

BOOSTING GROWTH THROUGH SOCIAL BUSINESS IN FORMER COMMUNIST
COUNTRIES: A STATE'S OR A MARKET'S FUNCTION – THE CASE OF ALBANIA

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ABSTRACT

Social business is beginning to be seen as relevant by the public sector and the not-for –profit sector as well as the private sector. As a matter of fact, people are looking for a clear lead and articulated objectives and priorities from the government. It is a general view, inherited from the past that government has a role in signposting organizations to tools and giving direct advice through business links. State has a range of possibilities to intervene, using different channels. It may play a triple role. These three roles are inextricably linked as they reflect the new political, social and economic order in which we live and secondly because they determine a new, post-communist relationship between citizen and state.

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1. Introduction

The greatest challenge of Eastern and Central European countries is the social reform. The western literature has, at times, been tempted, and still may be, to consider income distribution in the former communist countries as an advantage of the system, assuming that equitable distribution was based on egalitarianism for all members of the society. Besides the Marxist theory, this viewpoint was also sustained by lack of realistic information on the former communist countries. Poverty in these countries did not exist only officially. As soon as “transformation started in 1989, economic reforms re-oriented income distribution towards growing inequality in all countries of Eastern and Central Europe”. (Vecernik, 1995)

Post-socialist societies, newly emerging from totalitarianism and centralized economy, have been trying and continue to try to design frameworks to regulate the market economy and income distribution. Albania, too, since the fall of the communist system in 1991, has lived through a deep and radical transformation. After 45 years of isolation and oppression under the harshest communism of the region, it embarked on the road to building democracy through human rights protection and livelihood improvement in the context of a free market economy.

In the overall process of social development, guided by respect for human rights, a special place is taken by social policies designed not only to provide social and economic protection for the groups at risk, but also to contribute to their re-integration in society. An essential part of these policies is aimed at providing economic and social protection for vulnerable groups to help them being reintegrated into social life.

The radical nature and rapid pace of change in the former communist countries has unleashed new forces for both positive and negative change, particularly in the fields of economic growth and social development. New approaches to commerce and service delivery are thus forcing us to challenge some of our conventional theories on the state, society and the economy.

A shift in thinking on social policy foresees the emergence of a social capital approach to social exclusion. This approach involves the mobilization of the entire community-including business actors and civil society leaders-in tackling social exclusion and empowering disadvantaged members of society.

The social business model, as developed in Albania in the creation of the Youth Albanian Parcel Service (YAPS), which employs exclusively disadvantaged youth, is an innovative example of new thinking on tackling social exclusion and reducing poverty. It promotes the novel concept of using efficiency and in-built sustainability of free markets to generate social wealth.

Social business is beginning to be seen as relevant by the public sector and the not-for –profit sector as well as the private sector. As a matter of fact, people are looking for a clear lead and articulated objectives and priorities from the government. It is a general view, inherited from the past that government has a role in signposting organizations to tools and giving direct advice through business links. State has a range of possibilities to intervene, using different channels. It may play a triple role. These three roles are inextricably linked as they reflect the new political, social and economic order in which we live and secondly because they determine a new, post-communist relationship between citizen and state.

This paper tackles the government’s role on finding ways to harmonize economic growth with social policies. While states struggle to take on the fiscal burden of supporting their most vulnerable citizens, societies such as Albania have paid witness to a dramatic growth in resources in a fledgling private sector. However, economic activity often operates in a binary rather detached and isolated from both public sector and civil society. The brutal and predatory individualism encountered in many enterprises is in sharp conflict with the social interests of the state and society at large.

The arguments advanced in the paper proceeds as follows: Section II examines the evolution of the Social Protection and Inclusion policy in Albania and the institutional arrangements it has shaped. Section III, which comprises the core theoretical component of the paper, argues the case that social business’s

experience may serve to formulate a new approach to social protection. Section IV elaborates what role the state may play, while Section V concludes the paper.

2. Social Protection and Inclusion in Albania

There has been a tendency, in various studies, to consider the social relationships of the socialist system as one of its strongest advantages. These countries, even the smaller ones, are included among modern societies when only physical and human capital is considered: the spread of literacy, urban population, modern communication and information characterize most of these countries today.(Ymeraj, 2011) However, the critical issues of transition and frequent crises have shown how inaccurate and insufficient is the evidence of social capital in these countries.

What has been called ‘the new human being of the Communist era’ has been seriously deformed. It was totally impossible to recognize real social values, due to oppression by and fear of the regime. During transition, the state and the market remain influenced by past ideology and by the legacy of historical development. The rapid polarization of society and the accumulation of wealth in a few hands have deepened the process of impoverishment, the middle class being more affected due to unemployment, very low incomes, emigration and disruption of social and community relations. Thus the tendency to advance towards democracy has been confronted by the bleakness of the social basis.(Ymeraj, 2011).

Most analysis concerning countries’ development refers to macroeconomics performance indicators, putting aside the concept of ‘social inclusion’. It has been generally accepted that a strong economy creates a suitable environment for social progress, which applies in practice up to a point. However, when referring to post-Communist countries there are two different realities. While the first refers to the market economy promoting social welfare, post-Communist countries are applying the opposite: in their case, ‘social mobilization’ transforms, encouraging the market to develop, which in the end turns towards social welfare.

Central and Eastern European countries vary from each other not only in terms of economic development but in general. Some of them appear at a higher development stage (Czech Republic, Slovakia, Poland, Hungary, and Slovenia), some others, including Albania are faced with critical economic and social challenges.

Since the beginning of the last century, Albania, a small country in the Balkans, with an area of 28,748 square kilometers and a population of 3,187,384 people³ has been characterised by heterogeneous governance, marked by striking disregard for the stage of social development, which has affected the nature and the development of social capital. Despite economic growth of 4 to 5 percent in the last years, poverty and social exclusion remain critical and the country is among the poorest in the region, with a poverty headcount ratio of 14,3%⁴ at national poverty line.

Today, Albania’s case exemplifies a traditional society making some sporadic efforts to become a modern one. This can be seen in both the market and the state sectors where large, impersonal bureaucratic organizations break the rule of law in their operations. (Rose, 1998). Moreover, informal networks substitute for formal organizations in politics, using bribery and corruption. Communities do not oppose such informal networks, being too weak to do so. Lack of social responsibility is both an output and an input, continuously generating a loss in social capital.

The negative economic legacy of the past and a difficult economic transition has caused economic instabilities coupled with deepening social and economic inequalities between the rural and urban parts. As a direct result of the cultural change, the entire population is exposed to a range of risks with bearing on the

³ <http://countrymeters.info/en/Albania>, Population Projections based on 2011 Census.

⁴ <http://data.worldbank.org/country/albania>

economic situation of the families and individuals, while opportunities to benefit from social service delivery remain limited.(UNICEF,NCSS,URI,2011).

The Albanian Social Protection mechanism, established from scratch in 1992-1993, is designed to addresses the economic and social dimensions of exclusion, alike. However, guided mainly by the criteria of macroeconomic balance maintenance and the limited budget, the social protection mechanism while providing benefits fails in promoting people to be socially integrated. The policy of social protection, defined as the policy of ‘alleviation of social inequalities’ is not sufficient to promote the social development of Albanian society, while the recipients of social assistance are the most vulnerable to social exclusion. They suffer from multiple social disadvantages because they lack access to basic standards of housing, education, health, human relationships and protection. Beyond straight forward economic poverty, the use of term social exclusion recognizes that the human rights of the individuals can be further threatened by the forced passivity of welfare, the inability to fulfil their basic potential and to build the kind of human relationships that lead to active citizenship.

The traditional approach of social protection is no longer relevant for Albania. A new strategy of poverty reduction and growth is needed, based on the new concept of multidimensionality of poverty, which implies the importance of measuring indicators such as health, nutrition and education, and also vulnerability, voicelessness and powerlessness. Therefore, the question raised here is whether this should be reflected in a new theory of social protection and how to implement it in the very challenging framework of Albania?

3. Social Business, a new approach vis-à-vis the traditional social protection policy

Social enterprises are businesses with social objectives whose profits are channeled back to the community to serve social goals. They are market driven and value led. Social enterprises tackle a wide range of social and environmental issues and operate in several domains of the economy.

The evolution of social enterprises was triggered by the blurring of sector boundaries between private and public. The recent unparalleled economic expansion; globalization and the spur of new technologies fundamentally questioned the reigning separation of the private and public sector. Multinational corporations faced with growing grassroots activism calling for corporate responsibility have gradually changed their perspectives on the sole profit making role prescribed to corporations. At the same time, international donors and governments believed that the social sector fell far short of remedying social ills. Little change has been noted in the welfare of societies thus consequent phasing out and donor fatigue left not-for-profits to struggle financially. Donors and governments have been repeatedly asking for sustainability as a pivot point for giving support to mushrooming NGOs.

The buzz word has become a financial term called double bottom line which required all entities to simultaneously meet financial and social goals. The new models engulf a corporation which is socially responsible and an NGO which is not grant dependent. On one hand, corporations with the well-entrenched slogan ‘good business, good neighbor’ reached out to local communities by supporting varying social initiatives. On the other, NGOs sought avenues to serve their social missions by developing self-sustaining businesses in the market. The new hybrids successfully blended for-profit and not-for-profit elements in their ventures.

Social enterprises have been sprouting in a variety of countries in different economic and business environment. This new field amalgamating business acumen and social sensitivity aims to meet the challenges of a changing world with converging boundaries between business and public. The social business model gives us great opportunities to boost both the economy and the society simultaneously building on business success and harnessing social well-being.

Social entrepreneurship can take many forms and serve many objectives. The oldest breed is workforce development initiated by governments and microfinance projects supported by international organizations.

The more recent model represents not-for-profit organizations transforming into business ventures to achieve long-term social impact. The newest social business venture conceptualized by a unique collaboration among business, private and social actors in Albania has set up a business – without building on a previously existing not-for-profit - to meet a social objective.

Youth Entrepreneurship has been a response to persistently high unemployment among youth in industrialized countries. The restructuring of labor allocation, shift to small-scale production and service sector from concentrated industrial production, and relocations of companies to countries with cheap labor led to unemployment. Even those young people who could find employment were faced with less favorable conditions, as often they were offered short- term contracts without benefits.

Youth unemployment did not only plague the industrialized countries but has been identified as one of the key development issues in South East Europe (SEE) following the transition periods. In SEE unemployment among youth especially marginalized social groups and women is higher than that of adults. Eroding social safety net and limited opportunities coupled by traditional nepotism in public sector jobs led to devastating consequences. Brain drain and massive migration caused tremendous loss in human capital. Long-term youth unemployment is likely to cause social problems. It increases the chance that young people get involved in illegal activities; engage in risky behavior such as drug use, violence and prostitution.

Governments encouraged the idea of self-employment and the development of entrepreneurial skills in order to reduce the risk of marginalization of young unemployed. Curricula at schools have been extended to include basic training and skills in self-employment, business administration, economics etc. Favorable environment for youth entrepreneurship was created by mentor support, access to finance and work space, and start-up loans. Governments offered incentives for companies that employ youth.

Several attempts have been also taken by the private sector, international and non-governmental organizations. There have been initiatives by the private sector to organize on-site visits, career days and even finance the school fees of talented youth. International and non-governmental organizations adopted the idea of social entrepreneurship to especially target youth of low socio-economic background and at risk youth.

In 2001, a coalition of private and public sector actors, under the leadership of UNICEF, developed a social business approach to reducing social exclusion. The Youth Albanian Parcel Service (YAPS) is a classic social business in the sense that it uses wealth creation to achieve social goals. Funds and expertise have been generated by the private sector to develop a courier service that exclusively recruits socially excluded young people.

The business component of the venture envisaged quality domestic mail and parcel delivery services delivered at competitive rates. The social component envisaged recruitment and training of young victims of social exclusion, as those described in the previous section plus migrant youth that represent additional strata of social exclusion within Albania. Profits generated by the young people would be ploughed back into expanding and developing social business opportunities for a wider band of youth. This virtuous circle would enable the young people, not only to turn their own lives around, but at the same time to become agents of social cohesion. (UNICEF, 2001).

UNICEF managed to raise over US \$ 300,000 in funds with the primary donor being Banca Intesa, a leading commercial bank in Italy and in Albania. A KPMG market survey of 114 leading banks, firms and institutions in Tirana revealed extensive demand for courier services. Indeed no domestic courier services were available in 2001. Simultaneous to the market survey, an independent consultant was hired to conduct a detailed feasibility study and business plan. Within the business plan, a cash flow forecast projected post tax profits moving from US \$ 17,005 per annum to US \$ 27,716 per annum within the first three years of trade. The cash flowforecast was based upon an examination of both market demand and the capacity that the contribution from Banca Intesa would enable YAPS to have.

These calculations foresaw the delivery of parcels growing from 69,873 deliveries per annum over the first three years of trade to 232,910.(UNICEF, 2001). A cash flow forecast is not a scientific announcement of a given outcome, but rather a set of navigational indicators that can inform the strategic direction of a venture. But using the thorough research that had been carried out by both surveys, UNICEF and the founders concluded that they could invest the money in the establishment of YAPS in Albania with a high probability that even a considerably more modest success than predicted would have the desired impact of employing a significant number of socially excluded youth.

A total of US \$ 308, 679 was directly invested in the establishment of YAPS. This covered the cost of recruitment, training, construction of a purpose-built premises (1/3 of total cost), procurement of equipment,market research, marketing, initial wages and management services. The availability of a relatively large sum of funding enabled a smooth and rapid set up process together with the capacity to provide high quality services from the outset.

After less than 15 years, YAPS is still in the market, with a complex package of services in addition to courier ones, like electrical supply repairs and maintenance, cleaning services, IT maintenance and other required services. During the last five years only, the number of employees has doubled, from 70 to 120. During the last decade, from 2005 to 2015, the volume of services provided by YAPS has increased by 8 times (from 15.000 services per year in 2005 to 120.000 services in 2015), whilst the number of clients only for the cleaning and maintenance services has increased by 3, 5 times (from 25 clients in 2005 in 84 clients in 2015). Net profits have also increased by 3 times, from US\$250,000 in 2005 to US\$800,000 in 2015.⁵

What does the YAPS experience show? YAPS has definitely made a real difference in the lives of the individual young workers involved. They are new persons with new lives and with futures that they or others thought they would never have. The initial impact of YAPS therefore is to break the cycle of passivity and hopelessness in the lives of a given number of individuals and provide an hitherto unavailable opportunity to shift from passive to active members of society.

While the dramatic results in young people's lives are widely recognized, there is the realization that YAPS and social business is not the panacea to the immense complex of social needs of young people. It is seen as a valuable piece of a broader web of social protection measures, and not a stand-alone solution. It is a high-investment venture but with significant returns on investment.

YAPS is a clear message that a new approach to social protection is needed, different from the traditional one. The new Social Protection mechanism, while helps the poorest to actively come out of poverty, promotes them as well to be socially included. Therefore, the transformation of the current system into a 'social protection, integration and inclusion mechanism' has to come to the forefront of the agenda.

YAPS experience demonstrates also that a new and vital partnership model is required, in which despite the nature and institutional organization, stakeholders are united by the mission and common objective of supporting people to alleviate shocks of transition through the provision of holistic and comprehensive social services. It proved that the effective collaboration between foreign and domestic actors and partners, and also between the partners and beneficiaries, has been the fundamental factor of success so far.

As a matter of fact, this experience helped to understand that provision of social wellbeing is neither a product nor a duty of one institution, therefore, there cannot be "one" provider. It is a product of many "actors" – governmental and nongovernmental, of the central and local government, public and non-public, which can and should take their social responsibilities for the sake of society.

⁵ Interview with Mr. Arben Shamia, YAPS General Director, May 2015.

4. The new roles of the state

“The duties of the state are first that of protecting the society from the violence and invasion of other independent societies; second that of protecting, as far as possible, every member of it. Third that of erecting and maintaining those public institutions and those public works which, though they may be in the highest degree advantageous to a great society, are of such a nature, that the profit could never repay the expense to any individual or small number of individuals”. (Barr, 1987). One of the greatest liberal thinkers, Adam Smith, in these words underlines three important duties of the state, although he was a strong advocate of “laissez faire” and considered individual freedom and initiative, the best alternatives to develop the world in harmonization.

Despite the changes in the international political economy and environment, these three fundamental responsibilities of the state stand at the basis of every social system. The new political, economic and social phenomena which accompany different stages of development have encouraged debates about the changes in the role of the state.

The question of the role of the state in the market economy has been and continues to be a controversial one. There are many advocates who explain the reasons why the state should intervene. There are also opponents who support the idea that the role of the state has to be reduced. In spite of its ongoing debate, the modern theory of the state has advanced some arguments that explain why the state has to intervene in the market economy. What is the situation in former socialist countries? Is there any reason for strong intervention of the state or does the legacy of the past ask for a limited role?

Whereas the theory of the state's role in capitalism is developed and many arguments are known, the role of the state in post-communist countries is still unclear. During socialism, the socialist state was the perfect model of an authoritarian regime, in which the government ran the country through a strict hierarchical system of decision making. Despite the strict measures to control the implementation of all political, economic and social policies, this system failed.

After the failure of the communist system, the question of the state's role in Eastern European countries, including Albania, is debatable and controversial. Some politicians do not understand that the socialist system did not fail because the state had too much power, but because it was badly organized. Other politicians argue that the economic role of the state has to be separated from its political role, contending that the state in the past failed because of its inability to separate economic and political spheres. But, as long as political power stems from economic power, it is not possible to separate economics and politics. They are linked with each other. “Economics will remain profoundly political, not only because this is the case in every politico-economic system, but because in the specific context of East Central Europe the task of economic transformation presents unprecedented political challenges”. (Barr, 1991).

Whereas political transformation is desirable for the people, economic and social transformation is painful. The implementation of transition reforms requires strict macroeconomic stabilization policies implemented alongside privatization, liberalization of prices and trade, fiscal and monetary policy; banking reform and opening up of the economy. The social pain which accompanies the implementation of these policies is the natural outcome of transition. But people are not prepared to tolerate such a situation. They have other expectations. “For a considerable part of the society the understanding and accepting of the rules of market economy finishes at the level of expectations of quick success and reaching a Western standard of consumption”. (Barr, 1991). Moreover, there are strong expectations that the new ‘democratic’ governments will be more responsible than the former communist regimes.

In such a social development context the economic goals of government can be achieved only by a strong government, capable of making courageous decisions and intervene to create, to regulate and improve.

The state is responsible for the success of transition period. From this difficult task stems the role of the state in post-communist countries: it has economic role, because it establishes and improves a new economic system, to encourage the development of markets and competition; it has social role because it founds the

systems which protect citizens from the shocks of transition; it has development role, because it realizes the education of people with the rules of democracy and the rules of market function.

These three main duties cannot be separated, because on the one hand they reflect the role of the state in the establishment and regulation of the new political, economic and social order and on the other hand, they affect the creation of a new relationship between the state and citizen, which is crucial for the success of reforms. Nonetheless, the 'how' still remains critical.

5. Conclusions

The transition reforms in Central and Eastern European countries have shown that rapid progress from a centralised to a liberal model cannot be realised without strong intervention by the state. The government is the link between privatisation, foreign investments, financial policies, and the administration that puts them into practice. The role of government is not only to focus on the legal framework, but also to apply this framework through the decentralisation of services and the consolidation of individual responsibilities. Otherwise, the establishment of a legal system has no useful function and the three roles of the state - economic, social and developmental - cannot be implemented.

However, nowadays new important actors are willing to undertake responsibilities. State is no longer the only "duty bearer" as regards social protection. Every day, citizens and civil society as well become more accountable vis-à-vis "rights holders". Nevertheless, they can't substitute the role of the state, but they complement it if the government exercises its power to align, leverage and harmonize stakeholders's contributions.

It is no accident that these reforms are called 'transition reforms'. The old system cannot be destroyed immediately: the process of evolution must follow in a natural and gradual way, substituting old relationships slowly only when new relations are created. The socialist system came to power through violence, damaging all previous societal values, whereas the new system aims to respect all human rights and cannot be based on imposed transformation. Whether or not the government is willing and able to respect this principle, is capable of understanding domestic conditions and reacting to them, depends on the government itself as well as on the level of responsibility of the people. So we come full circle. The legal institutions, public services, government and state mirror the attitudes of the people and their respective representatives, chosen by the people themselves. But the most important element of this circle is the relationship between state and citizen, because it affects the well-being of people, which should be and can be better if both state and citizens work towards it.

In the process of transition, as in all processes of development, the citizens and their culture are of particular significance: the citizen is both the object and the subject of economic or social systems. Hence, the investments in the citizen's social and professional culture, the investment in the culture of the generation, the investment in welfare, are also investments in the future. Their harmonisation provides a complete picture of the future strategy for the state in Central and Eastern European countries. The passage of time will pass judgment on what is achieved, compared with what could and should have been achieved.

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