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POLICY RESEARCH

Time for Innovation in Job Creation:

"Social Economy as an Opportunity for Economic Growth and Social Inclusion"

➤ **Introduction**

The current situation in Albania, with an unemployment rate of 17,9% (INSTAT, 2014) and 14,3% of population living in extreme poverty (WB, 2012), requires urgent political action in the fields of job creation and social inclusion.

The positive impact of social economy (SE) is undeniable in both economic and social terms. This sector accounts for about the 6.5% of paid employment of the EU-27 and it is one of the fastest-growing sectors in the overall economy. CIRIEC, the renowned European Research Centre, states that *"social economy in Europe is very important in human and economic terms, as it involves [...] about 6.5% of the working population of the EU-27 [...] In countries characterized by high welfare levels such as Sweden, Belgium, Italy, France and the Netherlands it accounts for between 9% and 11.5% of the working population"*¹.

According to the report mentioned above, it is recommended that *"in order to reach its full potential in new member, acceding and candidate countries, the social economy needs to gain at least the same levels as in other European Union countries."*² Due to the vague definition of social enterprises (SEs) provided by the current legal framework in Albania, it is difficult to estimate what is the percentage of these organizations operating within the country.

¹ Ciriec-International, *The Social Economy in the European Union - 2012* (2012)

² Ídem.



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A projection made in a study by a faculty member of the University of Palermo (Asmundo, 2013)³, shows that SEs account for 2,3% of paid workers in Albania – therefore a very low percentage in comparison to the average of the EU-27.

In addition to its positive economic impact in employment and job-creation terms, SE is a driver for social inclusion. SEs enhance inclusion of vulnerable and marginalized groups –i.e. long-term unemployed, disabled, minorities, former convicts– into the labor market by providing market-oriented trainings and skills development –i.e. vocational training– through short/ long term employment in businesses with social aims (TACSO and ASE Forum, 2013)⁴. This is due partly to the focus of all SEs on social responsibility, but also to the specific focus of many of them on the creation of employment for people that would otherwise be excluded from the labor market⁵.

This policy paper aims at **encouraging decision-makers to embrace SE and create an enabling environment for its development, as an effective response to the current needs of the country regarding both economic growth and social inclusion.**

➤ Policy argumentation

Because of the reasons mentioned above, SE is called to play a key role into the social and economic development of Albania, as it does in the broader European context. However, there are institutional, legal and financial challenges to overcome⁶.

Institutional and legal framework

Current legal framework for SEs mostly refers to entities consisting the non-profit sector. The differentiation between economic and non-economic activity is important, especially because it is also related to the different tax treatment of these two activities.

³ Asmundo, A. Third Sector, Social Enterprises and Local Authorities in a EU Candidate Country. The Case of Albania. (2013)

⁴ TACSO and ASE Forum, *Research Report. Social economy in Albania – A Survey on Social Enterprises.* (2013)

⁵ Partners Albania, *Development of Social Enterprises* (2013)

⁶ Babovic, M., Gjurovska, M., Hoxha, J., Jankovic, A., Petrivic, T., Rakin, D., et al. (2014). Strategic Study on Social Economy Development in the Context of the South East Europe 2020 Strategy. European Movement in Serbia.



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However, self-generating financial capacity of NPOs through fee-based services is hindered by the unclear legal framework in this area. The ambiguity regarding SEs, both on their legal form as well as on the treatment of the economic activities they can perform, deters the development of the sector.

In 2015, an inter-ministerial working group of the Ministry of Social Welfare and Youth and the Ministry of Economic Development, Trade, Tourism and Entrepreneurship worked on the drafting of a new law on Social Enterprises. According to the draft law, there will be several criteria that a legal entity needs to fulfill in order to gain social enterprise status⁷. The restrictive definition of SEs leaves out many organizations that could benefit from a specific enabling environment for their further development –i.e. tax incentives, sub-granting schemes, in-kind resources provision.

As a result of intensive advocacy on behalf of the civil society sector led by the Task Force of the Civil Society National Conference held in December 2013, and the new open-minded approach of the Albanian Government, the Law on Establishment and Functioning of the National Council for Civil Society, as an independent advisory body, was approved in 2015. The creation of a specific body – including civil society representatives– that can address the particular needs of SEs, would certainly enhance the visibility of the social and economic added value this type organisation bring to the whole society.

Therefore, a revision of the legal and institutional framework in Albania is much needed. An open legislative model for SEs is recommended over a “one-size-fits-all” approach. Moreover, an effective institutional body responsible of the development and monitoring of the SE sector is deemed necessary.

Financial incentives and support mechanisms

The Agency for Support of Civil Society is the only state-funded body that supports CSOs through grant-making. The focus of support has been on the fight against corruption, citizen participation and community engagement, promotion of citizens’ priorities, employment and prevention of the informal labour market.

⁷ Social enterprises can be only non-profit organization membership based and those who offer goods and services in the following fields: social services; employment of marginalized groups; employment of youth; health services; education services; environment protection; promotion of tourism, culture and cultural heritage; sports activities, and the promotion of the development of local communities.



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Additionally, the Supervisory Board of the Agency decided to create a Joint Fund with the contribution of national and international donors aiming to support common projects of strategic importance to the country. However, state financial support does not reflect the needs of the sector since it does not finance the institutional development of CSOs. Moreover, the reduction by more than 30% of the budget the Agency distributed from 2014 to 2015 hinders the creation and development of SEs in the country. (AMSHC, 2015)

Under the new VAT law, non-profit organizations benefit from VAT exclusion for the goods and services provided, and benefit at the same time from import VAT exclusion. The Council of Ministers' decision reinforces the government's obligation to reimburse VAT to NPOs, which is accrued as part of the activity supported through financial and funding agreements of the Albanian government. Unfortunately, these reimbursements are not becoming effective and NPOs are forced to assume the VAT payments, thus endangering their financial sustainability.

Public procurement and/or social contracting are other important mechanisms for developing a good social service system and providing a source of funding for organizations working in services provision. The Law No. 9355, 2005 on Social Assistance and Services does not exclude CSOs from bidding, but the process in itself is discriminatory towards them. The law does not take into account that social services are a specific type of activity where price should not be the determining contracting factor, but rather the number of people served and the quality of the services provided⁸.

The main source of funding for CSOs, including service provision, remain foreign donors. The general trend of support is declining while the country advances in its EU integration process. In a foreign aid-shrinking context, where the legal framework limits the capacity for CSOs to develop revenue-generating activities, it is essential for the Albanian government to increase its financial contribution to the development of the SEs in order for the country to benefit from the impact these organizations have on both the economy and the society.

Furthermore, financial incentives for SEs are almost non-existent. There are a few legal provisions and regulations, but they are either not applicable or subject to misinterpretation. The amended Law on NPOs foresees exemption from income tax for incomes generated through donations, grants, bank interest, and membership fees. Nonetheless, the definition of

⁸ Babovic, M., Gjurovska, M., Hoxha, J., Jankovic, A., Petrivic, T., Rakin, D., et al. (2014). Strategic Study on Social Economy Development in the Context of the South East Europe 2020 Strategy. European Movement in Serbia.



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sponsors, given by the Law on Sponsorship No. 7892, excludes employees that receive salaries, including all public administration employees.

Moreover, the Sponsorship law allows only a 3 to 5% deduction of the profit before taxation (Art. 5) and considers eligible for tax deduction only humanitarian, cultural, artistic, sports, education and ecological initiatives, literary works, scientific and encyclopedia activities. Once again, the restrictive legal framework does not allow several NPOs to benefit from the already scarce financial incentives, neither it contributes to sponsors be willing to increase donations. Thus, deterring SEs' financial sustainability to greater extent.

According to the analysis above, a set of recommendations is defined in order to **provide sustainable finance through offering grants and soft loan schemes; enforcing VAT reimbursements; revising financial incentives and taxes regulations; bringing tailored support and assistance for SEs; and reforming public procurement laws.**

➤ Conclusion

The social and economic situation in Albania requires bold political action in fostering the country's development. SE has proved being an effective, innovative sector promoting employment as well as inclusion of vulnerable groups into society. **The legal, institutional, and financial reforms recommended above would certainly contribute to creating an enabling environment where SE as a whole and entrepreneurship in particular can flourish and nurture from.**

Envisaged **U-impact** follow-up activities in line with the reforms needed in Albania include initiatives **promoting positive attitudes towards social entrepreneurship**. The production and dissemination of publications about SEs in media, online platforms and networks, will increase the visibility of the added value they bring to society, as well as the potential they have as innovative approach to services provision and trade. Raised awareness among citizens about the social and economic potential of SEs would in turn contribute to create an enabling environment for its development.