



Social Business in Macedonia: Concept, Developments and Perspectives



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Social Business in Macedonia: *Concept, Developments and Perspectives*

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Introduction

The necessity to tackle pressing societal issues either through conventional ways or innovative ones has never been as present as in today's age. Evidently, governments are falling short to act on their own in coping with the everlasting problems in their respective societies. Therefore, the assistance offered by the private as well as the so-called third sector is of an unquestionable importance. Yet, no matter the strength of cooperation of this triangle, the produced weak results have firmly elucidated the need for the invention of an additional player in resolving or alleviating problems modern societies face. Social business has precisely been the missing player in this constellation of actors, a hybrid model combining non-governmental work with profit-oriented means, whose main aim is addressing a pressing societal issue while operating in a sustainable fashion.

The Republic of Macedonia, a country striving to enter the EU and still undergoing the transitional process towards market economy, is challenged by many social issues due to its weak social system, systematic mismatch between labor demand and supply, complement by increasing poverty and high unemployment rates. Social business, the concept which in the EU is seen as a possible answer to the social issues, is rather in pilot phase in Macedonia, thus, still remaining unexploited.

¹ This policy paper is part of the project "Promoting Social Business Among Young People in Macedonia", financed by Youth for Development, Swiss Agency for Development and Cooperation, and jointly implemented by ZIP Institute and Seed from Switzerland. More information about the program can be found on: <http://www.youthfordevelopment.ch/>

This paper aims at analyzing the early existing stage of social business development both in legal terms and in practice in Macedonia, for the purpose of drafting solutions for improving the existing policies on social business. The methodology is based on a set of primary (legal documents on social business, analysis of questionnaires answered by social businesses) and secondary sources (papers on social business, overview of events and conference conclusions etc.). The structure of the paper includes a part on exploring the definitions on social business, after which the legal framework and analysis on social business in Macedonia is presented, followed by a case study on existing social businesses in development in Macedonia. The paper ends with conclusions and recommendations.

I. Defining social business

Social business represents a newly emerging concept, which has been gaining more and more popularity since the first time it was ever mentioned being 30 years ago. There is a common view shared in the global arena that it is being much more utilized during the last 5-7 years, mainly as a response to the economic crisis that has been entirely present during the current decade. This increasing presence in the discourse has led to the provision of various definitions on social business.

One of the most important definitions of social business was given by the 2006 Nobel Prize winner Muhammad Yunus, who asserts that: “*Social business² is a cause-driven business. In a social business, the investors/owners can gradually recoup the money invested, but cannot take any dividend beyond that point. Purpose of the investment is purely to achieve one or more social objectives through the operation of the company, no personal gain is desired by the investors. The company must cover all costs and make profit, at the same time achieve the social objective, such as, healthcare for the poor, housing for the poor, financial services for the poor, nutrition for malnourished children, providing safe drinking water, introducing renewable energy, etc. in a business way.*”³ In addition to this definition, he has also identified 7 principles or features of a social business, which are the following:

- ⌚ Business objective will be to overcome poverty, or one or more problems (such as education, health, technology access, and environment) which threaten people and society; not profit maximization;
- ⌚ Financial and economic sustainability is achieved;
- ⌚ Investors get back their investment amount only. No dividend is given beyond investment money;
- ⌚ When investment amount is paid back, company profit stays with the company for expansion and improvement;
- ⌚ Enterprises are environmentally conscious;
- ⌚ Workforce gets market wage with better working conditions;

² The term social enterprise is also used besides social business depending on the literature; social enterprise indicates the same concept and is more typical for Europe. This paper will mostly use the term social business.

³ Internet page of Yunus Centre <http://www.muhammadyunus.org/index.php/social-business> last accessed on 06.10.2013

☉ ...do it with joy.⁴

Beside Muhammad Yunus, there are certainly some other authors that have provided useful definitions. One is by Janelle A. Kerlin: “*Broadly defined as the use of non-governmental, market-based approaches to address social issues, social enterprise often provides a ‘business’ source of revenue for many types of socially oriented organizations and activities. In many cases, this revenue contributes to the self-sufficiency and long-term sustainability of organizations involved in charitable activities.*”⁵

Given that this paper is vastly focusing on Macedonia’s experience with social business, it is important to mention the definition provided by the European Commission as a definition that is commonly used in Macedonia. It defines social entrepreneurship as follows: “*Social enterprises are positioned between the traditional private and public sectors. Although there is no universally accepted definition of a social enterprise, their key distinguishing characteristics are the social and societal purpose combined with an entrepreneurial spirit of the private sector. Social enterprises devote their activities and reinvest their surpluses to achieving a wider social or community objective either in their members' or a wider interest.*”⁶

The presented definitions illustrate that social business is an organization between business and a civil society organization with the main aim to address social issues by reinvesting their surplus in activities that enable tackling such social issues, but at the same time functioning as a self-sustaining and profit-oriented company.

II. Social Business in Macedonia: the legal framework and studies on the topic

There is still no specific law dealing with social business in Macedonia, however one is currently in the enactment procedure. However, in the meanwhile the *Strategy for cooperation of the Government with the civil society* as well as a comprehensive study *Development and implementation of the social enterprise concept in Macedonia* represent the two documents that are paving the way for social business in Macedonia – the former opening the question that the social business way of working can be a model for sustainability of civil society organizations; the latter is the first study to analyze the concept and practices of social business in general and in Macedonia into detail; and presenting a large list of recommendations for improvement of policies related to social business.

The *Strategy for cooperation of the Government with the civil society (2012-2017)* attempts to improve the governmental-civil sector relations and the environment in

⁴ Internet page of Yunus Centre/ Seven Principles <http://www.muhammadyunus.org/index.php/social-business/seven-principles> last accessed on 06.10. 2013

⁵ Janelle A. Kerlin “*A Comparative Analysis of the Global Emergence of Social Enterprise*”, International Society for Third-Sector Research and The John’s Hopkins University, (2010).

⁶ Internet page of European Commission/ Enterprise and Industry <http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/social-enterprises/> last accessed on 06.10.2013.

which the civil society operates, thus, it has incorporated new areas of operation such as: civic activism and economic and social development and cohesion. Concrete aims as part of the strategic goal “economic and social development and cohesion” include, inter alia, development of social economy and inclusion of the civil society organization in providing services for satisfying community’s needs; and measures as raising awareness directed towards the civil society organizations on social business, adopting Law on Social Entrepreneurship, creating favorable legal environment regarding social business, analysis of the implementation of the legal framework on social services, promoting good models and cooperating in providing services to the local authorities, promoting cooperation between the Government, the business and civil sector in terms of economic development and social cohesion. The implementation period for adopting the Law on Social Entrepreneurship is 2014-2016.⁷ Implementing institutions for the activities regarding the social business are the Ministry of Economy and the Ministry of Labor and Social Policy, the latter being responsible for the drafting of the Law on Social Entrepreneurship.⁸

A comprehensive and extensive study called the “*Development and implementation of the social enterprise concept in Macedonia*” prepared by the civil society organization CIRa addresses the civil society organizations in order to suggest them better sustainability particularly in terms of financial stability via the principles of social business. The study underlines that from Europe and US experience a social enterprise can have various legal forms (cooperatives, associations, foundations, private limited companies or joint stock companies), but can be defined as social enterprises under a respective law regulating them as such. Further conclusion is also that the institutional framework and support have a key role in the development of the social enterprise sector especially in the early stages. The support could be in form of tax exemptions, subsidies, grants, activities on raising awareness etc. However, important to emphasize is that the financial viability of social enterprises mostly depends from its member’s capacities and efforts to obtain and manage adequate resources. Some of the key recommendations are raising the stakeholders’ awareness on the importance and potential of social enterprises, developing a support structure to the managers of the social enterprises, developing a definition on social enterprise, developing a more favourable fiscal framework, creating supporting structures from a governmental body, setting databases, motivating the donor community etc.⁹

CIRa has proceeded to work on developing the social business concept by organizing a two day conference in 2013 called “*Legal and fiscal framework for development of social entrepreneurship in Macedonia*” ending with large list of conference conclusions. Some of the crucial conclusions, grouped in three aspects – definitions, law on social business and measures for supporting social businesses, are as follows:

Defining social business:

- Social enterprise is first and foremost an enterprise based on the local needs and specifics;

⁷ Government of the Republic of Macedonia, *Strategy for cooperation of the Government with the civil sector 2012-2017*, (2012).

⁸ *Draft Action Plan for implementing the Strategy for cooperation of the Government with the civil society* (2012-2017)

⁹ CIRa, *Development and implementation of the social enterprise concept in Macedonia*, (2011).

- Main criteria for recognizing a social enterprise should be the democratic governance, i.e. the possibility any founder, employee or member to suggest and to decide on the functioning of the social enterprise.
- The social business reinvests its profit in its own further development.
- The social business can work with employees and volunteers.
- The social business tackles social and/ or environmental issues.
- The areas of operation of the social entrepreneurs should be: social protection and inclusion, protection of persons with special needs, environmental protection, utilizing renewable energy, education, research, agriculture, tourism, health protection, sport, supporting local communities, increasing sustainability of civil society organizations etc.
- The social business offers possibility for employment of the following groups: the persons noted by the Employment agency as unemployed for a longer period, persons with special needs, unemployed over 50 years of age, former drug and alcohol addicts, single parents, victims of domestic violence, former convicts, persons without primary education, Roma, fugitives and displaced persons.
- The civil society organizations have preference before other target groups for starting social business activities first and foremost by utilizing grand support and in partnership with local and national institutions; but the civil society sector lacks skills and business spirit.

Need of social business focused legislation:

- The Law on Social Entrepreneurship should define comprehensive framework enabling planned and certain development of the social enterprises, defining the exact persons which can work as social enterprises, define the work conditions, activities and target groups, defining their management, registration and transformation of social enterprises, defining the elements for their support etc.
- The Law on Social Entrepreneurship should have the following development goals: enabling social inclusion of marginalized groups, enabling entrepreneurship orientation of the civil sector, reducing gray economy, increasing social cohesion, increasing the employment among the marginalized groups etc.
- A Strategy for development of the legal framework for social enterprises in Macedonia should be developed.

Measures for supporting social business:

- Possible support measures are: fiscal reductions for social entrepreneurs; preference in public procurement; using the workspace of state institutions; using funds from the Employment Agency for employing persons with special needs as well as other marginalized groups; establishing fund for support of social enterprises.
- It is important developing formal and informal forms for education on social business; it is vital having support centers, start-up centers; as well as regional cooperation is a great way of exchange.
- There is need of broader informing of the public and the target groups about the social business concept.¹⁰

¹⁰ Zoran Stojkovski, CIRa *Conclusions for the conference "Legal and fiscal framework for development of social entrepreneurship in Macedonia"* (2013)

In addition, there have been few projects on social business trying to raise awareness about the concept as well as to offer education and training. As part of CIRa's project on social business in Macedonia, the first portal on social business was established in Macedonia www.socialenterprise.org.mk

There was also another project in 2010 by the American chamber in Macedonia and the civil society organization Konekt on call for participation in the program on social business, whose goal was to contribute to self-employment among youth and development of entrepreneurship. Students were eligible to apply, especially students from under-developed regions and poor suburbs. The winning business plan for social entrepreneurship was planned to be awarded with grant and education sessions on improving the business plan. The evaluation criteria were the applicability of the business plan, the innovative approach in tackling a social issue, profitability, influence on the local economy and technical quality of the suggestion.

An ongoing project focused on social business is also the project implemented by ZIP Institute from Macedonia and SEED from Switzerland, a project under which this paper is prepared. The project is called "*Promoting Social Business among Youth in Macedonia*" and aims at increasing awareness and skills for social business among young people in Macedonia and potential disseminators/multipliers. Furthermore, ZIP Institute is also involved in another EU-funded social business project, with Macedonia as a partner country. The project is named "*Social Enterprising Europe*" and aims at integrating and improving the current offer of social business training, providing high quality training materials targeted to prospective entrepreneurs, active social entrepreneurs, business trainers and start-up centres.

The presented existing official documents, studies and projects on the topic of social business in Macedonia clearly show that this area is still in its pilot phase having in mind the lack of specific social business law, thus there are only few projects aiming at first and foremost raising awareness on what social business is and what are the benefits of it. An area to be praised is the fact that both the Government and the civil society have shown interest in the idea of social business by developing an adequate legal framework for it as well as in looking into possibilities for facilitating establishment of social businesses.

So far the analysis followed a bottom-up approach, meaning it focused on what the legislation and studies on the topic had to say about social business concept in Macedonia. In order to be able to understand how the envisaged ideas and policies on this concept are translated on the field, it is of utmost importance to examine the on-the-field situation by directly interviewing some of the first social business in Macedonia.

III. Social business in Macedonia: case study on existing social businesses

This part on analysing the field situation on existing social businesses combines the results of two questionnaires: the first called "*Questionnaire on social enterprises in Macedonia*" and filled out by 15 social businesses in Macedonia¹¹, the second called

¹¹ There is no possibility to register an entity as a social business according Macedonian law and having in mind that social business is a new concept, these social businesses are still not real social businesses,

“*Questionnaire for Social Entrepreneurs*” filled out by 11 social businesses in Macedonia. The first questionnaire asks basic questions as legal form, social issue they are tackling, the sector they work on; while the “*Questionnaire for Social Entrepreneurs*” asks, inter alia, additional basic questions such as year of establishment, definition, areas they cover, number of employees and similar.

The received answers showed that the social businesses are predominantly registered as civil society organizations or foundations under the Law on Associations and Foundations. It is also interesting to note that most of them have been established before 2000 (9 out of 15). The sectors they cover include broad range of areas such as: health, environment, human rights, marginalized groups, support of small enterprises, local democracy, good governance, inter-ethnic relations, youth education, employment, social issues in general, even communication, media, IT, among which tackling social issues and providing healthcare seem to dominate. Thus, the social issues they tackle are: employment of marginalized groups, employment of Roma people, work with marginalized groups, offering education and support for self-employment, fighting poverty, informal education, youth inclusion, supporting entrepreneurship and similar. Half of them operate in the entire territory of the country and beyond, while the rest are usually local. It is interesting to comment on the size of these organizations – they are generally large with 25 to 116 employees, 7 of 11 have less than ten. Most of them have also volunteers.¹²

Out of 11 analyzed social enterprises in Macedonia, 5 have an annual turnover of less than 100 000 EUR and only 2 have more than 2 million EUR turnover (for the year 2012), the rest being somewhere in the middle. Most of them (7) define themselves as social business based on the fact that their core business has a relevant and measurable social impact; 2 have replied to have no profit or low profit distribution; and 1 to have a relevant and measurable environmental impact. 5 out of 11 state that their employees’ salaries are more or less equal to the national average; 3 that are higher than the national average; 2 that are lower; and 1 that is strongly higher.¹³

In order to provide a clearer picture of how a social enterprise operating in the Macedonian context looks like, in-depth interviews with 2 social enterprises operating in the country have been conducted. These interviews tend to explore into detail the issues social businesses face, which are their target audience, how income is generated and other aspects of their work.

The interviewed social businesses are Center for Media Activities, Lice v Lice Project¹⁴ and NGO ORT¹⁵, both registered as civil society organizations, the first has 2, the second 3 employees. Both tackle social issues, the Center for Media Activities deals with marginalized groups, while ORT with hiring long-term unemployed persons. They operate since 2002 (the Center for Media Activities – the project on social business began in 2011 as a regional initiative coming from Serbia) and ORT since 1998, their project is part of the initiative of the Ministry of Information Society and Administration to open the 30 e-stores for the best business plans. The Center is

although show some aspects of a social business or/and define themselves as such.

¹² Questionnaire on social enterprises in Macedonia, conducted in January 2013.

¹³ Questionnaire for Social Entrepreneurs, conducted in March/April 2013

¹⁴ Website of Center for Media Activities, Lice v Lice Project: www.cma.mk

¹⁵ Website of NGO ORT: www.rezervirajme.com

also part of several regional networks: the regional platform for activism, part of the International network of street papers and are member of the Culture Action Europe.

It is interesting to see how the two organizations describe their social business work: the Center for Media Activities said that being social business for them means that part of the profit to be reinvested for social purposes, so in their case 50 % of the income from newspapers sales goes to the poor people who are in charge of the sales of the newspaper; the remaining amount goes to the people employed in the organization. NGO ORT had more general description of what social business means for them: that their profit is dedicated to environmental and social campaigns and that each product and service bought contributes to environmental protection, employment of long-term unemployed and education of children from primary schools. In addition, the Center for Media Activities said that they are not a social business, but their project for the street newspaper has strong social business attributes. The Center replied their social impact to be enhancing economic and social capacities of marginalized groups by helping homeless and mentally challenged people to determine their professional orientation.

The two organizations have different target audience: while the Center for Media Activities replied their target audience to be the general population in Macedonia since they want to change their perception of having negative opinion of homeless people they include with the project. NGO ORT has more business oriented target group: for example people who do not have time to wait in a line at the supermarket. The Center approaches their customers through social media campaigns, while ORT also through social media, but also by advertising on radio and television stations and distributing flyers. The Center in their communication also emphasize that their activities are for the good of the marginalized groups and they also select their supplies according social criteria; the latter does not apply in the case of ORT.

Both organizations' employees have a university degree. Also, both organizations' key decision makers are their boards, in the case of the Center the full time employees are key decision makers too. Also, the two organizations generate their income from mix of sources: the Center of Media Activities gets its income from sales of the newspapers, projects, donations, membership fees; while in the case of ORT – its income is generated 70 % from services to private market and 30% from grants/donors. Both ORT and the Center generate surplus; In the case of ORT, the only specific information revealed it to be 5% which ORT entirely reinvests it in its activities. The most important cost items for the Center are the costs for printing the newspaper, office rent costs and utilities; for ORT that is 50% salaries and 50% other costs. The Center is the only of the two to measure social impact on a regular basis. They do this by seeing whether the persons they train to enter the job market manage to get a job. Also only ORT managed to answer the question on what is their specific feature to make them social business – stating it is their salary, decision making and profit sharing. From the challenges that social business faces, the Center replies that working with their target group – homeless people is among the big challenges. They usually have bad habits, so it is challengeable for them to changing these bad habits of their target group.

The two questionnaires and the two case studies confirm that Macedonia is in an early stage of social business development. Since there is no option to be registered as a

social business, all the social business operating organizations are registered as civil society organizations. They also tackle wide varieties of social issues from environmental, over marginalized group to informal education, fulfilling the social aspect of being social business. However, concerning their sustainability by running as a normal business, not all managed to be fully self-sustainable, although they are not completely donor depended. It was also very clear from the case studies that these interviewed organizations do not have all the elements of being social business, even one clarified that only their project is a social business, thus they do not keep track or are not informed about it – how to measure their social impact and how to fully function as a social business. However, concerning the early development stage of social business in Macedonia, both the interviewed and the surveyed organizations are a good beginning example which needs to be further developed, supported and broadened.

Conclusions and Recommendations

This paper aimed at analyzing how social business in being developed in legal terms and how it is being practiced in Macedonia, for the purpose of drafting solutions for improving the existing policies on social business.

The research has shown that social business is still at an early development stage: in the official documents it exists in the *Strategy for cooperation of the Government with the civil society*; there is no Law on Social Entrepreneurship adopted yet, although it is in the enactment procedure. The first projects and studies on social business have only begun to pave the way for improving the environment of social businesses. Interesting to conclude is that main addressees of social business are the civil society organizations as visible in the *Strategy for cooperation of the Government with the civil society* and CIRa's study on social business. In order to enable broader penetration of social business on the field, the target group needs to be broader. The situation on the field also shows organizations with social business characteristics rather than full social businesses; however they pave the way for understanding the benefits form a social business and raising awareness on what social business is and could be. Since the social business concept is rather new and unexploited in Macedonia, offering sufficient funds for promotion of social business and offering education and training is crucial for shifting from “early development” into “developed phase” of social business. In this line, more pilot projects are needed. Only in this way may social business begin to be more widely practiced, and the society may feel its benefits.

Therefore, this paper recommends:

The Ministry of Labor and Social Policy to organize open, transparent and professional debate including also the existing social businesses on drafting the Law on Social Entrepreneurship; and for its drafting to use the existing studies and field experience on social business in Macedonia.
The Law on Social Entrepreneurship to create the legal framework for registering a social business as a separate entity and this Law to entail set of various measures for supporting social business as tax reductions, preference in public procurement, grants etc.

The Law on Social Entrepreneurship as well as various donors and civil society organizations' activities on social business to target not only civil society organizations, but also unemployed persons, persons looking for a second career, small and medium enterprises, etc.

The start-up centres, the Employment Agency, CIRa, ZIP Institute, existing social businesses, civil society organizations working in the social business area, the Ministry of Labor and Social Policy and the Ministry of Economy to continue promoting social business and to offer education and trainings to prospective social entrepreneurs via implementing pilot projects and widely promoting their results, as well as by promoting the benefits of social business for social entrepreneurs, their target group and the society.

The Ministry of Labor and Social Policy, the Ministry of Economy, the Employment Agency, the civil society organizations working on social business and start-up centres to give funds to prospective social entrepreneurs for starting a social business.



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