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FINANCIAL INCENTIVES AND SUPPORT MECHANISMS FOR SOCIAL ENTERPRISES IN WESTERN BALKAN COUNTRIES (WBC)¹

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ABSTRACT

The main objective of the paper is to identify the conditions and the modality of financial support for efficiently development of the the social economy and social entrepreneurship in Western Balkan countries (WBC). More specifically, this study provides a comparative analysis of the social economy ecosystem in the Western Balkans region. The methodological approach is based on the synthesizing of data of each country, as well as on the synthesis report that summarizes similarities and differences within the countries. It includes methodological guidelines with specific recommendations and a general approach on how to structure programs to develop the social economy in the countries involved in the study. Putting in place an enabling environment for social enterprises is critical if they are to fulfill their potential in contributing not only to the creation of jobs, but also to addressing wider social and economic needs, and to promoting more cohesive and inclusive societies.

Key words: social economy, financial incentives, Western Balkan countries (WBC)

INTRODUCTION

Over the past decades, different terms have been used to describe the fast-evolving, and yet extremely heterogeneous set of entities that is

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currently referred to as Social Economy (SE), social enterprises and/or social entrepreneurship. The Social Economy (SE) is known by different names in different countries, such as the solidarity economy, third sector, nonprofit sector, voluntary sector, and civil society sector (*Mook, et al., 2015, pp. 390*). A 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. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities (*European Commission, 2011*). Social enterprises (SEs) are the most innovative form of social economy entities. Most of them are rooted in forms of collective awareness, such as the need to promote social justice, protect the environment, support the social and professional integration of disadvantaged individuals, fill the gaps in service delivery and sustain the development of marginalized and depressed localities (*Defourny, & Nyssens, 2013*).

Regardless of the legal form of a SE organization, which vary within the country, there are several features that distinguish SEs from capital-based companies that may be taken as substantial determinants:

- The primacy of individual and the social objective over capital;
- Voluntary and open membership;
- Democratic control by the membership;
- The combination of interests of members, users, local community and the general interest;
- The defense and application of the principle of solidarity and responsibility;
- Autonomous management and independence from public authorities;
- The essential surplus is used to carry out sustainable development objectives, services of interest to members or, of general interest (*Monzon & Chaves, 2012*).

The policy-makers across Europe have shown an increasing propensity to encourage the social economy, which is progressively viewed as an effective tool to fight poverty, create employment and foster social cohesion (*European Commission, 2013*). The social economy as a whole can be considered a cornerstone of the European integration project, as it contributes to the development of “a solidarity-based economy” (*European Commission, 2015*).

The Social Economy (SE) could play a significant role in the societies of Western Balkan countries (Albania, Bosnia and Herzegovina, Kosovo,

Montenegro, North Macedonia and Serbia), not only could it increase employment and provision of social and health services, but it also has the potential to generate social innovation in many different sectors and enhance social capital.

The purpose of this study is to identify the conditions and the modalities of financial support for Social Economy in the Western Balkan countries (WBC) and to give guidelines and specific recommendations for social economy development in the countries involved in the study.

SOCIAL ECONOMY DEVELOPMENT IN WESTERN BALKAN COUNTRIES (WBC)

European Union (EU) integration process is a significant political undertaking for all WB economies. Whether they are at the negotiation stage or have candidate status to the Union, the process stimulates important reforms at different levels of society and state. The integration process ramps up the fight against corruption, helps to establish stable and effective public institutions with transparent governance, and introduces social justice and social inclusion. As part of this process most of the WBC economies have already encountered the concept of Social Economy (SE), which is largely perceived as a sector that may be able to address growing social needs and offer a sustainable answer to labor market and education imbalance (*Regional Cooperation Council Secretariat, 2015*).

Social economy initiatives in WBC are mostly identified in the provision of social, education and health services and work integration. One of the main reasons for the development of initiatives in these sectors is an increase in demands by diverse marginalized groups which cannot be addressed by the state, high costs of services needed, obsolete and inefficient state social provision system, incomplete and inconsistent reforms in the social sector and demand for many new services that need a different and innovative approach. An important factor is also the labor market which is narrow and does not take into consideration the specific characteristics of numerous marginalized groups (*Regional Cooperation Council Secretariat, 2015*).

In all Western Balkans countries, the civil society sector has been the driving force for the development of the SE sector by projects supported with foreign donor funding. Existing social enterprises (SEs) are most frequently incorporated as a) civil society organisations (CSOs), mostly associations or foundations; b) cooperatives, c) Limited Liability Company (LLC) or Shareholder Company and d) companies for employment of people with disabilities including sheltered companies. Except in Serbia

where the majority of SEs are in a form of cooperative (65,64%), in other countries associations lead the way, initiating economic activities within the existing non-profit organization, mostly funded by the national and/or international donors to sustain financial sustainability of the organizations (Phillips, et al., 2016).

SEs in the Western Balkans aim to help a diverse range of people, with a particular focus on disadvantaged, vulnerable, marginalized, or excluded social groups, including: ethnic minority groups (e.g. Roma), long-term unemployed, people with disabilities, refugees, the elderly, victims of domestic violence, women, women entrepreneurs, children and young people (Phillips, et al., 2016).

In practice, social enterprises do not receive needed public recognition, do not enjoy tax benefits, and are struggling with the administrative burden and inconsistent implementation of regulations. WB countries already have some support infrastructures in place in the form of intermediary organizations, incubators, accelerators, training centres, mentoring and coaching programs coupled with funding as well as various networks advocating for the interest of social economy actors.

ANALYSIS OF THE CURRENT SITUATION WITHIN SE SECTOR IN WB COUNTRIES

In the following section are presented data on social economy ecosystem development in each of the WB countries. After that, follows summarizing report that shows differences and similarities in financial incentives and support mechanisms for SEs in each country in the region.

Albania

The social enterprise sector in Albania is in the early stages of development with the majority of SEs in the start-up and validation phase. The sector enjoys only partial institutional support, an incomplete legal framework, and lack of a proper understanding of the importance of social enterprise by the key institutional stakeholders. Furthermore, as in many other Western Balkan countries, it is marked by dependence on grant funding for start-ups, zero public funding, limited tax relief and a lack of an agreed and properly defined agenda to develop the social economy among the key stakeholders (relevant ministries at all levels, CSOs, cooperatives).

Bosnia and Herzegovina

The social economy sector in BiH is also in the early stages of development. BiH has a uniquely complicated governance structure and the

generally uni-ethnic focuses of its political parties and regional institutions makes the building of a transparent picture on the state of the social enterprise sector almost impossible. The policy framework, while recognizing the need and potential behind a vibrant social enterprise sector, is underdeveloped and provides limited real support. The government and public owned institutions dominating the economy and the prevalence of political patronage makes it difficult for social enterprises whose aim is to serve the needs of vulnerable groups.

Kosovo

Social entrepreneurship is a relatively new and underdeveloped concept within Kosovo. Nevertheless, SEs are emerging mostly within the civil society sector and indicate an untapped potential to boost an entrepreneurial and innovative spirit and self-sustainable solutions for community development. The existing legislation is somewhat enabling for social entrepreneurship permitting Civil Society Organisations (CSOs) to earn income from the provision of services or the trading/sale of goods and to tender for government service and supply contracts, albeit with unclear taxation rules. Any profit made must be made from delivery of services reflecting their core mission, and reasonable in amount. The cooperative movement is weak, and the legal framework is limited to farmers' cooperatives, thus omitting recognition and the allowing of social cooperatives and other types of mutual.

North Macedonia

Social entrepreneurship has seen significant development in North Macedonia in the last couple of years. A growing number of organizations are identifying themselves as social enterprises or have embarked on establishing social enterprises. The concept of "social enterprise" was introduced by the third sector to refer to the work integration SEs which emerged from associations providing work engagement for disadvantaged people (mostly for Roma and persons living with addictions) and associations working on deinstitutionalization of persons with disabilities or providing daycare services for the same target group (*Ilijevski & Iloska, 2018*).

Public institutions increasingly understand the concept and importance of social entrepreneurship and have acknowledged the role of public policies in the promotion and development of the social economy. These include limited public support for the services provided to associations and the decentralization of social welfare. At the same time, attention from a foreign

donor community, especially the European Commission, continues to increase (*Ilijevski & Iloska, 2018*).

Montenegro

According to the last EU assessment progress, Montenegro has the highest level of preparedness for membership among the negotiating states. The country has experienced relatively stable economic growth nevertheless accompanied by challenges in the form of social inclusion, unemployment (particularly among vulnerable groups) and poverty. In such a context, the Montenegrin social enterprise (SE) sector itself is relatively small even for a country with a limited population. It is a nascent sector with an estimated 20-30 SEs operating in the country, with the majority of them being established by civil society organisations. The identified social enterprises are in their early stages of development, either developing or validating their business models. However, individual SEs showcase the potential to impact upon social inclusion and sustainable development, especially in local communities.

Serbia

As Serbia moves inextricably towards EU accession, it has had to deal with significant economic and social structural challenges. Notwithstanding, social entrepreneurship does very much exist, predominantly in the form of organized cooperatives, associations and enterprises employing people with disabilities. The legislation seems to be driven more by the need for regulating the sector and controlling it, as opposed to development and support to the sector's growth. In such circumstances, SEs themselves are concerned that the law could create additional barriers. Options such as reserved public procurements, subsidization of employment, and a portfolio of potential tax incentives are being considered.

FINANCIAL INCENTIVES AND SUPPORT MECHANISMS FOR SOCIAL ENTERPRISES IN WBC

Bearing in mind that there is a narrow legal and institutional framework in which it is possible to place SE initiatives, financial support is also modest. However, it is possible to identify state, international and domestic donor support and Corporate Social Responsibility (CSR) contribution.

State support comes from different funds used to finance projects for civil society organizations (CSO), grants for cooperatives and active labor

market measures channeled through national employment services. None of these is set specifically for social enterprises. However, some of it is used to support social services provided by private entities and the employment of disadvantaged or disabled people, hence it is basically used to support SE activities.

Financial support from the state is also noticeable in tax reductions for some forms of CSO or in public procurement of services. However, none of this is exclusively aimed at social economy actors and some of the procedures are not sufficiently transparent, making it less accessible for SE initiatives.

In Table 1 are presented financial support mechanisms for SEs in each WB country.

Table 1. Analysis of financial incentives and support mechanisms for Social enterprises in Western Balkan Countries

Albania	<ul style="list-style-type: none"> - No public funding for SE - Existing SME financial instruments are not available for SE - Predominantly international donors provide grants for start-ups - No other funding (business angels, loans, finding for growth, etc. - No commercial loans from banks other than the EBRD/EIB
BIH	<ul style="list-style-type: none"> - SE funding focused of capacity development through start up, support, technical assistance and promotion of the concept of social entrepreneurship - Commercial banks are not engaged beyond philanthropic support - All existing SEs have been founded and operated with grant funding - Public funding sources offer financing and technical support only to companies that employ PwDs
Kosovo	<ul style="list-style-type: none"> - Lack of consistent technical or financial support for SEs - Majority of SEs are CSOs and unable to access long-term sustainability funding

	<ul style="list-style-type: none"> - Donor driven funding initiatives - Banks do not provide microfinance's and specialized products for SEs - Government funds lacks transparency
Montenegro	<ul style="list-style-type: none"> - SEs are able to access funding through active employment measures, grants for SCOs and other SME support measures - All SEs operate with grant funding - Banks and private sector are not engaged - Government funds lacks transparency and efficiency
North Macedonia	<ul style="list-style-type: none"> - SEs in the early stage of development prefer grant funding as start-up capital - Lack of tailored start-up and growth funding for SEs - Public grant-schemes do not exist. - Current support measures to SMEs are not open to SEs registered as CSOs and cooperatives - Commercial and microfinance financing are not suitable for SEs.
Serbia	<ul style="list-style-type: none"> - Grants or subsidy funding form - preferred form in early stage funding for SEs - A lack of tailored start-up and growth funding for SEs - Debt or equity financing is challenging for SEs due are not prepared for commercial realities

Having in mind the cross-cutting nature of social entrepreneurship which incorporates aspects of economy, social and labor market inclusion, empowerment of vulnerable groups, environment, agriculture, sport, education, culture, innovation and etc., there is a lack of sufficient mechanisms and a need of financial support that would be beneficial to utilize the full potential of the sector.

CONCLUSIONS AND CHALLENGES FOR SOCIAL ECONOMY DEVELOPMENT IN WBC

A lack of awareness of the important role that SE plays in social development and economic recovery results in a lack of political commitment to creating a stimulating environment for it. In general, there is a perception that the development of the Social Economy has little or no support from government and government institutions. Attempts at creating a legal framework for SEs are recognized and welcomed, however stronger political will in this process is required.

Currently, most of the limited financial incentives available to SE are provided through funding schemes for civil society organizations or through active labor market measures based on EU funds, in particular IPA Programs and ERDF. Besides this, much of the financial resources for social economy development come from international donors, most commonly the USAID, UNDP, WB, British Council, ILO and others.

Financial mechanisms provided by the private financial sector are rare, sporadic and insufficient. The most lacking are initial funding, start-up capital, loans, micro-credits and various financial tools designed for the needs and specificities of the SE sector, which is often perceived by financial institutions as low-profit and high-risk.

Although a weak entrepreneurial culture slows down the growth of SE, there is huge potential in social capital, which needs to be tapped into in the creation of sustainable socio-economic development of local communities as well. Values such as solidarity, cooperation and trust have always been the fundamental principles of SE. Revitalizing those values means a great push forward for SE and vice versa – with the development of SE, social capital increases even more. Therefore, SE may play an important role as a driver of regional dialogue and cooperation.

Social Economy should be included in the governments' agendas as one of the priorities in socio-economic development. Adoption of the Strategy for Social Economy should be the basis for the development of coherent policies and supportive measures, but more importantly, those measures should be accompanied by budget allocation and a strong commitment to their implementation.

The most important aspect that should be prioritized is the development of a supportive financial framework. This framework should provide sustainable funding opportunities for SE organizations and develop systematic and regular public incentives, as well as public-private mechanisms for the development of new SE organizations. These would include start-up grants and soft loan schemes and would also offer financial

mechanisms to scale-up the economic activities of SE organizations. In addition, other supportive subsidies should be enabled such as tax benefits and exemptions for specific types of organizations and activities.

Public procurement needs to include SE organizations and acknowledge their privileged access to public contracts for the provision of services and goods according to the added value they provide.

Governments should also facilitate access to financial resources through the development of specific funds for SE and by supporting organizations such as ethical banks and social investment funds, as well as bottom-up initiatives such as crowd-funding and incubators.

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