
Social accounting in Albania

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Social accounting is the process of communicating the social and environmental effects of organizations economic actions to particular interest groups within society and to society at large. This research paper is focused on the concepts of social and environmental accounting, viewed as an important part of the Albanian policy preparation for European Union integration. Presently, however, the EU notion of corporate engagement and Social accounting is still a new concept in the region. The paper aims to reveal the Albanian reality, as a country with strong aspiration toward EU. For this purpose we have analysed the main initiatives and projects implemented in the region and in Albania aimed at developing corporate social responsibility (CSR). This paper examines the applicable and relevant paragraphs of the global financial reporting standards (IFRS). The relevant paragraphs for environmental accounting have been analyzed in relation to the environmental financial reporting. We believe that this research may serve as a starting point for further studies on this topic. This paper concludes that social and environmental reporting practices are increasing day by day in the region. In Albania the awareness of CSR and how it can be applied is still quite low, perceived mainly as an opportunity to adopt international standards and engage in environmental protection. Hence we believe that improvements in quality of environmental financial reporting are required.

Keywords: Social Accounting, Environmental reporting, CSR, IFRS.

JEL classification: M14, M40

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I. Introduction

Social accounting, also known as non-financial reporting, or sustainability accounting is the process of communicating the social and environmental effects of organizations economic actions to particular interest groups within society and to society at large.

Environmental accounting, which is a subset of social accounting, focuses on the cost structure and environmental performance of a company. It points to the fact that companies affect their external environment through their actions and should therefore account for these effects as part of their standard accounting practices. Social accounting is in this sense closely related to the economic concept of externality. Accounting for impacts on the environment may occur within company's financial statements, relating to liabilities, commitments and contingencies for the remediation of contaminated lands or other financial concerns arising from pollution. Such reporting essentially expresses financial issues arising from environmental legislation.

Social accounting is commonly used in the context of business, or corporate social responsibility (CSR). Increasingly, CSR is regarded as a key driver of competitive business advantage and sustainable economic growth. The concept of corporate social responsibility is hardly constrained by well-defined boundaries. Among the possible interpretations of the concept appears also the duty to "answer" for their actions to various stakeholders. To this interpretation is linked up the notion of *accountability*. It is within this theoretical framework that places the social accounting theory.

The European Commission has long recognized the potential positive contribution that the European economy can gain by engaging in CSR activities. Since its Green Paper on "Promoting a European Framework for Corporate Social Responsibility" in 2001, the EU has issued a communication recognizing the importance of CSR

engagement in the sustainable growth of European economies and extensively promotes CSR engagement among all layers of European business. Individual EU member states have also been active in exploring CSR.

Many have developed national CSR strategies, the most recent example being Denmark. Others, such as the UK, have introduced legislation requiring companies to report on relevant social and environmental aspects of their operations. Since 2008, Sweden has required state owned companies to report on the sustainability aspects of their operations. Within the European business community, it is now commonplace for major listed companies to have a specific CSR strategy and to report annually on their CSR performance. CSR is also being actively developed in many new EU members and candidate countries. Some countries (e.g. Lithuania) have already adopted a national program – strategy on CSR promotion and others (e.g. Poland, Slovakia) have launched multi stakeholder dialogues aimed at developing such a strategy.

EU member states have also been active outside Europe in promoting CSR at the international level. In the last years, the ‘G8 Group’ of industrialized nations (which includes Britain, France, Germany, and Italy, together with Canada, Japan, Russia and the United States) underlined their support for CSR, specifically calling on the business community worldwide to adhere to recognized international standards. This research paper is focused briefly on the concepts of social accounting and corporate social responsibility importance. The following sections outline the Albanian reality, as a country with strong aspiration toward EU. For this purpose we have analyzed the main initiatives and projects implemented in the region and in Albania, aimed at developing corporate social responsibility (CSR).

The final section of this paper examines the applicable and relevant paragraphs of the global financial reporting standards in relation to the

environmental financial reporting, as we believe that information for environment is strongly influenced by accounting.

It is interesting for us examine (or just to make the first step in this field) whether international financial reporting standard (IFRS) can contribute towards monitoring and protection of the environment.

II. Social Accounting

Social accounting also known as social and environmental accounting, corporate social reporting, non financial reporting, or sustainability accounting is the process of communicating the social and environmental effects of organizations economic actions to particular interest groups of the society.

Social accounting emphasizes the notion of corporate accountability. D.Crowther defines social accounting in this sense as "an approach to reporting a firm's activities which stresses the need for the identification of socially relevant behavior, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques"(D.Crowther, *Social and Environmental Accounting* 2000).

It is also very interesting the definition that Rob Gray has about the development of social accounting in the last thirty years. His analysis conceives of three quite different sorts of social accounting that have all been around throughout the period:

1. The "social audits", referred to those public analyses of accountable entities undertaken (more or less systematically) by bodies' independent of the entity, and typically without the approval of the entity concerned. The standard for social audits was set by the Social Audit Ltd in the 1970s which produced seminal reports on companies such as Tube Investment, Coalite and Chemical. In the current debates over sustainability it will be the actions of the various external social audits that will arrest the capture of sustainability by corporate interest.

2. The “silent social accounts”. Organizations have steadily increased their areas of voluntary disclosure, most obviously on environmental issues but also on matters such as consumers, product safety and interactions with the community (See Gray et al.1995a, Adams and Harte 1998). Taken together, these data form the basis of a “silent” social account.
3. The “new wave” of social accounting that is really an echo of the social accounting of the 1970s. What we see emerging at the turn of the century is a range of organizations (NGOs and companies) making significant attempts to produce systematic social accounts. The inauguration of a UK social reporting award scheme (jointly sponsored by the Association of Chartered Certified Accountants and the Institute for Social and Ethical Accountability) offers an important mechanism through which to monitor progress and raise standards.

Social accounting is commonly used in the context of business, or corporate social responsibility (CSR). Globally, there is a significant body of literature providing definitions of CSR. However, until now, there has been no official or academic definition of CSR. As a country with strong aspiration toward EU we found interesting the EU definition of CSR as: “A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission Green Paper, 2001).

In the context of the global economy, and the interest of all countries and companies to participate fully in global supply chains, Corporate Social Responsibility (CSR) is understood to be a potentially powerful tool to help give competitive advantage in the marketplace. Increasing numbers of:

- *Business leaders* understand that long-term company value is based on the capacity of business to respond to society's changing needs and expectations;
- *Employees* prefer to work for companies whose values and mission they share, and where they can make a contribution to society;
- *Local communities* want to know that businesses are being good citizens;
- *Investors* look for companies that understand and manage their risks, and are entrepreneurial in identifying emerging business opportunities;
- *Regulators* want to ensure that business activities not only create jobs and economic growth, but also help solve pressing problems such as climate change;
- *Consumers* often seek products and services of companies they believe are doing the 'right thing' in terms of human rights and the environment;
- *NGOs* expose examples of irresponsible behavior and campaign for greater corporate accountability and transparency;
- *Media* organizations look for examples of best or worst practice to spotlight.

III. Albanian experience

As in many other transition countries in the region, the history of CSR in the Western Balkan region is comparatively recent. As all countries in the Balkans are aiming towards EU accession, governments have been keen to align their public policies with EU standards. The first CSR related initiatives, in the sense defined by the EU definition, were launched in the countries reviewed, in the middle of the current decade by development partners and some multinational corporations. The following initiatives are among the main ones implemented in the region aimed at developing CSR in the regional context:

- The United Nations Global Compact;
- The UNDP sponsored study “Baseline Study on Corporate Social Responsibility Practices in the Western Balkans”;
- The UNIDO regional program called “Development of Corporate Social Responsibility in Central and Eastern Europe” (CEE),
- The Establishing Corporate Social Responsibility in Southeastern Europe” (ECSRE) project initiated and supported by the German Federal Ministry for Economic Cooperation and Development and implemented by InWent;
- The Southern Europe International Standards and Technical Regulations project initiated by International Finance Corporation Advisory Services.

The Albanian Global Compact project dates in April 2007 till December 2011 and aims to facilitate dialogue between private and public sectors in Albania and engage the business community in all socio-economic aspects of development. Through investing in viable business operations and the power of collective action, the Global Compact seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. In this way, the private sector in partnership with other social actors can contribute to a more sustainable and inclusive global economy.

The first and the only official results about CSR practice in Albania came out from the UNDP sponsored study “Baseline Study on Corporate Social Responsibility Practices in the Western Balkans”. The main goal of the study was to measure the level of CSR engagement among the business community and non-corporate stakeholders of CSR promotion in the Western Balkans region including Albania, Bosnia and Herzegovina (B&H), Kosovo, Montenegro, and Serbia. The study was implemented from February to July 2008 with the support of national teams of experts from the

above countries and under the guidance of international consultants. The study included desk research on CSR related literature from the region, and surveys with CSR non-corporate stakeholders as well as members of the business community.

The research used the Accountability rating TM methodology and rated CSR engagement of companies in the Western Balkans region, along six domains: Strategy, Stakeholder Engagement, Governance, Performance Management, Public Disclosure and Assurance. According to the first findings:

- 19 percent of the companies in the region currently incorporate CSR into their overall business strategy;
- 12 percent involve stakeholders in company activities and decision-making processes;
- 22 percent have governance and management systems that integrate CSR into business processes;
- 23 percent have good reporting behavior;
- 4 percent utilize independent experts' services to assure CSR compliance levels.

Multinational corporations are leaders in terms of CSR in the region. They apply practices and experience gained from their international operations. Small and medium sized enterprises (SMEs) are typically 'bystanders' of CSR activities. State owned companies fall in between national private and multinational companies with regard to their engagement in socially responsible activities.

Also CSR projects implemented in the region by companies can be categorized into four groups:

1. Engaging in philanthropy;
2. Supporting community initiatives;
3. Implementing environmental projects; and
4. Investing in employee welfare and education.

Regarding to our reality, awareness and development of CSR practices in Albania is very limited. In 2003, the Albanian Institute for Development Research and Alternatives (IDRA) with support from OSCE launched a project called Introduction of Business Ethics at Albanian Universities. The project aimed at introducing concepts of business ethics at Albanian Universities. The project was carried out until 2005. According to its final report, the students and faculty at the universities demonstrated significant interest in the subject of business ethics. However, students had the perception that Albanian businesses do not adhere to any principles of business ethics and that the understanding of social responsibility is very limited among students. According to the desk research results, there has been no study, survey or other research project conducted in Albania in order to investigate the CSR development in the country. There are few CSR initiatives in the country that are supported by development partners and are often implemented by CSOs.

However, the scale of those projects is usually not at the level to affect national policies or create significant public awareness. The Global Compact implemented by UN, ECSRSE by In Went, Southern Europe International Standards and Technical Regulations by IFC are among the few aimed at developing CSR initiatives at the national scale. Besides development partners there are several pioneering multinational and national companies (e.g. Raiffeisen Bank, Pespa Alumil, Bankers Petroleum, Floryhen, National Commercial Bank, Vodafone, Antea Cement, etc.) in the country that are actively engaged in various CSR related activities.

The study outlined also that Albania has the most progressive legislative background and laws in the region which, if implemented accordingly, can be a great resource for further development of CSR practices.

IV. Environmental Financial Reporting

Environmental accounting, which is a subset of social accounting, focuses on the cost structure and environmental performance of a company. Accounting for impacts on the environment may occur within a company's financial statements, relating to liabilities, commitments and contingencies for the remediation of contaminated lands or other financial concerns arising from pollution. Contemporary information for environment is strongly influenced by accounting.

Financial statements are prepared and presented for external users by entities around the world. The environmental financial reporting covers all those activities associated with the presentation of financial and non financial environmental information.

The *Framework* for the preparation and presentation of Financial Statement deals with the qualitative characteristics that determine the usefulness of information in financial reports, examined in the context of environmental accounting. Such as:

1. *Accountability* of FS. The preparation and presentation of financial statement is responsibility of the management (Paragraph 14);
2. *Relevance*. The management should disclose all information which may be useful for its users. Information must be relevant to the decision – making needs of users. (Paragraph 26);
3. *Materiality*. The relevance of information is affected by its nature and materiality (Paragraph 29, 30). Information is considered material if its omission or misstatement could influence the economic decision of users taken on the basis of the financial statements. In this paper context the management should measure and disclose the contingent liabilities in financial statement for possible future activities.
4. *Substance over form*. It is necessary that transactions are accounted in accordance with their substance and economic reality, which

is not always consistent with that which is apparent from their legal or contrived form (Paragraph 35).

5. *Prudence.* The preparers of financial statements have to contend with the uncertainties that inevitably surround many events and circumstances such as the collectability of doubtful receivables, the probable useful life of plant and equipment and any other environmental liabilities claims that may occur. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, because the financial report would not be neutral and, therefore, not have the quality of reliability (Paragraph 37).

IFRS 6, Exploration and evaluation of mineral resource. IFRS 6 permits a mining company to select an accounting policy of either immediately expensing or capitalizing exploration or evaluation expenditures provided. This policy should reflect the extent to which the type of E&E expenditure can be associated with finding specific mineral resources.

IFRS 6 does not cover expenditures incurred before or after E&E phase. This standard requires the recognition of decommissioning provisions related with an existing present obligation from a past event and it is probable that future costs will be incurred to restore or rehabilitate a property or other long – lived asset. The definition of a provision under IFRS is broader. IFRS requires a liability to be recorded even when only a constructive obligation exists which may have been created by promises or established patterns of carrying out similar activities.

IFRIC 5, Decommissioning restoration and environmental funds. The purpose of decommissioning restoration and environmental rehabilitation funds hereafter referred to as ‘decommissioning funds’ or ‘funds’ is to

segregate assets to fund some or all of the costs of decommissioning plant (such as a nuclear plant) or certain equipment (such as motor cars) or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land) together referred to as 'decommissioning' (Paragraph 1). The contribution in the above funds may be through voluntary or regulatory obligations. The funds may have any of the following structures:

- Funds that are established by a single contributor to fund its own decommissioning obligations whether for a particular site or for a number of geographically dispersed sites.
- Funds that are established with multiple contributors to fund their individual or joint decommissioning obligations when contributors are entitled to reimbursement for decommissioning expenses to the extent of their contributions plus any actual earnings on those contributions less their share of the costs of administering the fund. Contributors may have an obligation to make additional contributions for example in the event of the bankruptcy of another contributor.
- Funds that are established with multiple contributors to fund their individual or joint decommissioning obligations when the required level of contributions is based on the current activity of a contributor and the benefit obtained by that contributor is based on its past activity.

In such cases there is a potential mismatch in the amount of contributions made by a contributor (based on current activity) and the value realizable from the fund (based on past activity).

The contributor shall recognize its obligation to pay decommissioning costs as a liability and recognize its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay (Paragraph 7).

When a contributor has an obligation to make potential additional contributions, for example in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfill the fund's reimbursement obligations, this obligation is a contingent liability that is within the scope of IAS 37. The contributor shall recognize a liability only if it is probable that additional contributions will be made (Paragraph 10).

In accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* an entity recognizes any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources (Paragraph 11).

The Standard defines provisions as liabilities of uncertain timing or amount. A provision should be recognized when and only when:

- An entity has a present obligation (legal or constructive) as a result of a past event;
- It is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation;
- A reliable estimate can be made of the amount of the obligation. The Standard notes that it is only in extremely rare cases that a reliable estimate will not be possible.

In rare cases, for example in a law suit, it may not be clear whether an entity has a present obligation.

The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period in other words the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

IAS 41, Agriculture. This standard prescribes the accounting treatment financial statement presentation and disclosures related to agricultural activity. And any related matter not covered in other Standards. Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale into agricultural produce or into additional biological assets.

IAS 41 prescribes among other things the accounting treatment for biological assets during the period of growth degeneration production, procreation and for the initial measurement of agricultural produce at the point of harvest.

It requires measurement at fair value less costs to sell from initial recognition of biological assets up to the point of harvest other than when fair value cannot be measured reliably on initial recognition. However, IAS 41 does not deal with processing of agricultural produce after harvest; for example processing grapes into wine and wool into yarn.

IAS 41 requires an entity to measure that biological asset at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable an entity should measure it at its fair value less costs to sell.

IAS 41 requires an unconditional government grant related to a biological asset measured at its fair value less costs to sell to be recognized in profit or loss when and only when the government grant becomes receivable. If a government grant is conditional including when a government grant requires an entity not to engage in specified agricultural activity an entity should recognize the government grant in profit or loss when and only when the conditions attaching to the government grant are met. If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses the entity applies IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

IAS 20, Accounting for Government Grants and Disclosure for Government Assistance.

Government grants including non-monetary grants at fair value shall not be recognized until there is reasonable assurance that:

- The entity will comply with the conditions attaching to them;
- The grants will be received.

Once a government grant is recognized any related contingent liability or contingent asset is treated in accordance with IAS 37 Provisions. Contingent Liabilities and Contingent Assets There are two broad approaches to the accounting for government grants: the capital approach under which a grant is recognized outside profit or loss and the income approach under which a grant is recognized in profit or loss over one or more periods.

V. Conclusions

Social Accounting and CSR are relatively new concepts in Albania and in our region and have only recently been supported by multinational corporations and development partners. Overall CSR engagement in these countries is possibly shaped by a number of region specific factors. These include the political and economic transition process, the effect of shrinking economies, political instability, and weak civil society, along with the limited capacity of governments in effective policy making and in implementing necessary reforms. Nevertheless, the rapid development of regional economies, along with the countries' firm intentions to pursue EU integration and adopt market economy principles are among the major factors creating a favourable environment for CSR development.

The study findings and recommendations of Albania biggest partners such as UN should be useful for a wide variety of stakeholders. Representatives of national and international business companies with operations in the Balkan region can use them to build implement and

evaluate their CSR strategies. Governments, civil society organizations, media and development partners, can apply the findings and recommendations of the report discussed in this paper in developing their CSR related policies and programs. While Albanian governments have adopted a wide range of laws and regulations that relate to different aspects of CSR, mainly as a precondition to EU accession, mechanisms to implement and enforce this legislation are often weak or absent.

Although there are many civil society organizations but only a few of them are actively engaged in promoting CSR. Consumers and communities themselves are often not empowered to demand greater business responsibility and hold business accountable. In short, businesses commonly operate in an environment where they do not feel that “someone cares” whether they are accountable.

Also large companies tend to report more environmental information in their annual reports than small medium enterprises, and the disclosure tends to be more qualitative than quantitative.

It is still a challenge for the Albanian future to enhance the scope of environmental financial reporting from the present reporting practices. This should be based upon the relevant paragraphs of the standard prescribed by the International Financial Reporting Standards.

Hence we believe that these are all lessons to learn. *“There is a real time pressure to us, and that is the pressure of sustainability” Rob Gray*

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