

THE IMPACT OF SOCIAL BUSINESSES ON POVERTY REDUCTION IN THE REPUBLIC OF NORTH MACEDONIA

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Abstract

The level of poverty in Republic of North Macedonia opens up space for examining ways to reduce it. Social businesses are a new light that tries to correct the deformities caused by traditional actors in economies. The main goal of the paper is to identify the impact of social businesses on poverty reduction. Social enterprises, by creating innovative approaches, provide effective ways to reduce poverty. The paper advocates the thesis that there is a positive correlation between social entrepreneurship and poverty reduction. The answer to the thesis presented in the paper is obtained through a quantitative method, and the data is obtained through questionnaires with social entrepreneurs from Republic of North Macedonia. The collected data is processed and analyzed with statistical tools.

Keywords: social entrepreneurship, social business, poverty.

Defining poverty

“Poverty is not created by people who are poor. So we shouldn't give them an accusing look. They are the victims. Poverty has been created by the economic and social system that we have designed for the world. It is the institutions that we have built, and feel so proud of, which created poverty.” (Yunus, M., 2009).

There are two approaches in defining poverty:

- absolute (existential) poverty: lack of the basic necessities of life (water, food, clothing, shelter, etc.);
- relative poverty: lack of resources for a certain group of citizens in relation to the general standard of living in a certain country (Alcock, P., 2012).

Table 1: Percentage representation of poverty in RNM according to various indicators (2012- 2014)

	2012	2013	2014	
Стапка на сиромашни лица, % од населението	26.2	24.2	22.1	At-risk-of-poverty rate, % of population
Број на лица кои живеат под прагот на сиромаштија, во илјади	540.1	500.4	457.2	Number of persons below at-risk-of-poverty threshold, in thousand persons
Праг на сиромаштија за самечко домаќинство, годишен еквивалентен приход во денари	67 200	70 275	71 925	At-risk-of-poverty threshold of single-person household - annual equivalent income in denars
Праг на сиромаштија за четиричлено домаќинство (2 возрасни и 2 деца помали од 14 години), годишен еквивалентен приход во денари	141 120	147 578	151 043	At-risk-of-poverty threshold of four-person household (2 adults and 2 children aged less than 14) - annual equivalent income in denars
Стапка на сиромашни лица пред социјални трансфери и пред пензии, % од населението	42.6	41.0	41.7	At-risk-of-poverty rate before social transfers and before pensions, % of population
Нерамномерна распределба на приходите, S80/ S20 квантилен сооднос на приходи, %	10.2	8.4	7.2	Inequality of income distribution, S80/S20, %
Нерамномерна распределба на приходите, Gini коефициент, %	38.8	37.0	35.2	Inequality of income distribution, Gini coefficient, %

Source: State Office of Statistics. <http://www.stat.gov.mk/pdf/2015/4.1.15.100.pdf>. Accessed on 11/11/2022.

The poverty rate of the population in R.N. Macedonia during 2014 is 22.1%. Sources according to which the poverty line is calculated (relative and subjective) represent the data from the surveys conducted by the Statistics Office. Comparative Eurostat data show that North Macedonia is in the risk group of countries with a high poverty rate. The analysis includes member states and candidates for membership in the European Union (see picture no. 1). Analysis period 2012-2014.

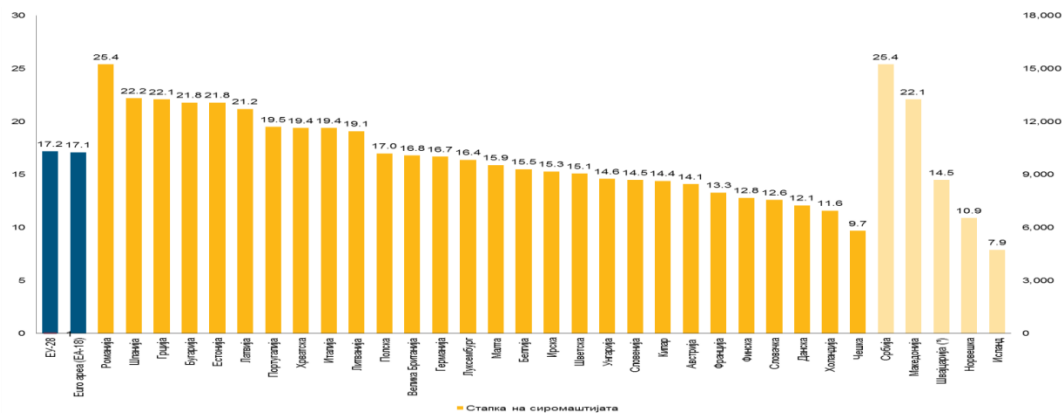


Figure 1: Risk rate of poverty in the EU member and candidate countries for 2014. Source: http://ec.europa.eu/eurostat/statistics-explained/index.php/File:At-risk-of-poverty_rate_and_threshold,_2014_YB16bis.png. Accessed 2 November 2022.

Within the framework of the above data, we were talking about relative indicators of poverty rates, while, on the other hand, the absolute display of the state of the population living in R. N. Macedonia with under \$5 per day in 2015, according to the World Bank, is 17.3% (see figure 2.).

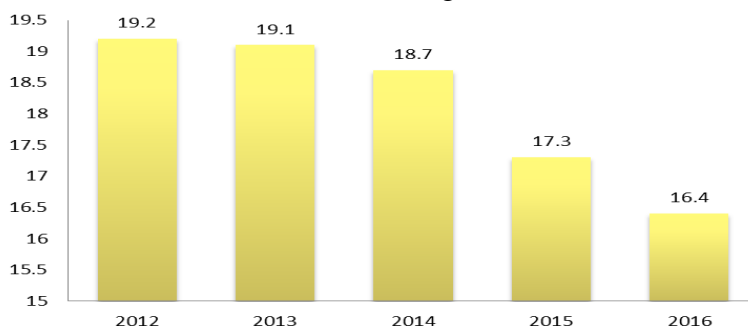


Figure 2.: Poverty rate in the RNM (percentage of the population with less than \$5 a day) Source: World Bank Group: South East Europe Regular Economic Report, spring 2016, p. 69. Available at: <http://pubdocs.worldbank.org/en/199171459965810138/SEERER9-for-web-eng.pdf>. Accessed 2 November 2022.

One of the causes of poverty, as a huge socioeconomic problem, is the high rate of unemployment, the percentage of which is obtained as a result of the relationship between the number of unemployed persons and the total labor force. In R. N. Macedonia, since its independence until today, high rates of unemployment appear. After the period of the change of ownership from state to private, there was a decrease in unemployment, starting from the nature of each change, on the contrary, subjective privatization takes place with great doubts about fair implementation, closure of the majority of legal and economic production entities, etc.

The unemployment rate in RNM is high, although according to statistical data in recent years it has been decreasing, but if it was 25.2% in Macedonia in 2016, the average value of the unemployment rate in the EU-28, in the months of May and June 2016, is 8.6% (Unemployment rates, July 2016).

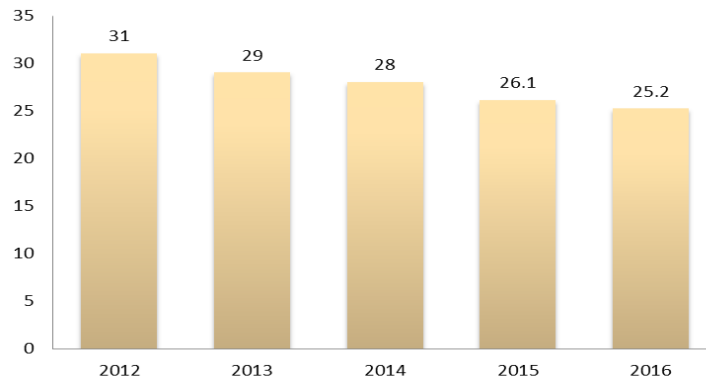


Figure 3.: Unemployment rate in RNM (percentage mean value)

Source: World Bank Group: *South East Europe Regular Economic Report*, spring 2016, p. 69. Available at: <http://pubdocs.worldbank.org/en/199171459965810138/SEERER9-for-web-eng.pdf>. Accessed 2 November 2016.

Minimum wage

The minimum wage in R. N. Macedonia was introduced in 2012 with the adoption of the Law on Minimum Wage, then it was 39.6% of the average gross wage, and during 2016 it was 50% (16,319 den. for the month of July), i.e. from the average gross salary, based on the data from the State Statistics Office. The data on the minimum wage by departments show that in some of them it is below the minimum wage, as is the case with: fisheries and aquaculture (8,479); clothing manufacturing (9,198); manufacture of leather and similar leather products (8,380); processing of wood and products of wood and cork, except furniture (9,891); production of items from straw and plaiting material; furniture manufacturing (9,823); services related to maintenance of buildings and activities of arrangement and maintenance of the environment and nature (9,825).

The concept of a minimum wage means reducing the opportunities for abuse of the labor force, especially when it comes to those jobs that are filled by people with the lowest level of complexity of the acquired education, and to reduce the number of poor people, but the facts speak that there are sectors where employees are paid below the set amount, such as the textile industry. On the official website of the Ministry of Labor and Social Policy, no data was found on cases of reporting such abuses, for which it is assumed that employees are afraid of being fired if they decide to take such a step.

Namely, the amount of the minimum wage, although according to statistical data compared to years ago, it has increased, it is excluded from consideration that its purchasing power does not correspond to the amount of the consumer basket, which is also measured by the State Office for statistics, however, only individual food and beverage products are taken into account, not considering the costs of utilities, and other expenses that are necessary for a normal standard of living. This is all the more so because the prices of products recorded an increase: clothing and footwear by 6.9%, hygiene and health by 4.7%, restaurants and hotels by 3.9%, food by 3.6%, tobacco and beverages by 3.0%, household goods by 1.5%, firewood and lighting by 1.1%, culture and entertainment by 0.9%, other services, not mentioned elsewhere by 0.7%, and apartment (rent, water and services) by 0.6%.

Certain theories, on the other hand, claim that the minimum wage can be the reason for the increase in unemployment.

Distribution of income

The gross domestic product (GDP), which is the sum of the values of the total goods and services produced in the period of one calendar year, is often used as an indicator of the state's economic condition (Fiti, T., 2014, p. 301). However, the fact is indisputable that the general improvement of the economic situation in a separate country does not imply the improvement of every individual in society, on the contrary, it can mean an increase in the wealth of a certain group and a decrease in another, i.e. an unequal distribution of income that leads to the growth of inequality and the creation of two distant strata, the rich and the poor.

The introduction of flat taxes, according to which everyone pays the same tax regardless of their income, contributes to increasing the gap between the rich and the poor. In the last few years, there has been a reduction in taxes in Macedonia, including: profit tax, personal tax, and taxes on social insurance contributions (pension, health, etc.), but this implies an equal reduction for both low-income and persons with high incomes. The biggest privilege for the rich is the setting of an upper limit - the highest basis for calculating contributions to earnings from employment, at 12, i.e. 8 average gross salaries (for 2016). With such legal privileges, the state allows the rich to multiply their material wealth, while such a trend enables the deepening of economic inequality. Thus, the manager with a salary of one million denars, not only pays the same tax as the employee who receives a salary of ten thousand denars, but also over 387,216.00 denars, i.e. 258,144.00 denars, is privileged with an exemption.

The feeling of injustice increases when some of the privileged rich people have acquired their wealth by abusing the system.

The statistics on the difference between the highest and the lowest salary are not relevant given the fact that these are average amounts by sector, without taking into account the highest salary for individuals, mostly managers and owners, which would be compared to the minimum wage in the state. We are talking about striking differences, for example, a person who receives a salary of 10,000.00 denars needs one hundred months (8 years and three months) to earn the amount of 1,000,000.00 denars that the manager receives in one month.

The example of the highest salary of 1,000,000.00 denars is taken as an approximate mean value based on the official data for 2016 for the highest salary of managers in the Republic of N. Macedonia, although during 2013 data came out that the highest incomes in the name of salary reached up to with 5,000,000.00 denars.

The Gini coefficient measures the frequency of income distribution, it is zero when perfect equality of distribution occurs (in a situation where all people have the same income), and is equal to one when there is maximum inequality (in a situation where income is concentrated in one person).

With the increase of the poor layer and the loss of the middle class, social problems and expenses from the budget in the name of social transfers increase.

Bibliography review

The number of thinkers who speak loudly about the situation with the economic inequality of the population in individual countries around the world is increasing. Erich Fromm (Fromm, E., 1989) advocating humanistic socialism promoted the unity of people not only within a society, but throughout the world, by enabling the poor layer of the population to achieve an economically decent life. Humanistic socialism supports remuneration based on labor and qualifications, but under no circumstances should this imply an increase in differences in material incomes to such proportions that they would create two distant layers.

Modern capitalism creates people who are deprived of the essence and are guided by materialistic dogmas, people who spend more, who have clichéd and standardized tastes and needs, some for the rich and others for the poor.

It is more than likely that the psychology of solidarity occurs in a state of abundance (Fromm, E., 1956), but the majority of capitalists would primarily spend their money on things that not only do not need, but are beyond real human values, rather than investing them in activities that will entail providing at least minimal living conditions for the most endangered population in the world.

The Nobel laureate Joseph E. Stiglitz, in his book *The Great Divide: Unequal societies and what we can do about them*, also talks about inequality, which he claims is not a natural occurrence, but the result of designed social economic systems, most likely referring to neoliberal capitalism (Stiglitz, J., 2011).

Nobel laureate Muhammad Yunus is committed to creating a world without poverty, and in his book *Creating a world without poverty* (Yunus, M., 2009) he claims that social businesses can significantly influence the reduction of poverty. As mentioned above, he is the founder of Grameen bank, as well as many other social enterprises that he opens in cooperation with entrepreneurs who have an ear for his goals.

EU and national support

The European Union, through its regional policy, implements measures to support employment, business development, economic sustainable growth, and improving the life of the population. Almost a third of the total budgets of the Union are allocated for cohesion policy, which is implemented through three main funds, namely: the European Regional Development Fund (ERDF), the Cohesion Fund (CF), as well as the European social fund (European Social Fund - ESF). The European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) can also be added here.

The European Social Fund was established in order to improve the possibility of employment and the availability of education, ie to support the most vulnerable population that is poor or on the verge of poverty. In the analyzed period, more than 80 billion euros were earmarked for that purpose in the EU member states, and an additional 3.2 billion euros for youth employment. The set goals of the mentioned EU cohesion policy are intended to be achieved through the following pillars: encouraging employment and supporting mobility in work, promoting social inclusion and fighting poverty; investing in education and encouraging lifelong learning; strengthening the institutional capacities of the public sector. It is also emphasized that as much as 20% of the planned funds will be earmarked for poverty reduction (Regulation (EU) No 1304/2013). The EU also offers support to candidate countries, such as N. Macedonia. The planned support is implemented through national governments, which are in the role of mediators and implementers of such policies, which also create internal support through various national programs.

Considering that a large part of the population in North Macedonia, which is on the verge of poverty, deals with agriculture, primarily for its own needs, and due to the fact that agricultural activity can be a competitive branch of the state due to the natural conditions, above all, for organic production, efforts are being made to support that segment. Namely, in addition to the Ministry of Agriculture, Forestry and Water Management, special agencies have been established, namely: the Agency for Financial Support of Agriculture and Rural Development (in order to efficiently manage the funds for EU pre-accession aid and the Budget of the Republic of Moldova), as well as The Agency for the Promotion of Agricultural Development (in order to provide advisory services for quality agricultural production with economic justification. The financial support that is available for this purpose is through the IPARD program, and through the National Program for Financial Support of Rural Development. The support consists of advisory services, direct financial aid in the form of subsidies, through funds for investments, etc. From the analyzes made for this paper, it was concluded that the shortcomings of these types of support are: large bureaucratic procedures and inaccessibility for marginalized groups of citizens; political and other influences in the approval procedure, the greatest use by large companies; unavailability for beginners (start-up), even for the promoted programs with such a purpose (Young farmers), it is necessary that the financial means be invested by the entrepreneur himself in the planned investment, and then be reimbursed, etc.

Analysis of the results

Practice shows that the traditional actors, who are participants in the creation of the socio-economic system, are not able to solve the social problem of the increasing impoverishment of the poor and even more enrichment of the rich. As it was emphasized several times within the framework of the above elaborations of this paper, the state, although it has the capacity and power, due to various factors does not solve poverty, on the contrary, in developing countries in which populist governance is applied, it deepens, for account of individuals who are the product of illegal privatization (in the former Yugoslav states), and who accumulate their personal wealth, while being enabled to exploit the labor force, which, in a state of huge gap between supply and demand, is forced to be "satisfied" with the offered conditions.

In the conducted research in which social entrepreneurs were surveyed in N. Macedonia, they were also asked for their opinion regarding the capacities of the states in solving poverty problems, with the majority (87.5%) answering that they have the power to face that problem, but they are not using it in the right way.

Socially responsible corporations have also been noted to have not developed a sense of solidarity driven by the desire to accumulate wealth and compete to be the "richest in the world". If there were a legal obligation mechanism for the social responsibility of large corporations, no matter how naive and utopian it sounds, it is assumed that a significant part of social problems, including poverty, would be reduced.

An interesting result of the survey conducted with social entrepreneurs are the answers to the question regarding social responsibility, where all were unique that large corporations apply quasi-social responsibility, exceptionally in those situations in which they see interest, such as the case of advertising and promotions.

For non-profit organizations, due to their impotence for self-sustainability, they do not represent a model that would represent a solution to the most bitter social problem - poverty.

The results of the research only confirm the view that non-profit organizations, which are not self-sustaining, do not have sufficient capacity to realize their goals - social and environmental. Thus, the majority of social entrepreneurs (75%) answered that the reason for insufficient capacity is limited financial capital and dependence on donors.

With Grameen bank (bank of the poor), Muhammad Yunus starts the microcredit revolution, a concept that allows loans to the most vulnerable categories for which commercial banks are inaccessible. In that direction, he will point out: "We should not blame fate, nature or God for our problems. The real problem is not natural disasters, but widespread poverty, and this is caused by man." (Yunus, M., 2009).

Muhammad Yunus, among other things, cites data that speaks of the power of the concept of social business in reducing poverty. Namely, it is claimed that poverty from 74% in 1973, decreased to 40% in 2005; then the average income of the most vulnerable group of citizens increased by 10%; the economy in Bangladesh experienced an increase of up to 50%; etc. (Yunus, M., 2009).

The views of the surveyed social entrepreneurs in R.S. Macedonia in relation to the potential of social business in reducing poverty, to the greatest extent are based on presented assumptions (for the most part), and a smaller percentage confirm, and none of them stated doubts.

Also, an opinion was requested by choosing one of the offered answers: one-time donations in the form of food, clothing, and other necessities; frequent donations in the form of food, clothing, and other necessities; applying a social incentive concept that will enable poor groups and individuals to become self-sustaining; more active participation of the state and depoliticization of institutions; establishment of social enterprises by large for-profit companies; opening more small profitable businesses; a combination of all the measures suggested above; and another. For the most part, they decided on a combined approach from all the offered models for poverty reduction.

Muhammad Yunus takes the view that people are not lazy by nature and that poverty does not come because of their inactivity, but because society has not offered them the opportunity to use their potential. Similar opinions are found in Erich Fromm. In that direction, Yunus will point out: "The poor are like bonsai trees. If

you plant the best seed of the largest bonsai tree in a six-inch vase, you will get an answer, but it will be a bonsai only a few centimeters tall. It's the same with the poor, the problem is not their "seed", but that society has never given them any basis to develop." (Yunus, M., 2009, p. 247)

For this purpose, a short research was conducted through a survey, the target group of respondents were people over 18 years old.

In order to confirm the view that the cause of poverty is not the individuals themselves, the question was asked whether they would continue working even in situations where they had a guaranteed income for basic life needs, while the results show that the largest number (over 85%) answered affirmatively, and they see the motive for such a procedure in the satisfaction of the work, but not in greed (The group that was surveyed consists of people who do not live in enormous material abundance). In this direction, it is worth pointing out that greed is the driving force for many capitalists, so it is assumed that this trait manifests itself in conditions of great abundance.

A special research was carried out on the realization of funds from the Agricultural Credit Discount Fund, available to holders of agricultural holdings and for small and medium-sized enterprises, with favorable interest rates (4% through the included commercial banks and 6% through the included savings banks). The discount difference for the involved banks and savings banks is provided by the European funds and the budget funds of the state. Disadvantages: great political influence for its use through premature dictation of banks on the selection of users; unavailable for "startup" initiatives; high creditworthiness conditions, etc.

Conclusions with recommendations

Elaboration on tackling poverty through the eyes of social enterprises and research confirm the thesis that social enterprises have an impact in tackling poverty, because their goal is to solve the problems of marginalized groups of citizens.

Recommendations from this paper are as follows:

- transformation of traditional large corporations into social enterprises;
- introducing a legal obligation for social responsibility;
- - the reduction of huge differences between the salaries of managers and workers;
- limiting the accumulation of shareholders' capital by introducing mandatory obligations to invest the money in new production and service activities that will entail the creation of new jobs.;
- the increase of the minimum wage, which will be adequate to the real consumption basket, which will include real forecasts for healthy food, as well as for the costs of utilities, housing, etc.;
- opportunities to borrow financial resources with low interest rates and by creating a system that will make lending available to the poorest citizens, among whom great entrepreneurial potentials are hidden;
- replacement of the system for distribution of modest incentives in the form of subsidies in agricultural activity, and its availability for the poorest citizens;
- enabling the organized purchase of agricultural products, as an occupation for the majority of poor people in N. Macedonia, etc.

And all of that needs to be stimulated by measures aimed at creating conditions for the development of social entrepreneurship:

- creation of conditions by the state system for the establishment and development of social enterprises (legislation, independence, incentive measures, tax reliefs, etc.);
- creation of a self-sustaining and independent economic system, which will enable the smooth realization of social goals;
- overcoming barriers, including: relational, cultural, and institutional (mentioned in previous chapters);
- development of social finance;

- introducing the public to the concept of social entrepreneurship and its role;
- developing awareness of the impact of social entrepreneurship and creating a social consumer profile;
- creation of personnel in educational institutions, who will be trained to establish and work in a social enterprise;
- possessing business abilities among the founders of social enterprises, who will have the necessary skills that will enable the achievement of self-sustainability;
- developing solidarity among owners and employees, as one of the main drivers of this type of enterprise; etc.

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