozafa Foundation has established six workshops which provide a total of 60 women with production opportunities. Three of the workshops are registered businesses and three remain informal groups, but the entire project comprises a single enterprise,

with Rozafa providing management oversight and coordination of the sourcing of materials, marketing and sales.

**Conclusions** - Social enterprise initiatives in Albania face a number of challenges such as legal form, funding sources and opportunities, etc. The Albanian legal framework does not recognize and does not regulate the notion of social enterprises. Although NGOs are permitted by law to conduct economic activity, such activities should be in accordance with the objectives and goals of the organization, as specified in the statute and establishing act. These activities are considered as a source of income, provided that they are not the primary purpose of the organization.

In the absence of any policy measures recognizing social enterprise, the non-profit status of these organizations is perceived to put them at a disadvantage in their efforts to generate income. The non-profit organizations engaged in economic activity other than - religious, humanitarian, charitable, scientific and educational activities – are subject to the same tax on profits as any other commercial enterprise. Besides, non-profit organizations should charge VAT of 20% on the services they provide.

Given the primary purpose of why social enterprises are established, and in order to better fit to the EU standards, Albania will need to adopt a separate law which will regulate the internal organization, the activities and other aspects needed for the well functioning of Social enterprises. Under the European law social enterprises might have different legal forms and as consequences different legal models have been developed in Europe to regulate them. The recent European trend is to adopt a social enterprise law which does not limit either the legal form or the activities to be carried out by the social enterprises. In any case the development of dedicated law for social enterprises in Albania might be a better approach, for avoiding any confusion with existing legal forms and for the incorporation of the fundamental principles that govern social enterprises.

Besides legal framework, development of policies and practices for the promotion of the social business concept are an important tool for the development of social entrepreneurship. Cooperation of different societal actors is very important for success.

## References

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