

# Is Social Entrepreneurship Achievable in Macedonia? An Analysis of the Historical Background, Potentials and Perspectives for Concept Development

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*In the last two decades social entrepreneurship has emerged as a new innovative approach for solving social challenges in many countries. Having in mind that for a long period of time Macedonia has been facing a deteriorating social situation with high levels of poverty and unemployment, the paper is focused on an analysis of the latest trends in the development of the concept, as well as the possibilities for its implementation in the country. Although some elements of social entrepreneurship have existed in the former Yugoslavia, the Macedonian legal framework for this concept has not been established yet. However, there have been a number of best practices, both formal and informal, in the country, and these have been examined in this paper. Finally, based on the comparative experiences, as well as the existing domestic practice, the authors offer recommendations for drafting a legal framework for incorporation of the concept in Macedonia.*

**Key words:** social entrepreneurship, social enterprise, cooperatives, legislation.

## THE MAIN FEATURES OF THE CONCEPT OF SOCIAL ENTREPRENEURSHIP

Social entrepreneurship (SE) as a unique concept emerged in the recent decades and has immediately drawn attention

of the general public. In that direction, several scholars suggested that this new concept would play an important role in addressing many social challenges. Peter Drucker, a prominent contemporary business philosopher, has argued that SE is likely to be

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come even more important than for-profit-entrepreneurship (Mair, Noboa, 2003: 1).

As far as the roots of the concept are concerned, it seems that the trigger for its creation could be found in „the persistence of structural unemployment, the need to reduce state budget deficits and to keep them at low level, the difficulties of traditional social policies and the need for more active integration policies” (Defourny, 2001: 1-2).

The concept of social entrepreneurship is closely connected to the concept of social economy. The history of the concept of social economy goes all the way back to the beginning of the 19th century in France where the term first appeared. The relevance of social economy has gone far beyond French borders throughout the centuries, finding a great resonance throughout Europe. Indeed, for almost two centuries now social economy institutions have been key players in the broader social and economic development process both at national and local levels (European Commission, Directorate-General for Employment, Social Affairs and Inclusion, 2013). Over the years social economy has involved a number of different forms (cooperatives, associations, mutual etc.), while social entrepreneurship represents a more recent phenomenon i.e. business created to achieve social rather than financial goals.

However, it should be emphasized that without a doubt the contemporary implementation of the SE concept depends on the specifics of each country. In that direction,

SE is always influenced by a wider society surrounding. There are countries where this model was introduced to bypass the failures of the social security system, or in some countries the idea is being developed by religious organizations or the unions. For instance, in Italy this concept was initiated by the dominant religious community, where the deficit of the social security system was bypassed by the association (organizations) of mostly Catholic volunteers. Their main motivation has been the idea of philanthropy strongly connected to „the Christian desire to help those in greater need”<sup>1</sup>. In Austria, the influence of the Catholic Church was also present, but, on the other hand, some of the social enterprises were organized as charity organizations affiliated to the socialist (and later on social-democrat) political movement (European Center for Not-for-Profit Law, 2012: 10).

At the same time, the rise of social entrepreneurship was part of the idea of localism in some countries. For instance, the interrelationships in the local community in Italy were strong. As a result of that, the local development was based on the functioning of social entrepreneurship. Closely connected to localism is the geographical factor (background). Vanek (2001) has argued that „in Italy the strongest development has occurred in the north, with its heart in the province of Brescia, where there is one social cooperative for every 8,000 persons (compared to the ratio of 1/25,000 persons for Italy as a whole)”<sup>2</sup>.

<sup>1</sup> As it is noticed by Wilda M. Vanek, in general, relief for the national strain system of social welfare has been found in Italy through an innovative new form of cooperative. A blend of old and new features, using volunteers and what would be considered less desirable workers, the Italian social cooperatives deserve to be mentioned. The downsizing of the state-sponsored mental health system gave rise to a particular need to take care of the patients released from mental hospitals. At the beginning this need was met through activism of the Catholic Church and its followers (Vanek, 2001; Gosling, 2003)

<sup>2</sup> Other forms of Italian cooperatives can also be found in Northern Italy where an evident **culture of cooperativism** already existed for a confined period of time. In 1996, 60 to 63 percent of all social cooperatives emerged in the northern regions. At the same time, the employment cooperatives were more numerous there. Central and southern regions together accounted for 37 to 40 percent of the social cooperatives, however the social services cooperatives were more prevalent in those parts (Vanek, 2001).

Having in mind these general trends, we need to define the main features of the SE concept. Leading publications treating SE are offering a wide range of definitions. Any definition of SE should take into consideration the following: the social background, economic surrounding, cultural milieu, religious influence, legal tradition etc. According to Mair and Noboa (2003: 2), SE represents „**a creation of viable socioeconomic structures, relations, institutions, organizations and practices that yield and sustain social benefits**“. This definition conceptualizes SE as a process that involves individuals (social entrepreneurs) engaging in a specific behavior (social entrepreneur behavior) and tangible outcomes (social venture or enterprise). Additionally, we came across a number of other definitions, which explained SE as:

- (1) creation of value, (socio-) economic structures, institutions, relations, organizations, and practices that yield and sustain social benefits (Fowler, 2000);
- (2) use of entrepreneurial behavior for social ends rather than for profit objectives, or alternatively, that the profits generated are used for the benefit of a special disadvantaged group (Hibbert, Hogg et al., 2002);
- (3) an art of simultaneously pursuing both a financial and a social return of an investment (The Institute of Social Entrepreneurs), and
- (4) candor, passion, charity of purpose, commitment, courage, values, customer focus, willingness to play, ability to think like a business, strategy and flexibility, required in social entrepreneurs as critical success factors for a successful embark of the social entrepreneurial activities (Boschee, 1998; Mair, Noboa, 2003: 3-5).

The review of the existing definitions of SE concept lead to the conclusion that

three different forms of SE could be differentiated:

- a. initiatives of non-profit organizations in search for additional revenues after facing cuts in governmental supports, cuts in individual and corporate giving, increased competition, more social needs, and pressure from fund providers to merge or downsize;
- b. initiatives of independent social entrepreneurs aiming to alleviate a particular social problem and
- c. socially responsible practices of commercial business engaged in cross-sector partnership.

Another important issue which is often raised regarding the SE main specifics is its similarity/difference with the for-profit entrepreneurship. Where should we look for the differences or similarities? Undoubtedly, the starting point should be the organizational structure, the scope of the activities, the criteria for grading the accomplishment and internal decision making process.

A number of researchers have argued that the differences between for-profit and SE exist with respect to motivations, opportunities and outcomes. Firstly, social entrepreneurs manifest different motivation from for-profit entrepreneurs. In that sense, they are mainly motivated by a strong desire to change the society, by a discomfort with the status quo, altruistic feelings and the need to be socially responsible. Secondly, in addition to for-profit opportunities, social entrepreneurs are sensitive to another social category of opportunities. Social entrepreneurs attribute different types of opportunity values. In the context of traditional entrepreneurship, the value of an opportunity is considered to be the economic gain that results from an innovative use of resources compared to the use of resources in the traditional form. On the other hand, the value of

an opportunity in the framework of SE also includes all other forms of social benefits generated by the initiative, e.g. a higher level of economic awareness or education. In the case of socially inspired opportunities, the person who creates values (the social entrepreneur) is different from the one who appropriates them (Mair, Noboa, 2003: 2-5).

At the same time, it should be underlined that several behavioral attributes have been associated with SE: courage to accept social criticism, reduced failure anxiety, receptions to other feelings, perseverance, communication skills, creativity, ability to appear trustworthy, ability to satisfy customer needs, goal orientation, and working capacity.<sup>3</sup>

The concept of social entrepreneurship is increasingly being used in a very broad sense as, to various authors, it now refers to a wide spectrum of initiatives, ranging from voluntary activism to corporate social responsibility.<sup>4</sup>

The indicators of the SE concept are set down by the EMES<sup>5</sup>. Those indicators are reflecting: the economic and entrepreneurial dimension<sup>6</sup>, social dimension<sup>7</sup> and (participatory) governance of such entities<sup>8</sup>. However, it should be mentioned that these criteria do not represent a set of conditions that an organization should meet to qualify as a social enterprise, but rather serve as prescriptive criteria. These indicators prescribe an **ideal type** that enables researchers to position themselves within the **galaxy** of social enterprise (Defourny, 2008: 204).

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<sup>3</sup> According to many authors, the majority of these attributes are acceptable to for-profit entrepreneurs, with one exception, i.e. empathy. According to the Weber's dictionary, empathy is defined as the ability to share another's emotions or feelings. Besides empathy, other variables defining social entrepreneurship include moral judgment in a combination with self-efficacy and social support and the intentions. These intentions are seen as central in understanding the entrepreneurial process. It can be argued that in the context of SE even the degree of purpose is visible. As a result of that, the intentions are widely seen as powerful predictors of behavior, especially in the case of purposive, planned and goaled behavior.

<sup>4</sup> A lot of categories between these two extremes could be identified: individual initiatives, non-profit organizations launching new activities, public-private partnership with a social aim (Defourny, 2008: 203).

<sup>5</sup> EMES is a research network of established university research centers and individual researchers whose goal so far has been to gradually build up a European corpus of theoretical and empirical knowledge, pluralistic in disciplines and methodologies, around our "SE" concepts: social enterprise, social entrepreneurship, social economy and solidarity economy. EMES has existed since 1996, when an international group of scholars formed a research network that had been sponsored by the European Union. Having reached an unusual level of mutual understanding, trust and a common perspective of working together, a community of researchers sprang off from this working experience. Formally established as a non-profit association (ASBL under Belgian law) in 2002 and named after its first research program, on "the emergence of social enterprises in Europe" (1996-2000), EMES was originally composed of European university research centers and individual researchers. After many years of collaborative research and projects jointly conducted with researchers from other regions, EMES has decided in 2013 to open its membership to researchers from around the world.

<sup>6</sup> Including: a) A continuous activity producing goods and/or selling services, b) A significant level of economic risk and c) A minimum amount of paid work (EMES website, 4.5.2014).

<sup>7</sup> Including: a) An explicit aim to benefit the community, b) An initiative launched by a group of citizens or civil society organizations and c) A limited profit distribution (EMES website, 4.5.2014).

<sup>8</sup> Including: a) A high degree of autonomy, b) A decision-making power not based on capital ownership and c) A participatory nature, which involves various parties affected by the activity (EMES website, 4.5.2014).

## WESTERN EXPERIENCES IN SOCIAL ENTREPRENEURSHIP ORGANIZATION AND STRUCTURE

The persistence of structural unemployment among some groups, the limits of traditional active labor market policies and the need for more active and innovative integration policies have naturally raised questions concerning the role that social enterprises could play in combating unemployment and fostering employment growth (Defourny, 2008: 207).

The French experience suggested that in 2010, around 5 000 social enterprises were employing over 700 000 disabled or long term unemployed persons (Sibieude, 2010). This data clearly demonstrates the potentials of the social entrepreneurship concept in addressing social challenges and the possibility of its implementation in other countries including Macedonia.

As far as the US experience is concerned, the term *social entrepreneur* has been particularly emphasized by American foundations and organizations like Ashoka since the mid-1990s, as a possibility to bring new ways of responding to social problems.<sup>9</sup> On the other hand, in Europe the emphasis has been much more put on the collective nature of the social enterprise, as well

as on its associative or cooperative form. However, it seems that the US approach is gaining influence in Europe in recent years (Defourny, 2008: 207). In the mid 1980's in Europe, there were approximately 800 operating SE. At the same time, there have been a number of authors and studies published in respect to the development and rising of SE.<sup>10</sup>

As far as the European countries are concerned, in Italy the social entrepreneurship can be traced back to the 1970's, while the major growth followed after the enactment of a law on social cooperatives in 1991.<sup>11</sup> The Italian law has foreseen two basic models: a) *social services*, in the area of health care, care of the elderly, and education; and b) *creation of employment for certain disadvantaged groups*: namely, physically and mentally disabled persons, present or former psychiatric patients, drug addicts, alcoholics, young workers from troubled families, and criminals subject to alternatives to detention.

In France, Portugal, Spain and Greece the cooperatives were the new legal forms for social entrepreneurship. The Portuguese *social solidarity co-operative* (cooperative de solidariedade social) legal form was created in 1997. Portuguese social solidarity co-operatives in their membership combine users of services, workers and volunteers;

<sup>9</sup> Those entities identify and support in various ways the individuals launching new activities dedicated to a social mission, while behaving as true entrepreneurs in terms of dynamism, personal involvement and innovative practices (Defourny, 2008: 203; Ashoka website)

<sup>10</sup> Among them, most prominent include Jacques Defourny and Marthe Nyssens (Defourny, 2001: 1; Defourny, Nussens 2008; Defourny, Nyssens, 2006; Defourny, Nyssens, 2010).

<sup>11</sup> The law, first drafted in 1981 was debated for ten years as political parties and Italy's major cooperatives debated its exact form. The legislative debate in 1980's clarified a number of issues. First, that the preferred legal form for these organizations should be a cooperative, though not a cooperative in traditional sense (profit-orientated), with a primary aim to mutual benefit to its members. Second, the work of social cooperatives was to be oriented toward the local community and the segments of that community in greater need. Third, to perform these services the new organizations were allowed, in fact required, to create a diverse membership structure, including: normally employed working members; special workers; handicapped in some way; required to comprise 30 percent of the cooperatives dealing with unemployment; volunteers, whose number and scope were limited; and use of non-worker and non-volunteer members, or physical or legal persons providing financial support (Vanek, 2001).

they cannot distribute any profit to their members.

The status of *limited liability social cooperative* in Greece has been designed in 1999 for the organizations targeting very specific groups of individuals with psychosocial disabilities and aiming at the socio-professional integration of the latter through a productive activity (Defourny, 2008: 207).

The concept of “social enterprise” (*entreprise sociale*) in France is still a concept in progress, the use and understanding of which remains limited to a circle of experts and social entrepreneurs; it is not really used as a key concept by policymakers and is not well-known to the wider public.<sup>12</sup> Multi-stakeholder strategy is also at the heart of the French law, passed in 2002, which defines the *collective interest co-operative society (société coopérative d'intérêt collectif SCIC)*.<sup>13</sup> The popularity of SE in France can be seen in the fact that 63% of French people and 75% of French youths would prefer to work for a social

enterprise, and 75% of the French people and 80% of French youth think that social enterprises can contribute positively to changing the society (Sibieude, 2010).

Following the political transformations in the 1970s, Spain had witnessed expansion of SE, due to several factors: a) Government's commitment to promoting social economy, b) the traditional role which cooperatives have played in addressing social needs<sup>14</sup>, and c) the rapid economic growth that has generated new demands for social services, which the government could not efficiently respond to and led to the development of a viable non-profit (third) sector. Special role in the development of SE in Spain is played by the Directorate General for the Promotion of Social Economy which operates as a separate division of the Ministry of Labor and Social Affairs' Secretariat-General for Employment (European Center for Not-for-Profit Law, 2012: 8).

According to the available statistics, in 1996 the social services cooperatives in

<sup>12</sup> However, some events constitute tangible signs of the progress made by the social enterprise concept within French society. These include, inter alia, the “regional conferences of the social entrepreneurship” in 2003; the creation, during the same year, by some business schools, of a “chair of social entrepreneurship”; some activities launched by the “Agency of valorization of socioeconomic initiatives” (Agence de valorisation des initiatives socio-économiques, or Avise); and the organization, in June 2007, of an international conference in Paris on the theme of “Reconfiguring relations between economy and solidarity: associations, cooperatives and social enterprises”. Moreover, the boundaries between associations and cooperatives are becoming increasingly blurred; this evolution leads to the creation of new legal forms that can be said to focus on the concept of social enterprise (Defourny, 2008: 216).

<sup>13</sup> The main statutory innovation in recent years in France has been the creation of a new legal form in 2002: that of “collective interest cooperative society” (*société coopérative d'intérêt collectif*, or SCIC). The SCIC is a private, collective-interest organization; this new form of co-operative undertaking brings together employees, users, voluntary workers, local and regional authorities and any other partner wishing to work together on a given local development project. The creation of the SCIC legal form is one of the outcomes of a debate on the need to take into account, in the range of legal forms available to social economy enterprises, the different stakeholders involved in the setting up of local initiatives (Defourny, 2008: 216).

<sup>14</sup> This role has been specifically recognized in the Constitution and requires public authorities to facilitate the development of co-operative enterprises through legislation and encourage workers to access ownership of the means of production. In that direction, Article 129 of the Spanish constitution has stipulated an obligation of the public authorities to efficiently promote various forms of participation in the enterprise and to encourage cooperative societies by means of appropriate legislation.



Italy provided the following services: social service (81%), health service (13%), and education (6%). The population served was the elderly, children under 16 years of age, and the disabled.<sup>15</sup> The popularity of social cooperatives in Italy is attributed to the: preferential public procurement; legal recognition; beneficial tax arrangements; legal duties of businesses to support disadvantaged people; consortia which assist social co-operatives and availability of finance on good terms (European Commission, Directorate-General for Employment, Social Affairs and Inclusion, 2013).

Nowadays SE can conduct activities in a very large scope, also including commercial activities.<sup>16</sup> The main dilemma is how far could SE engage in commercial activities? What is the boundary between SE and traditional entrepreneurship? The practices of European countries demonstrate a variety of different approaches. For instance, in Spain SE in a form of association could engage in related and unrelated activities if

the competition rules are not challenged. Furthermore, Austrian SE could conduct three types of economic activities, but for clearly commercial activities the rules for taxation will apply.<sup>17</sup> It seems that it all depends on the type of the legal form in which social entrepreneurship is conducted. If an existing legal form has a status of SE and can conduct commercial activities, it can continue its activities, but it would be entitled to tax reliefs or other benefits for that part of their activities.

As far as the organizations of volunteers are concerned, the current regulation tends to support full time work and decrease or restrict the percentage of volunteers involved in the social enterprise. For example, the volunteers in Italy have to represent less than 50% of the workforce in each unit. Their engagement should be only complementary to the full time employees and could be reimbursed for pocket expenses only (although they do receive health insurance) (Vanek, 2001: 2).

<sup>15</sup> In that respect, the 1996 survey found a transformation from 1986 when the majority of those being served were handicapped persons. It is not clear whether this indicates a shift in the need for services, or an evolution from original stimulants to aid those who were being abandoned in the downsizing of government programs, or a change of policy on the part of the public authorities, putting more funding into services for the elderly (Vanek, 2001: 2).

<sup>16</sup> According to Article 5, paragraph 1, of Slovenian Social Entrepreneurship Act, „Social entrepreneurship activities shall be performed in the following areas: social assistance; family assistance; protection of persons with disabilities; science, research, education; provision and organization of youth work; protection and promotion of health; ensuring social inclusion, promotion of employment and vocational training of unemployed people and persons at risk of unemployment; job brokerage for people, including the activity of hiring out such workers to another user; organic food production; nature conservation, landscaping, environmental protection and animal protection; promotion of the use of renewable energy sources and the development of the green economy; tourist services for people otherwise excluded from or limited by their living conditions in accessing them, provided in a manner that respects the values of sustainability, accessibility and solidarity (social tourism); shops for socially disadvantaged people (social shops), shops selling the products of small producers from the most undeveloped environments, based on ethical, transparent and equal business relationships between producers and traders aimed at ensuring fair pay for the producers and their survival (fair trade), and shops with services and products from social entrepreneurship activities; culture, technical culture and preservation of cultural, technical and natural heritage; amateur sport and physical activities for recreational purposes and socialization; protection and rescue activities; promotion of local communities' development; support services for social enterprises”.

<sup>17</sup> Activities include: a) related economic activities; 2) the so called dispensable economic activities i.e. those which are not deemed necessary to accomplish the statutory goals of the organization, but are nevertheless related to those goals (e.g. selling donated goods at a discount price); and 3) unrelated economic activities (European Center for Not-for-Profit Law, 2012: 13).

In order to optimize the efficiency of SE, the selection of the most appropriate organizational form seems to be crucial. The comparative experiences demonstrate two main tendencies. The first tendency is the creation of a *new special form of legal entity*. The second trend is manifested through granting status or labelling the *social enterprise* to the existing legal entity, in the cases when its activities and its organization are based on the principles of *social economy*, most often defined by law. Typically, there is a combination of both.

The first tendency in legislation and practice is demonstrated through the adoption of new forms of legal entities: 1) social cooperatives in Italy, 2) social initiative cooperatives in Spain or 3) community interest companies in United Kingdom (European Center for Not-for-Profit Law, 2012: 9-14). At the same time, one major type of social enterprise is clearly dominant across Europe and that is the *work integration social enterprise*.

Furthermore, the second tendency, which means granting status or labelling the *social enterprise* or a term with same meaning to an existing legal form, is present in the EU as well. For example, this tendency is evident in some of the following laws of EU member states, such as the Law on Social Economy in Spain which recognized that the concept of SE was open to more institutional forms beside the cooperatives (European Center for Not-for-Profit Law, 2012: 8) and Slovenian Social Entrepreneurship Act, in which, according to the article 4, „non-profit legal entity may engage in social entrepreneurship” and according

to article 2, „*non-profit legal entity*” – shall mean a society, institute, foundation, company, cooperative society, European cooperative society or other legal entity governed by private law not established for the sole purpose of generating profit, etc (Social Entrepreneurship Act of the Republic of Slovenia, 2011). Besides that, the EU Regulation (EU) No. 346/2013 has also set out a new “European Social Entrepreneurship Fund” label with the sole purpose of assisting potential investors without any difficulties to identify funds that focus on investing in European social businesses.<sup>18</sup>

However, it seems that the most common forms remain 1) associations and 2) foundations (European Center for Not-for-Profit Law, 2012: 12).

According to EMES, the ideal type of a social enterprise entails the following features: a continuous activity producing goods and/or selling services; a high degree of autonomy; a significant level of economic risk; a minimum amount of paid work; an explicit aim to benefit the community; an initiative launched by a group of citizens; a decision-making power not based on capital ownership; a participatory nature, which involves the persons affected by the activity; and limited profit distribution (Defourny, 2008: 16-18; Janelle, 2006: 247-253). These characteristics are applicable to both new and existing forms of legal entities. In that direction, the existing forms of legal entities need to adjust their organizational structure and implement the rules for conducting activities which are mandatory for SE.

<sup>18</sup> The approach is simple: once the uniform requirements defined in the proposal are met, managers of social entrepreneurship funds will be able to use the new label and market their funds across the whole of Europe. Every fund using the label will have to prove that a high percentage of investments (70% of the capital received from investors) is spent in supporting social businesses. Uniform rules on disclosure will ensure that investors get clear and effective information on these investments (European Commission website, 4.3.2014).



The Regulation on European Social Entrepreneurship Fund represented a turning point which emphasized the significance of SE in doing business in the EU.<sup>19</sup> The concept which commenced as outsourcing<sup>20</sup> of the state social system is nowadays developed as an independent, self-determined, structural system which is vital for ensuring a stable and long-term economic and social development in particular at the local level. The statistics can be a reliable indicator for the development path of the overall SE trends. Based on the available evidence, it is estimated that the social economy in Europe (measured as the aggregate of cooperatives, mutuals<sup>21</sup>, associations and foundations) involves over 14.5 million paid employees, equivalent to about 6.5% of the working population of the EU-27 and about 7.4% in EU-15 countries. The-

se figures also include the vast majority of social enterprises, as they include all social enterprises using social economy legal forms, such as social cooperatives and entrepreneurial associations (Social economy and social entrepreneurship, Social Europe guide, 2013). In addition, this concept is widely accepted and promoted by governments across Europe. As a result of that, the functioning of business activities in “a *social mode*” nowadays can be seen in a wide range of activities.

### **CHALLENGES FOR SOCIAL ENTREPRENEURSHIP DEVELOPMENT IN MACEDONIA**

The concept of social entrepreneurship in Macedonia as such, in the formal sense was not present in the legislative framework at the time of writing of this

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<sup>19</sup> This Regulation is part of the Social Business Initiative established by the Commission in its Communication of 25 October 2011 entitled ‘Social Business Initiative - Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation’. It is necessary to lay down a common framework of rules regarding the use of the designation ‘EuSEF’ for qualifying social entrepreneurship funds, in particular on the composition of the portfolio of funds that operate under that designation, their eligible investment targets, the investment tools they may employ and the categories of investors that are eligible to invest in them by uniform rules in the Union. In the absence of such a common framework, there is a risk that Member States take diverging measures at national level having a direct negative impact on, and creating obstacles to, the proper functioning of the internal market, since funds that wish to operate across the Union would be subject to different rules in different Member States. Moreover, diverging quality requirements on portfolio composition, investment targets and eligible investors could lead to different levels of investor protection and generate confusion as to the investment proposition associated with qualifying social entrepreneurship funds. Investors should, furthermore, be able to compare the investment propositions of different qualifying social entrepreneurship funds. It is necessary to remove significant obstacles to cross-border fundraising by qualifying social entrepreneurship funds, to avoid distortions of competition between those funds, and to prevent any further likely obstacles to trade and significant distortions of competition from arising in the future. Consequently, the appropriate legal basis for this Regulation is Article 114 of the Treaty on the Functioning of the European Union (TFEU), as interpreted by consistent case law of the Court of Justice of the European Union (EUR-Lex website, 2.4.2014).

<sup>20</sup> The outsourcing first started in Italy, when in 1990 the Government decentralized the system of social welfare and transferred the responsibility for delivering social services to the regional and local administration. It also opened the market of social services and allowed private providers to compete for service provision, thus bringing the welfare system closer to the Anglo-Saxon liberal dual approach, in which the state (local governments included) provides for the most disadvantaged, while non-for profit organizations and other private actors provides support to others in need (European Center for Not-for-Profit Law, 2012: 7).

<sup>21</sup> A mutual, or mutual aid society, can be defined as an association that offers insurance services to the benefit of its members. Mutual aid societies are based upon reciprocal contracts and require that members receive benefits as a consequence of their participation (European Commission, Directorate-General for Employment, Social Affairs and Inclusion, 2013).

paper. However, some mechanisms and public policies, which were not formally recognized as social entrepreneurship, but informally and spontaneously achieved results which are typical for social economy and social entrepreneurship, are present and could be elaborated.

The development of the social entrepreneurship in Macedonia can be traced back to the 1960s when the first state-owned enterprises employing disabled persons were established. As it was the case with other Yugoslav republics, the enterprises have enjoyed corresponding tax and other social benefits. The transition to democracy and market economy in the 1990s had an impact on the legal forms in which SE operated: the state-owned enterprises have become private commercial companies.

According to the official statistics of the State Statistical Office of the Republic of Macedonia, the poverty rate in 2013 was 24.2%. At the same time, at-risk-of-poverty rate before social transfers and before pensions, as a % of population was 41% (State Statistical Office, 2015). In 2013 the unemployment rate according to the State Statistical Office was 29% or 277 279 persons (Nikolovska, 33). Moreover, the World Bank statistics are suggesting that the unemployment rate in 2013 was 29% and the poverty rate for 2010 and 2011 was 27% (World Bank, 2014: 2).

As a result of that, SE could potentially be a part of the solution for these challenges in particular in reference to the elimination of the failures of the social security system, integration of the vulnerable groups, decreasing youth unemployment etc. As it was the case with other analyzed countries, the potentials of SE in Macedonia are often perceived as a factor for boosting local economic development. It is clear that some elements and modalities of the concept of social entrepreneurship could be

found in the Macedonian practice. However, these modalities are not manifested in a special form of social entrepreneurship, but they represent a variety of activities carried out by existing legal entities aimed at achieving some of the goals of social entrepreneurship. In that direction, it should be mentioned that a number of different initiatives and activities in respect to SE by different stakeholders, both public and private entities, have been implemented.

In that direction, the public policies targeting the unemployment and the socio-economic disproportion in Macedonia, which in a basic sense could be perceived as rudimental forms of social entrepreneurship are addressed in the following part of the paper.

As a part of the government efforts to address the high level of unemployment, the Employment Agency of the Republic of Macedonia has in the last few years provided state subventions for employers that employ individuals belonging to any of the following vulnerable categories: victims of family violence, children without parents or parental care, homeless individuals, former drug users, parents of street children, single parents, the Roma, victims of human trafficking, as well as convicted individuals after leaving the penitentiary. In that direction, the program provides financial support for the gross salary (the support equals 45% of the average gross salary in the country) of the individuals that belong to the vulnerable groups in the duration of 18 months and is distributed through annual calls (Employment Agency of the Republic of Macedonia, 2014). Besides that, the Employment agency has developed special stimulation measures for the employment of disabled persons (a support in the amount ranging from 20 - 40 average salaries for opening a job position to people with

disabilities).<sup>22</sup> According to Article 4 of the Law on Employment of Disabled Persons, the measures include: irretrievable financial support, support for adaptation of the working space and relevant equipment purchase, tax and social insurance exemptions as well as operational financial support (Law on Employment of Disabled Persons, Art. 4). Finally, the government is currently facilitating a public discussion concerning the introduction of more efficient means system for the employment of persons with disabilities by proposing a quota system which will be compulsory for all companies (each company will be obliged to employ a certain number of persons with disability in accordance to its size).

Apart from government activities, there have been a number of activities by non-governmental and private sector that correlate to the concept of SE.

As far as the non-governmental sector is concerned, a special career fair has been organized by the First Children Embassy "Megasi" for two years in a row with the sole purpose of providing employment opportunities for children without parents or parental care. Not only does this activity encourage the employment of this vulnerable group, but at the same time it further stimulates potential employers to work on the informal education of the targeted group while under state protection.<sup>23</sup>

Furthermore, in 2009 the non-governmental organization "Izbor" ("Choice") from Strumica has launched a project aimed at re-socialization of former drug addicts. The project provides the target-

ted group with the opportunity to work in an agricultural cooperative, develop their skills and knowledge and consequently earn money. At the same time, the cooperative serves as a therapeutic community which improves the effects of the treatment of drug addicts.<sup>24</sup>

Another important initiative for the development of the concept of SE in the country came from the "Horizonti" project and foundation. Launched in 2000 by the Catholic Relief Services, the project has provided competitive micro-loans for business initiatives by women-entrepreneurs as well as socially excluded and marginalized groups. Over 10 000 clients have received over 30 000 grants in the last 15 years through this program.<sup>25</sup>

Besides that, in 2012, a USAID project has been launched to provide support and assistance to the homeless and other marginalized groups in the country. Through selling the magazine "Licevlce" ("Face-to-face"), whose publication twice a month is sponsored by the project, the targeted marginalized groups earn 50% of the selling price. In that direction, similar to the example of the "Izbor" organization, this project creates a win-win situation for the marginalized - it motivates them to participate in society, improves their skills and at the same time, achieves concrete benefits.<sup>26</sup> The most recent activities of the non-governmental sector in Macedonia are to organize promotions, round tables, trainings and other public events for promoting the SE concept and its benefits<sup>27</sup>

<sup>22</sup> (AVRM website, 3.5.2014).

<sup>23</sup> (Skopjeinfo website, 15.5.2014)

<sup>24</sup> (Utrinski website, 20.5.2014)

<sup>25</sup> (Horizonti website, 9.4.2014)

<sup>26</sup> (Licevlce website, 7.6.2014)

<sup>27</sup> (CIRA website, 2.5.2014)

Given the fact that the private sector plays a significant role in the promotion and development of SE, it should be underlined that the Law on Employment of Disabled Persons has foreseen a special legal status of the shelter companies employing persons with disabilities. In that sense, there have been a number of examples of companies of persons with disabilities that have been registered and operational. The shelter companies are organized in the Association of Shelter Companies of Macedonia.<sup>28</sup> As a matter of fact, this type of association has been in place since 1972 when, in accordance to the Yugoslav legislation, it was established as a self-managing interest community. Over the years the status of the associations went through slight changes, but since 2000 it has been operating under its present form.

Moreover, it should be pointed out that a number of waste processing companies have provided individuals belonging to the marginalized groups with employment opportunities in recent years. In that direction, it is evident that a considerable number of individuals have been involved in the waste processing industry. However, no comprehensive statistical data is available about the number of persons belonging to the aforementioned marginalized groups involved in the waste-management and recycling. According to MDC - TI.net project "Inclusion of informal Roma waste collectors into the formal waste scheme", over 5 000 informal Roma collectors of waste have been involved in the country.<sup>29</sup> This represents a very important piece of information which could further affect the employment policy of the country in parti-

cular with respect to the marginalized groups.

Apart from these activities, it should be emphasized that a number of religious communities and groups (Macedonian Orthodox Church, Islam Religious Community) have a long tradition of encouraging activities connected to SE in the country.<sup>30</sup>

#### **FINAL REMARKS: STEPS TOWARDS INSTITUTIONALIZATION OF SOCIAL ENTREPRENEURSHIP IN MACEDONIA**

As far as the SE legal framework in Macedonia is concerned, the main conclusion is that this concept has not been regulated as a separate legal form. The establishment of legal framework for SE will facilitate the organization and increase the efficiency of the present ventures acting in the field of social sector. The existing forms of legal entities, including legal entities registered in accordance with the Company law, associations, foundations and cooperatives, can conduct some activities in the social context, which is typical for social entrepreneurship. In general, there are no legal restrictions or obstacles for any of the aforementioned legal persons to be used for organizing ventures which will conduct activities of social and charitable character.

The modalities described in Chapter 3 of this paper are not giving the effect of social entrepreneurship because they are treated separately. As it was underlined, there are public policies targeting unemployment by providing irretrievable financial support for starting business, supporting persons with disabilities and other categories of

<sup>28</sup> (Zapovim website, 21.5.2014). 23 (Skopjeinfo website, 15.5.2014)

<sup>29</sup> (Mdcitnet website, 12.4.2014). 25 (Horizonti website, 9.4.2014)

<sup>30</sup> (Dnevnik website, 8.5.2014).

vulnerable groups, charity activities of religious communities etc. However, in order for these actions to be treated as a social entrepreneurship they need to be organizationally structured and methodologically adjusted to the status of social enterprise. In other words, the promoted policies are not interconnected within the desired framework of social entrepreneurship.

Having this in mind, it should be emphasized that the most frequently used forms for conducting activities connected to social economy in the Macedonian practice are associations and foundations. The Law on Associations and Foundations has set a similar legal framework to the principles of social entrepreneurship. This Law is allowing organizations to run a wide range of activities (including commercial activities). Although the concept of social entrepreneurship is not separately defined, the Law on Associations and Foundations has introduced the status of a public benefit organization. According to Article 90 of the Law on Associations and Foundations, „the organizations may be entrusted with performing public authorization with the transfer of competences from a state administration body, the body of the municipalities, the municipalities in the City of Skopje and the City of Skopje and other bodies with public authorizations, in accordance with law.”

At the same time, there are examples where trade companies established and organized according to the Law on Trade Companies, are conducting activities with social values and have a special status recognized by law. For instance, the company „Pakomak”, is organized as a trade company, (limited liability company) and has a special status according to the Law on Packaging and Waste Packing Management. Pakomak is a non-profit company,

founded in 2010, whose main activity is the management of packaging waste. According to the new Law on Management of Packaging and Packaging Waste, since January 10, 2011 Pakomak has been the first company in Macedonia licensed by the Ministry of environment for the selection and processing of packaging waste.<sup>31</sup>

Ultimately, it could be concluded that some associations and foundations, as well as trade companies in the country, have experience with implementing activities or initiatives closely connected to the SE concept under the present legal framework.

What is missing in the Macedonian legal framework? First of all, under the present conditions, there is no possibility of acquiring status equal to the status of social entrepreneur as previously defined. Consequently, it seems that there is a need for the preparation and adoption of a legal regulation to address this issue.

Following the first assumption, the second point which is missing in the Macedonian context is a system of benefits and measures for support of the social entrepreneur. As it was the case with other European countries' experiences, the social entrepreneur is usually entitled to benefits which include: tax reliefs, state aid, subsidies and/or public procurement benefits. At the moment, there are benefits provided for the ventures performing social activities in Macedonia, such as the measures coming from the abovementioned Law on Employment of Disabled Persons in the country etc. However, the general observation regarding the existing measures is that they are not systematically created nor targeted at stimulating social entrepreneurship in Macedonia. Therefore, the creation of a system for support of social entrepreneurship development with a wider

<sup>31</sup> (Pakomak website, 2.5.2014).



government involvement should be encouraged.

The third dilemma is connected to the definition of an organizational form through which a social entrepreneur could act. As it was already concluded, the comparative experiences demonstrate that activities of social entrepreneurship could equally efficiently be conducted through (1) the exiting legal entities or (2) a new form created especially for SE. It is our position that, at least as the first stage, the concept of awarding special status of social entrepreneur to an existing legal entity should be accepted. Consequently, through this approach, companies such as „Pakomak”, in a very simple and trouble-free process, will be able to gain the status of a social enterprise.

The potential establishment of a new or separate type of legal entity should be implemented only after a comprehensive analysis of the potential consequences. The introduction of a new form would demand a wide-range change of the current legislation regarding trade companies and their registration.

At the same time, this approach is not opposed to the preparation of a special Law on social entrepreneurship which we clearly support. In that direction, the Law on social entrepreneurship as *lex specialis*, will provide the necessary legal framework concerning the procedure for obtaining the status of social entrepreneurs, their organization and operations as well as all other relevant aspects. Given the fact that some elements have been regulated in a number of different laws, the other alternative for the legal regulation of SE - through amendments of the existing laws - is a more complicated process which could represent a nomo-technical challenge. As a result of that, and taking into consideration the current initiative of the Center for Institutional

Development (CIRa), the British Embassy in Macedonia and the Macedonian Ministry of Labor and Social Policy for the preparation of a special law for SE, it is our view that the preparation and adoption of legislation governing SE will provide a simple and coherent framework for SE in Macedonia. At this point in time (February 2016), a new Draft version of Law on Social Entrepreneurship is made publicly available on the web page of the Ministry of Labor and Social Policies (MLSP, 2016). The new draft legislation is based on the Slovenian SE legislation. This new draft is different from the version prepared by CIRa in two aspects: 1) the general provisions have been re-drafted and 2) the most important, the new law does not introduce any new types of social enterprises (such as social cooperative, non-profit social organization and microfinance organization for social entrepreneurship) which were part of the previous draft. Instead of that, the new draft legislation is based on the concept of Slovenian law, which means that the existing forms of legal entities (such as foundation, non-governmental organization, trade company, cooperative and institute) could acquire the status of social enterprise only.

Finally, as part of the SE legal framework which is in process of preparation, an appropriate regulatory body (the existing Commercial Register, a new unit of the ministry in charge of social entrepreneurship or an independent agency) should be defined and authorized to implement the provisions of the new SE concept in the country. The organization of such a regulatory body should be based on the principles of independence, transparency and professionalism.



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### **Sažetak**

## **JE LI SOCIJALNO PODUZETNIŠTVO OSTVARIVO U MAKEDONIJI? ANALIZA POVIJESNOG PODRIJETLA, POTENCIJALA I PERSPEKTIVA ZA RAZVOJ KONCEPTA**

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*Tijekom posljednja dva desetljeća socijalno poduzetništvo pojavilo se kao novi inovativni pristup za rješavanje socijalnih izazova u mnogim zemljama. Imajući u vidu činjenicu da je Makedonija dugo bila suočena s pogoršanom socijalnom situacijom obilježenom visokim razinama siromaštva i nezaposlenosti, u ovom se radu analiziraju najnoviji trendovi u razvoju tog koncepta, kao i mogućnosti za njegovu provedbu u zemlji. Iako su neki elementi socijalnog poduzetništva postojali u bivšoj Jugoslaviji, još uvijek nije uspostavljen makedonski pravni okvir za taj koncept. Ipak, u zemlji je postojao niz najboljih praksi, formalnih i neformalnih, te se iste analiziraju u ovom radu. Naposljetku, na temelju komparativnih iskustava, kao i postojeće prakse u zemlji, autori daju preporuke za stvaranje pravnog okvira za uvođenje koncepta u Makedoniji.*

**Ključne riječi:** socijalno poduzetništvo, socijalno poduzeće, zadruga, zakonodavstvo.