

Research Article

## Social enterprises: successful or/and disputable actor in the field of eco-innovation system, Bulgarian case

### Empresas sociales: agentes exitosos y/o discutibles en el sistema de eco-innovación, el caso búlgaro

Martina Arabadzhieva<sup>1\*</sup>, Albena Vutsova<sup>1</sup>

<sup>1</sup> FEBA, University of Sofia

\* Correspondence: [m.srebkova@gmail.com](mailto:m.srebkova@gmail.com)

**Abstract:** Discussions on social impact and benefits of social enterprises are very intensive, considering Europe 2020 key lines. The article presents existing models of social enterprises in Bulgaria, the opportunities to be converted into successful business models, the milieu for their functioning and the funding instruments supporting them. A short review of EU frame conditions of social enterprises functioning has been presented. A special impetus is put upon national social enterprises practices; challenges and barriers faced by social enterprises and applicable funding instruments in parallel with opportunities, trends and achieved results are commented. General assessment of milieu needed for their activities have been identified. A review upon a possible portfolio of international and national funding instruments has carried out and a short analysis of the traceability of the results is made. Existing and further updating of national legislation and policies is commented. Some recommendations towards bettering effectiveness of social enterprises are made.

**Keywords:** social enterprises, legal framework, financial instruments, eco-innovation system, Bulgaria.

**Resumen:** Las discusiones sobre el impacto social y los beneficios de las empresas sociales son muy profundas, considerando las líneas clave marcadas por Europa 2020. El artículo presenta modelos existentes en el ámbito de las empresas sociales en Bulgaria, las oportunidades para convertirse en modelos de negocio exitosos, el entorno para su funcionamiento y los instrumentos de financiación que los respaldan. Se presenta una breve revisión de las condiciones marco de la UE para el funcionamiento de las empresas sociales. Se da un enfoque especial a las prácticas nacionales en empresas sociales; se exponen los desafíos y las barreras que enfrentan estas empresas y los instrumentos de financiación aplicables. Paralelamente, se analizan las oportunidades, tendencias y resultados obtenidos. Además, en el artículo se presenta una evaluación general del entorno necesario para sus actividades, se realiza una revisión de una posible cartera de instrumentos de financiación nacionales e internacionales y un breve análisis de la trazabilidad de los resultados. Finalmente, se revisa la legislación actual y posterior, y la actualización de las políticas nacionales y se realizan algunas recomendaciones para mejorar la efectividad de las empresas sociales.

**Palabras clave:** empresas sociales, marco legal, instrumentos financieros, sistema de eco-innovación, Bulgaria.

## 1. Introduction

During the Europe 2020 strategy focuses on smart, sustainable and inclusive growth as a way to overcome the structural weaknesses in Europe's economy, improves its competitiveness and productivity and underpin a sustainable social market economy (Europe 2020 strategy, COM-2010, 2020 final). The concept of eco-social market economy presumes balanced and free markets, social fairness and sustainable use and protection of the natural resources (Index of Modern Social Market Economies, 2012). In the search of social fairness social enterprises (SE) occur. They are individual response of citizens to different unfair situations in society. Social entrepreneurship tries to resolve problems left unsolved by other sectors, public or private. In Bulgaria, as in Eastern Europe, the term social enterprise is not quite popular, although the idea of such enterprises has been put to practice. According to a study many initiatives in the region could be classified as social entrepreneurship and that occur in a variety of fields such as education, energy, environment, transport, etc. (SI-DRIVE, 2015). Social enterprises are the way social innovation finds its way in practice and enables civil society to respond to certain needs more effectively compared to current situation. One of the unique features and advantages of social enterprises is that they are able to identify and understand local problems. In order to have a grasp on how they work one should keep in mind that a social enterprise is a commercial organization that has specific social objectives that serve its primary purpose, its seek to maximize profits while maximizing benefits to society and the environment and its profits are principally used to fund social programs (Investopedia). The terms social enterprises and social entrepreneurship are not fully interchangeable and still might be defined in various ways, however enterprises are related to the purpose of the organization and entrepreneurship could be applied to various organizations. There are many interpretations of social enterprises' definition, for the purposes of this work social enterprise would be considered type of business organization with social aim. Social enterprises usually are innovative and are example of social innovation, which leads to social cohesion. In this regard social enterprises are integral part of an eco-innovation system.

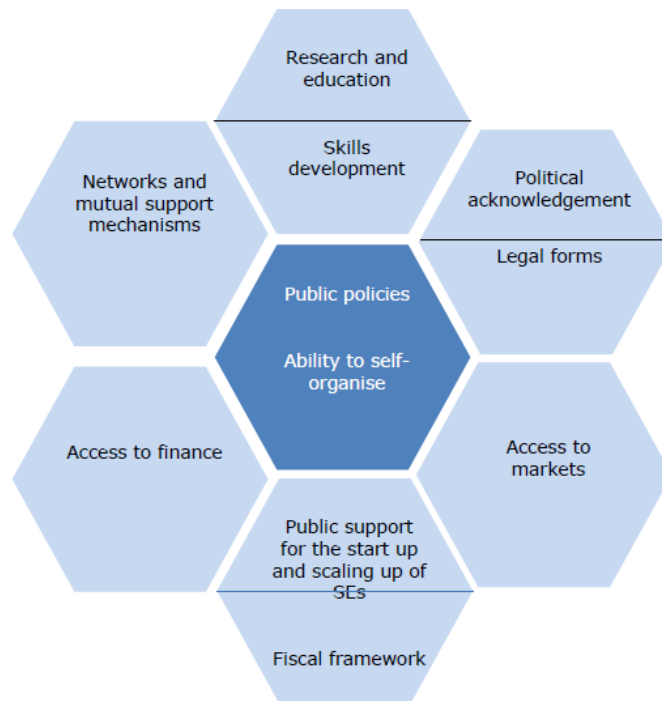
The current study is organized on the basis overview and analysis on social innovation structures development in the scope of new member states upon SE and on in-depth survey on specific targeted policy measures; related legislation and supporting financial instruments in national scope.

## 2. Framework milieu for social enterprise

### 2.1. Social enterprise eco-systems, general scope

Social enterprise eco-system is a complex one, comprising a number of standalone or semi standalone elements and can be illustrated as follows (Figure 1). It is built on two main aspects: bottom up and top down approach. An important aspect of the social enterprise eco-systems is assessing the impact of these enterprises' activity. On the community level, social impact has been assessed in various ways, many initiated by a number of projects. One of the best-known methods for planning, measuring and evaluating the organization social goals is social return on investment. It aims to show an organization's social added value.

European Commission uses other methods as well, which are designed from the perspective of the social enterprise's purpose in its activities, rather than models from other sectors (European Economic and Social Committee, 2013). The approach involves defining, quantifying and tracking as in the same time provides social enterprises with a tool for planning and internal improvement. Indicators that could be used for measuring social impact are for example - "avoided costs for society" or "caused impact".

**Figure 1.** Social enterprise eco-system

Source: European Commission, Directorate-General for Employment, Social Affairs and Inclusion, 2016

The European Commission distinguishes between the inputs of a social enterprise (financial, intellectual, human, premises or other resources), which the enterprise uses to undertake activities. They should lead to a positive change or a certain improvement. When beneficiaries take part in such activities, this is perceived as output (attendance of a service-user on a course or program, the delivery of a product for their future use, the development of a social interaction – a community – to support them, or a life-changing process such as a medical procedure combined with physio - and other therapies to aid full recovery). The outcome may be achieved from delivery of services or products, or from involvement of people as inputs in the delivery of those services. The output is considered as the means to achieving the outcome and the impact, not the outcome itself (European Commission, 2014). Afterwards the impact of the outcome of the activities is measured, while all aspects, both negative and positive, are taken into account. The negative effects or displacement, formulated by the European Commission might be:

- Attribution: the extent to which the social enterprise is responsible for the outcome, as opposed to its being due to the intervention of others;
- Deadweight: outcomes that would have arisen anyway, regardless of the intervention;
- Drop-off: the tendency of the effects of an intervention at a particular time to become less over time.

In the end social outcome would be the social effect or given positive change/changes, arising as a result.

Still, different types of countries are considering in different way the term „social economy“. Bulgaria as well as Italy, Cypress, Denmark, Finland. Sweden, Latvia, Malta, Poland, UK, Greece, Hungary. Ireland, Romania and Slovenia accept the term moderately (European Economic and Social Committee, 2017). In all above-mentioned countries social economy coexists with other terms such as voluntary sector, non-profit sector, social enterprises.

Generally, there is distrust to social enterprises in Eastern European countries as civil society is not used to defining such enterprises as part of the third sector. In countries such as - Hungary, Poland, Slovakia, the Czech Republic, Bulgaria or Romania, certain resistance

towards the activities of the sector could be observed. According to some authors (Assenova & Damianova, 2017) the lack of trust and support by civil society impose serious difficulties on the development of social enterprises in the region. Moreover, the authors claim, that concentrating on the benefits of free market, which typically could be seen in new member states, prevents society from appreciating the benefits of social economy and additionally hinders the establishment and work of social enterprises. New member states could contribute towards fighting against certain challenges as poverty, social stratification and environmental issues. In relation to this, Martin Kern, the Interim Director of the European Institute of Innovation and Technology, states "There is great untapped potential for innovation in the Central and Eastern European Member States! We should use it to further enhance Europe's competitiveness and our position in the global innovation performance" (2014).

Social innovation appears to be one of the new ways in which East European states could be key for innovation development as a whole. It is important to note that according to a desk research the terms social innovation and social enterprises are both related to the social services provided by civil society (SI-DRIVE, 2018). The last is widely used in reference to social economy and entrepreneurship, especially in Bulgaria and Poland. In the milieu where social enterprises function there are some positive factors, which support their work, such as reforms in national legislation and funding instruments available. What still remains a challenge is the lack of volunteering culture and lack of awareness about positive results of social economy. These aspects combined with scattered funding streams and the absence of policy support lead to the creation of unfavorable conditions for social innovation and social enterprises development (Ilieva-Koleva & Dobрева, 2015).

What is also typical for East European countries, including Bulgaria, is the fact that non-governmental sector is largely supported by finances from European Union (EU) public funds. They continue to play important role for the civil society organizations and thus the growth of social economy, but there are no steady targeted national instruments. Another unfavorable trend is that social enterprises most often engage in short-term projects, which leads to relying to short-term project-based approaches to funding. Moreover, such organizations heavily rely on grants, which could intervene in a negative way on their innovation capacity, especially combined with short term funding schemes. Social enterprises should aim at self-sustainability in order to become sustainable, to provide social services and foster innovation. This could be achieved via various set of incentives or and targeted governmental policy.

A study on social innovation in Eastern Europe shows that different interest groups, including citizens, and civil organizations are invited to participate in the policy-making processes over the past several years. However, there is high level of distrust among the stakeholders, citizens, businesses, the public sector and civil society organizations, and in practice one could rarely see co-creating process. Some authors claim that active collaboration between these stakeholders could lead to better understanding of each other points of view, building mutual trust and enhancing social innovation.

Looking at the positive aspects, the private sector engages in social projects more and more often. Young people become more open to social innovation and businesses support various initiatives as part of their corporate policy. Positive as this is, such practices could contribute to but not reform the third sector.

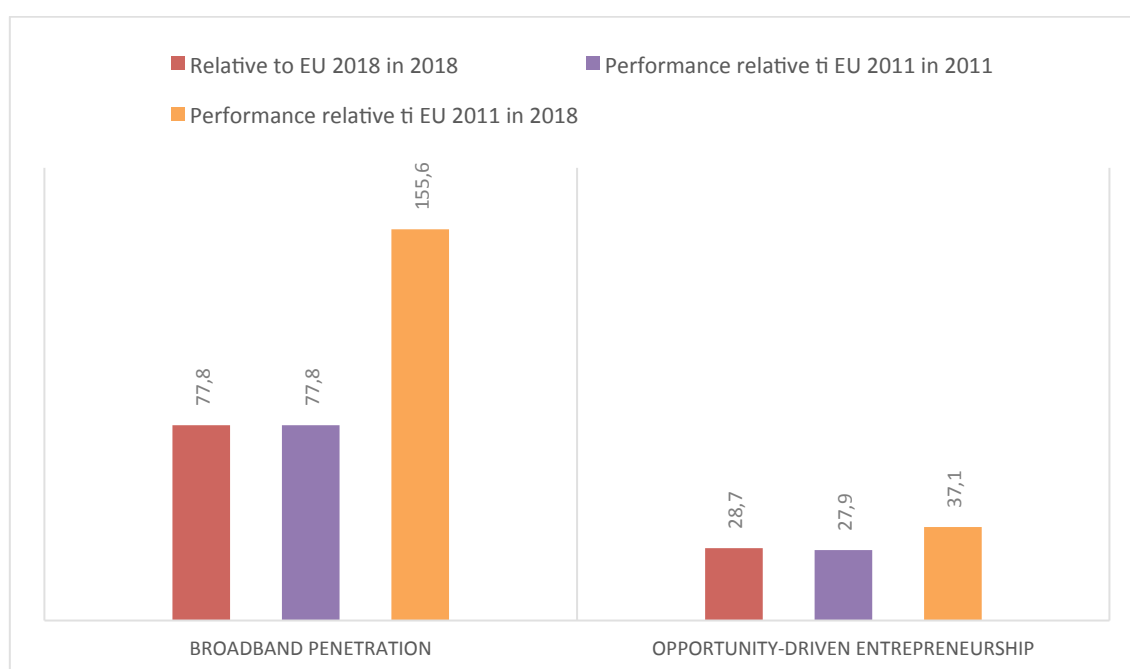
These key changes show positive trends. Combining them with relevant legislation and providing tools for supporting social enterprises as well, leverage the improvement of social enterprises development.

### 3. Bulgarian case

#### 3.1. Brief description of the SE system

According to European Innovation Scoreboard (2019), Bulgaria is a Modest Innovator. Over time, performance has increased relative to that of the EU in 2011. The last report claims that investment in skills, social cohesion, infrastructure, and research and innovation is needed to support competitiveness, productivity and the process of catching up with the rest of the EU and that weak innovation performance is not supportive of productivity gains. Below is shown an estimation of how innovation-friendly the environment in Bulgaria is (Figure 2).

**Figure 2.** Social enterprise eco-system



Source: European Innovation Scoreboard, 2019.

Part of the negative factors which affect the development of social organizations are lack of targeted funding, effective governmental policy and volunteering culture. As far as financing is concerned private sector still has a complementary role and social enterprises should work towards self-sufficiency. Such step should be taken in order to avoid the dependency on external funding and mainly the European Social Fund. The last Regional Report on Social Innovation Strategies indicates that people lack expertise in public administration, in entrepreneurship and are not active volunteers. Lack of experience and proper skills of human resources and the fact that there are no mechanisms to implement good practices limit social innovation.

The table below (Table 1) illustrates paid employment in the social economy compared to total paid employment in European Union (European Economic and Social Committee, 2017).

As it is visible, the country occupies modest position among old state countries and relatively medium among new member states.

**Table 1.** Evolution of paid employment in the social economy in Europe

Country	Employment in SE (A)	Total employment * (B)	% A / B
Austria	308,050	4,068,000	7.6%
Belgium	403,921	4,499,000	9.0%
Bulgaria	82,050	2,974,000	2.8%
Croatia	15,848	1,559,000	1.0%
Cyprus	6,984	350,000	2.0%
Czech R.	162,921	4,934,000	3.3%
Denmark	158,961	2,678,000	5.9%
Estonia	38,036	613,000	6.2%
Finland	182,105	2,368,000	7.7%
France	2,372,812	26,118,000	9.1%
Germany	2,635,980	39,176,000	6.7%
Greece	117,516	3,548,000	3.3%
Hungary	234,747	4,176,000	5.6%
Ireland	95,147	1,899,000	5.0%
Italy	1,923,745	21,973,000	8.8%
Latvia	19,341	868,000	2.2%
Lithuania	7,332	1,301,000	0.6%
Luxembourg	25,345	255,000	9.9%
Malta	2,404	182,000	1.3%
Netherlands	798,778	8,115,000	9.8%
Poland	365,900	15,812,000	2.3%
Portugal	215,963	4,309,000	5.0%
Romania	136,385	8,235,000	1.7%
Slovakia	51,611	2,405,000	2.1%
Slovenia	10,710	902,000	1.2%
Spain	1,358,401	17,717,000	7.7%
Sweden	195,832	4,660,000	4.2%
U. Kingdom	1,694,710	30,028,000	5.6%
<b>TOTAL EU-28</b>	<b>13,621,535</b>	<b>215,722,000</b>	<b>6.3%</b>

Source: European Economic and Social Committee, 2017.

Bulgaria has been benchmarked to other EU countries concerning number of employments in social economy (Table 2). The percentage of the social economy engaged compared to overall engaged working places is 2.8, which could be defined as average one.

Some specificities of national social innovation system have been defined on the basis of the study:

- Social innovation is not a common term and for the country it is relatively unknown (The authors Assenova & Damianova, 2017 confirm this as well);
- The basic obstacles recognized are - a lack of necessary conditions for its realization (incubators, hubs), policy and targeted financial support and knowledge (Boelman & Heales, 2015);
- Social Innovation is observed mostly as a result of a response to a particular need by civil society or third sector, yet such activities are accepted with conservative attitude due to history, culture and lack of tradition of similar practices;

- Still there are young people open to innovation, who could bring positive changes. Especially if they have more information on social entrepreneurship, enterprises and help of the state - administrative, legal, financial.

Therefore, social innovations seem to be the best solution to tackling societal problems in various areas from social services and education to ICT, energy and transport, taking into consideration public sector inability to adapt to new realities (SI DRIVE, 2018).

**Table 2.** Employment in the social economy

Country	Employment in the social economy			Δ% 2010-2015
	2002/2003	2009/2010	2014/2015	
Austria	260,145	233,528	308,050	31.9%
Belgium	279,611	462,541	403,921	-12.7%
Bulgaria	(n/a)	121,300	82,050	-32.4%
Croatia	(n/a)	9,084	15,848	74.5%
Cyprus	4,491	5,067	6,984	37.8%
Czech R.	165,221	160,086	162,921	1.8%
Denmark	160,764	195,486	158,961	-18.7%
Estonia	23,250	37,850	38,036	0.5%
Finland	175,397	187,200	182,105	-2.7%
France	1,985,150	2,318,544	2,372,812	2.3%
Germany	2,031,837	2,458,584	2,635,980	7.2%
Greece	69,834	117,123	117,516	0.3%
Hungary	75,669	178,210	234,747	31.7%
Ireland	155,306	98,735	95,147	-3.6%
Italy	1,336,413	2,228,010	1,923,745	-13.7%
Latvia	300	440	19,341	(n/p)
Lithuania	7,700	8,971	7,332	-18.3%
Luxembourg	7,248	16,114	25,345	57.3%
Malta	238	1,677	2,404	43.4%
Netherlands	772,110	856,054	798,778	-6.7%
Poland	529,179	592,800	365,900	-38.3%
Portugal	210,950	251,098	215,963	-14.0%
Romania	(n/a)	163,354	136,385	-16.5%
Slovakia	98,212	44,906	51,611	14.9%
Slovenia	4,671	7,094	10,710	51.0%
Spain	872,214	1,243,153	1,358,401	9.3%
Sweden	205,697	507,209	195,832	-61.4%
U. Kingdom	1,711,276	1,633,000	1,694,710	3.8%
<b>TOTAL EU-28</b>	<b>11,142,883</b>	<b>14,137,218</b>	<b>13,621,535</b>	<b>-3.6%</b>

Source: European Economic and Social Committee, 2017.

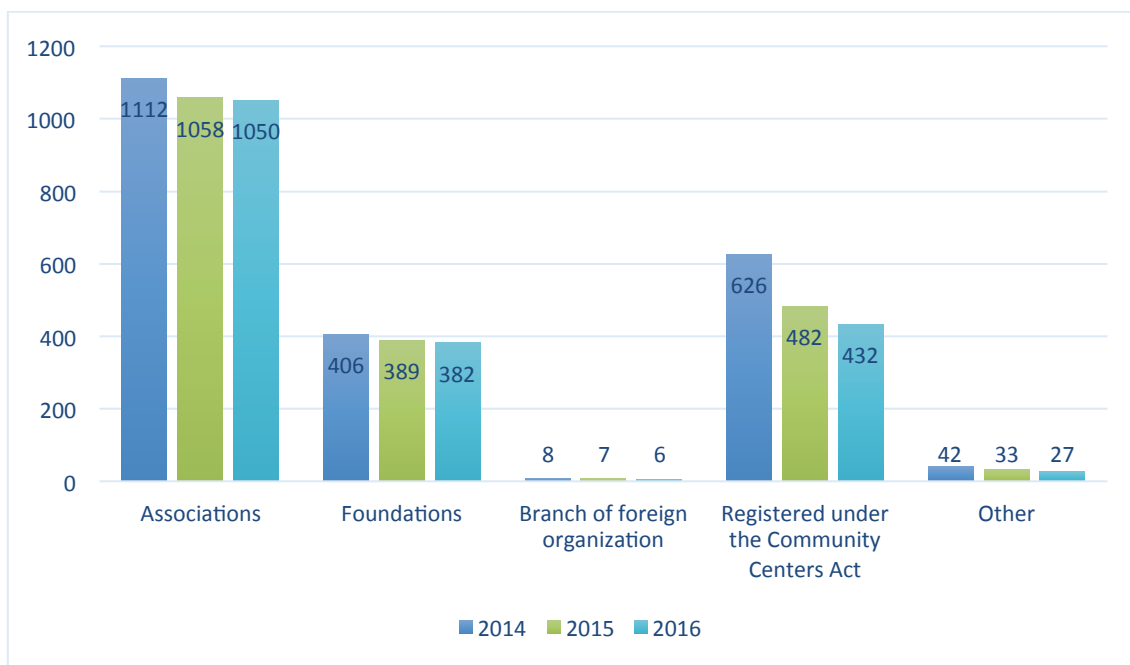
#### 4. General facts and figures for Bulgarian social enterprises

SE in Bulgaria are different in regard to their organizational form. The two main groups of organizations are registered as non-profit or as non-financial. Amongst the first type the biggest share of enterprises, defining themselves as social belongs to the associations (Figure 3). They, together with the foundations and branches of foreign organizations, form the main part of SE,



which are generally referred to as enterprises, registered under the Non-Profit Legal Entities Act. Another substantial part of non-profit SE are organizations, registered under the Community Centers Act. The enterprises outside the mentioned categories represent around 2% or less of all companies in the non-profit sector, self-defined as social.

**Figure 3.** SE in non-profit sector by types of entities

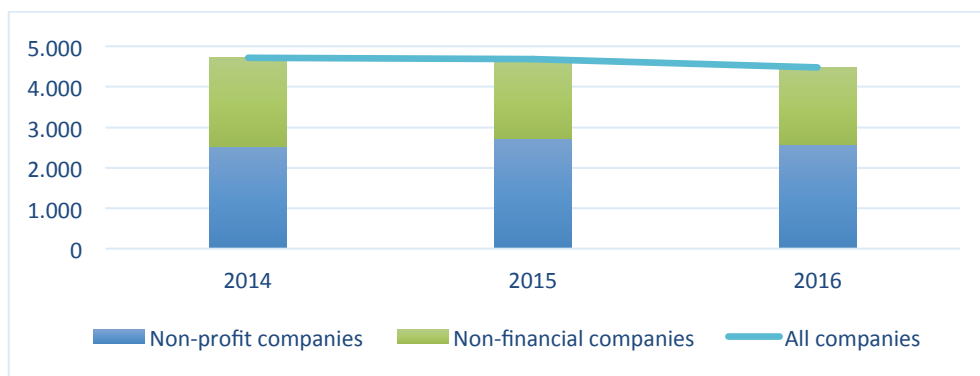


Source: National Statistical Institute, Bulgaria, 2019.

The graph demonstrates predominantly presence of associations with relatively stable profile. This trend can be explained with the relatively smooth legal frame conditions for such structures.

The non-financial companies self-defined as social, are more than the ones in the non-profit sector and above 80% are registered under the Commerce Act. The other are related to the Law of Obligations and Contracts, Cooperatives Act and a small number of social enterprises is related to other acts. Non-financial SE predominately register under the Commerce Act as it might be the one, which gives them most freedom to operate as a standard business, also is widely used and familiar. In the case of non-financial companies, the profile of SE is more stable compared to the non-profit sector group.

**Figure 4.** All types of enterprises self-defined as social



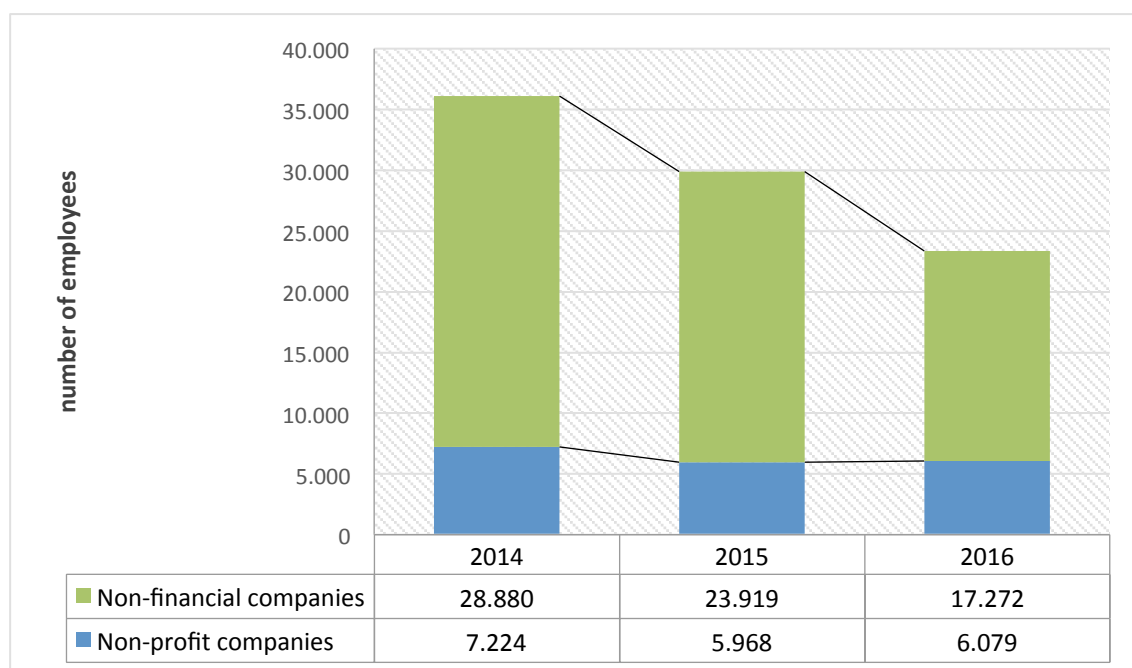
Source: National Statistical Institute, Bulgaria, 2019.



As Despite the stable profile of non-financial SE, the overall trend of number of companies remain negative. If we look at the decline of the total number of enterprises, taking 2014 as a base year, it goes up to 5%. Such a trend correlates with insufficient funding to support social economy development.

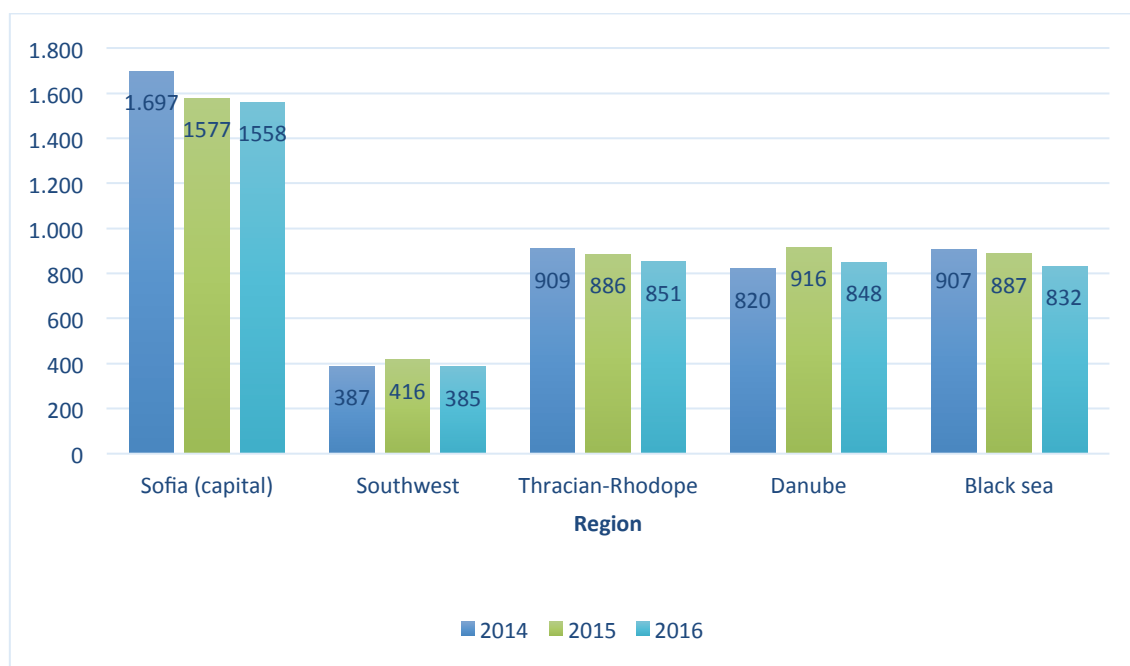
Consequently, the number of employees working in SE decreases over time (Figure 5). Despite the fact that the decline in the number social enterprises is approximately 5%, the decrease in number of employees is quite higher. For the three-year period around one third of the work force in the social sector in 2014 left it by 2016, mainly due to the workers leaving non-financial companies. The trend line moves consistently in negative direction. This is another indicator that not only the financing for the social sector is unsustainable, but also implies that there is a lack of long-term measures aimed at supporting SE.

**Figure 5.** Number of employees in SE



Source: National Statistical Institute, Bulgaria, 2019.

In three of Bulgaria main regions (Thracian-Rhodope, Danube and Black sea regions) the number of SE is relatively close. Originally the capital city Sofia is part of the Southwest region, but as it is the place where around half of all SE are operating, it is represented separately. The capital seems to provide the best conditions and opportunities for SE to thrive. Similar to other sectors, most of the national policy-making structures in the field are situated in Sofia. Given the fact that all Operative Programs and Funds operate there as well, the environment for development of SE is more favorable compared to other zones. Also, as there is more information available, networking and establishing contacts is far easier and more efficient in Sofia. In this regard a unified national structure would dramatically benefit SE. There are several networks and platforms built in order to serve this purpose, but at the moment it seems that none of them is fulfilling their task to a large extent.

**Figure 6.** SE distributed by regions

Source: National Statistical Institute, Bulgaria, 2019.

## 5. General Legal status and perspective

Bulgaria operates with relatively adequate legal system targeted to SE which is updating periodically as well.

Several legal documents related to social enterprises definition and work in Bulgaria are in circulation.

A few strategic documents related to the development of social economy are quoted in the country report.

- A National Reform Program 2011-2015 - aiming to support vulnerable groups and social enterprises;
- The National Youth Strategy 2012-2020 - represents a further step towards engaging young people in social entrepreneurship;
- National Strategy for Poverty Reduction and Social Inclusion 2020;
- Long-term Strategy for Employment of Disabled People 2011-2020.

In October 2018 a long-awaited legislation defining social enterprises - Social and Solidarity-based Enterprises Act was passed by the National Assembly and promulgated in the State Gazette. This is a major step in the direction of supporting social enterprises and the effects are to be observed.

According to the Act the principles of social and solidarity economy should be:

1. Advantage of social before economic goals;
2. Association for public and/or collective benefit;
3. Publicity and transparency;
4. Independence from state authorities;
5. Participation of the members, workers or employees in managerial decision-making.

The document provides with, official definition for social enterprises applicable for all organizations in the country. A social enterprise is considered an enterprise, regardless of its legal organizational form, which engages in social activity and its positive financial balance

after taxes for the last reported period shall be spent over 50 per cent (no less than BGN 7,500) for social activity or purpose, or no less than 30 per cent and no less than three of the persons employed at the enterprise at the starting date of legal labor relations shall be people from disadvantaged groups.

If we follow the policy development of this issue, we could say that the first one to mark the beginning of a targeted and coordinated state policy in the field is the National Social Economy Concept from 2012. Through this document Bulgarian Government declared its political involvement and willingness to support the development of social economy in the country. In short, the Concept aims are:

- To raise awareness, relevant aspects of social culture and human values;
- To advance the Government's vision and priority goal to promote social economy;
- To express the concentrated will of a wider scope of stakeholders;
- To provide a platform for development of related policies;
- To provide incentives for development of new social inclusion approaches;
- To support inputs into the achievement of "Europe 2020" goals.

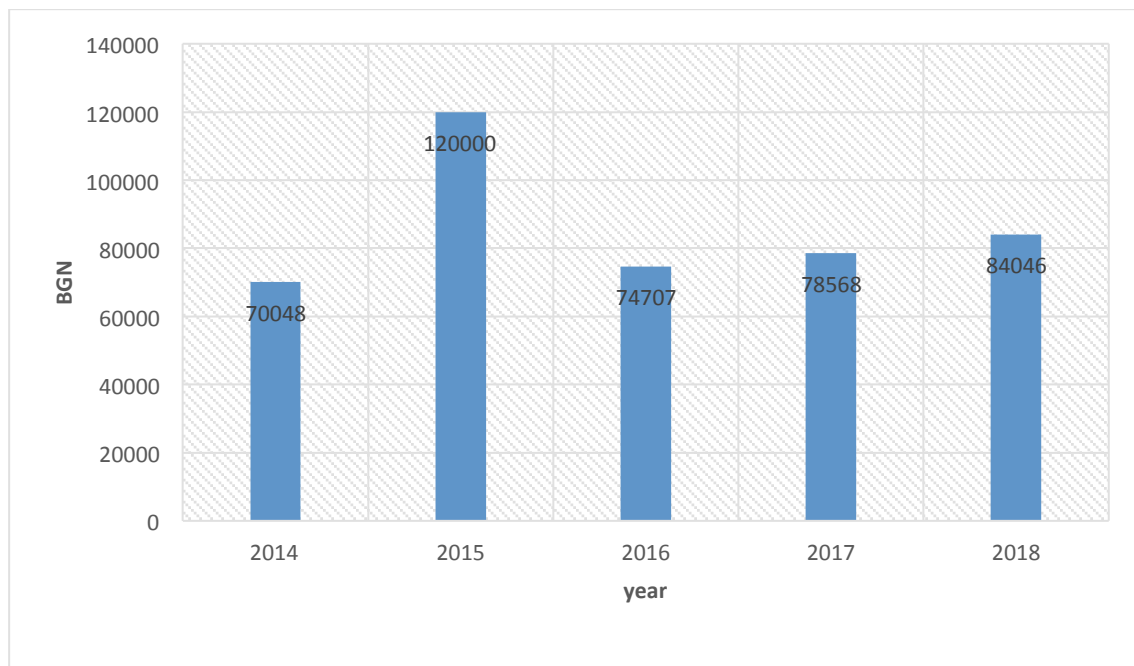
At the same time its main tasks are targeting towards:

- Enabling e introduction of indicators for identification of social economy-entities;
- Serving as a source of norms, supporting social economy-development and helping stakeholders to widespread and apply the spirit of social economy.
- Streamlining legal and administrative environment for development of social economy-entities (access to financing, social provisions in public procurement, tax-alleviation, etc.)

The Ministry of Labor and Social Policy is responsible for accomplishing the objectives set and accordingly draws and updates Action Plan for every two years. It specifies sub priorities about current national priorities. For example, the social economy action plan for the period 2018–2019 includes activities such as:

- Raising the awareness of stakeholders of the substance and functioning of social economy;
- Establishing supportive structures for social economy and social enterprises;
- Information support of social economy;
- Creating favorable conditions for education, training and research in support of social economy;
- Creating favorable environment, stimulating the development of social economy.

Figure 7 shows the trend of the national funding for the last five years. If we regard 2015 as an exception as in this year the state was able to provide a much higher financing compared to the recent periods, we could see a mild but steady increase in the resources targeting social economy. Even though the net rise in the means provided is not enough to cover all necessary expenses, it still shows the willingness of Bulgarian government to support the sector.

**Figure 7.** National funding for Action Plans

Source: Ministry of Labor and Social Policy, 2019.

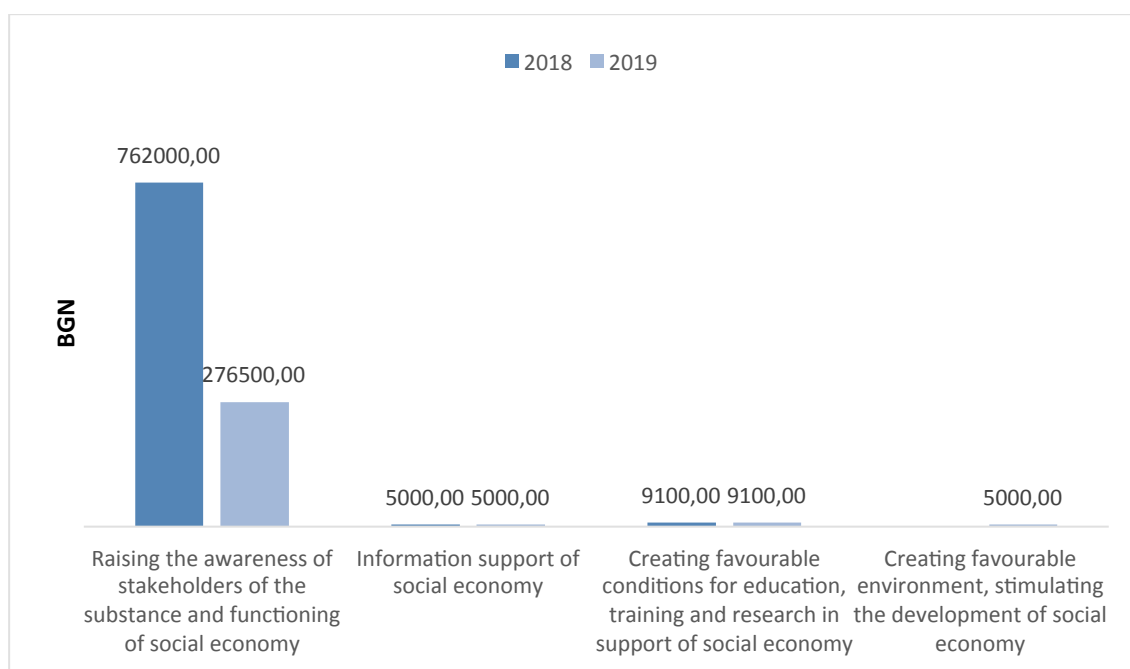
The measures, which are considered important by the Ministry of Labor and Social Policy are represented more precisely on the figure below. The amounts are shown as they are budgeted and consist of mix of funding sources, not only national (Figure 8).

The main activities supported via the Ministry are organization of numbers of events: Annual European Forum of Social Enterprises; high-level international conference on “Social economy - an economically sustainable and socially inclusive EU”; European Conference on Social Economy as an Effective Model for Social Inclusion - Social Entrepreneurship; Social Services and Employment. The total sum amounts to BGN 850,000 for 2018 and 2019. Evidently raising awareness events could contribute to better understanding of SE. Otherwise the other priorities are barely funded and some activities rely only on project funding or no means from the Ministry.

A priority goal of national policy is to identify and unify social enterprises as well. This is the reason that projects such as Shared Network of Social Enterprises have been supported by operative program Human Resources Development. The main project activities aim to actively engage partners, all types of stakeholders, businesses, non-governmental organizations (NGOs), as well as disadvantaged people into building a sustainable innovative network of institutions, including, knowledge institutions and businesses, through a common platform. It is supposed that network building would stimulate social innovation among social organizations and enterprises and would be a tool for creating inclusive labor market.

Based on the analysis of the national legal milieu, the following recommendation might be offered:

- Upgrading current legislation and follow up action plan, which allows adopting EU best practices;
- Appointing independent structure (organ or committee) to be responsible for regulating and supporting the work of social enterprises;
- Building sustainable networks of enterprises to exchange experience and information.

**Figure 8.** Budget for priorities of social economy 2018 – 2019

Source: Ministry of Labor and Social Policy, 2018.

## 6. Direct and indirect stimulus for social enterprises

The European Investment Fund claims that social enterprises do not have sufficient access to external financing. Usually they rely on subsidies and internal resources. In general, the most common funding mechanisms are: bank loans (which might be difficult to acquire); risk equity financing (not available to all stakeholders); grant funding for the development of social enterprises and revenues from paid services. Also, different funding streams are provided to foster social innovation. (establishing different community organizations, legislation reforms and tax incentives).

In Bulgaria social enterprises do not operate with permanent dedicated fund, they would benefit from additional support from the government, including dedicated financial instruments and more funding from municipalities. Applying some reliefs would foster the SE activities as well.

When we are analyzing financial support of SE, we could consider two types of financial incentives - direct and indirect ones.

### 6.1. Indirect stimulus

Bulgarian government provides different preferences that are relevant to the activity of the SE. Some of them can be used regardless of the legal form of the enterprise. These include, for example, tax benefits for the donors of certain vulnerable groups (people with disabilities, including their technical support; socially disadvantaged; disabled or non-disabled children; drug addicts). Also, there are tax benefits for employers of long-term unemployed or people with disabilities and the possibility of exempting certain goods and services from VAT. SE as NGOs registered for public benefit are exempt from paying a local tax donation. Also, SE might be given the right to build on municipal property or the right to use municipal property (without a tender or competition).

SE specialized enterprises and cooperatives of people with disabilities might request the assignment of the annual corporate tax due and make full use of it for the integration of people with disabilities or for maintaining and opening jobs for people with special health condition in the next two years. Tax incentives are also provided for SE donors who are registered as NGOs in public benefit such as healthcare facilities, specialized enterprises or cooperatives of disabled people.

An opportunity of "preserving" public procurement for specialized enterprises and cooperatives of disabled people are provided. If the subject of the order is listed in the Council of Ministers or is implemented under programs for the protection of the employment of disabled people, the contracting authority is obliged to keep the right for applying only for specialized enterprises/cooperatives of disabled persons.

## 6.2. Direct stimulus

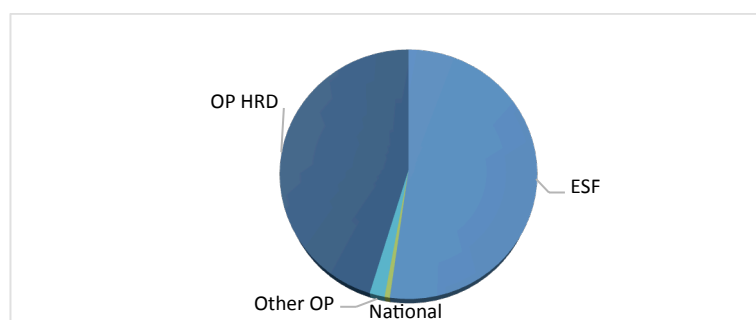
National funding sources, which could contribute to SE, along with the above tax incentives, are:

- Generally applicable:
  - Bank loans – difficult to acquire due to the nature of SE activities, considered to be a high-risk one;
  - Venture capital funding – usually not available for NGOs.
  - Grant funding - a case of implementing of targeted schemes under operational programs or national programs.
- Specifically applicable:
  - Funding through specific schemes of the Agency for People with Disabilities;
  - Funding through specific schemes of the State Agency for Social Security Supervision;
  - Funding through independent foundations;
  - Funding through municipality programs;
  - Collecting fees for paid services - SEs could define independently the prices of their services.

However, given the specificity of the vulnerable groups they work for and their ability to self-sustain is limited.

Figure 9 describes the funding for social economy development by different types of sources. As discussed, the European Social Fund provides for the most substantial part of the financial support towards social economy. Funding from national budget is calculated approximately, forecasting some expenses as there was not information available for the whole period. Also, there is no exact data on how much the funding from other programs is, but an approximation is included in the graph as this financing exists. Such programs are Operative Program (OP) "Innovation and Competitiveness" and Operative Program "Initiatives for Small and Medium Enterprises".

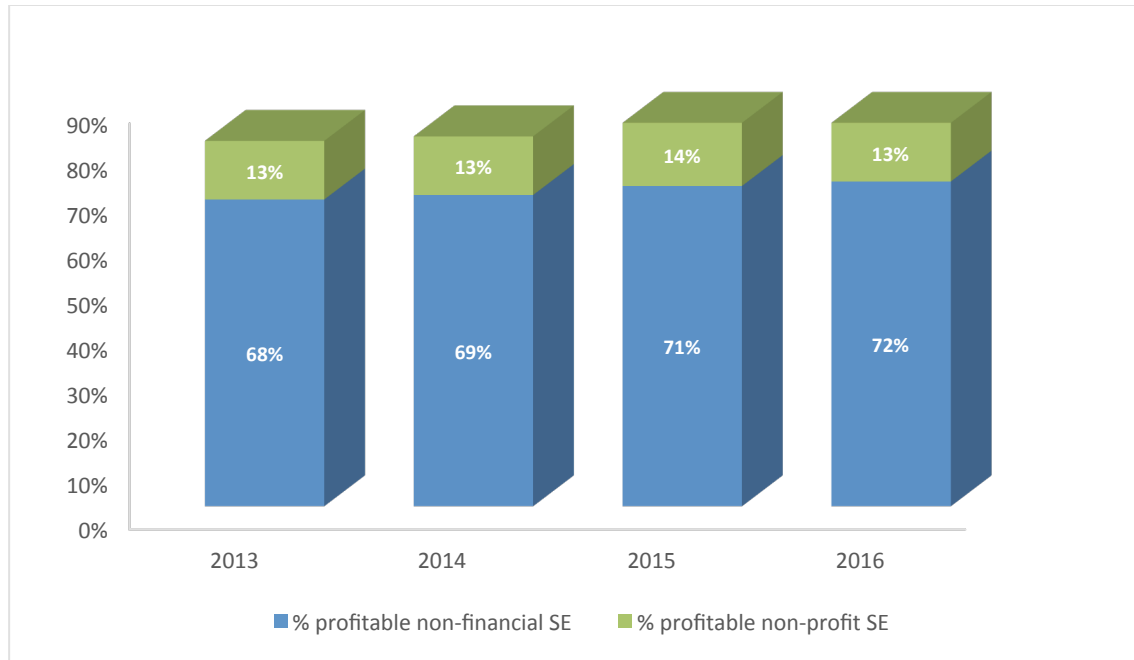
**Figure 9.** Funding for social economy development by sources



Source: Ministry of Labor and Social Policy, 2019.

The financial information about SE is again gathered based on their type – whether they are non-financial or non-profit companies. Despite certain differences between the statistics related to both type of entities, there is enough comparable data. For example, figure 10 represent what part of the number of enterprises are actually profitable organizations.

**Figure 10.** Percent of profitable SE both non-financial and non-profit



Source: Ministry of Labor and Social Policy, 2019.

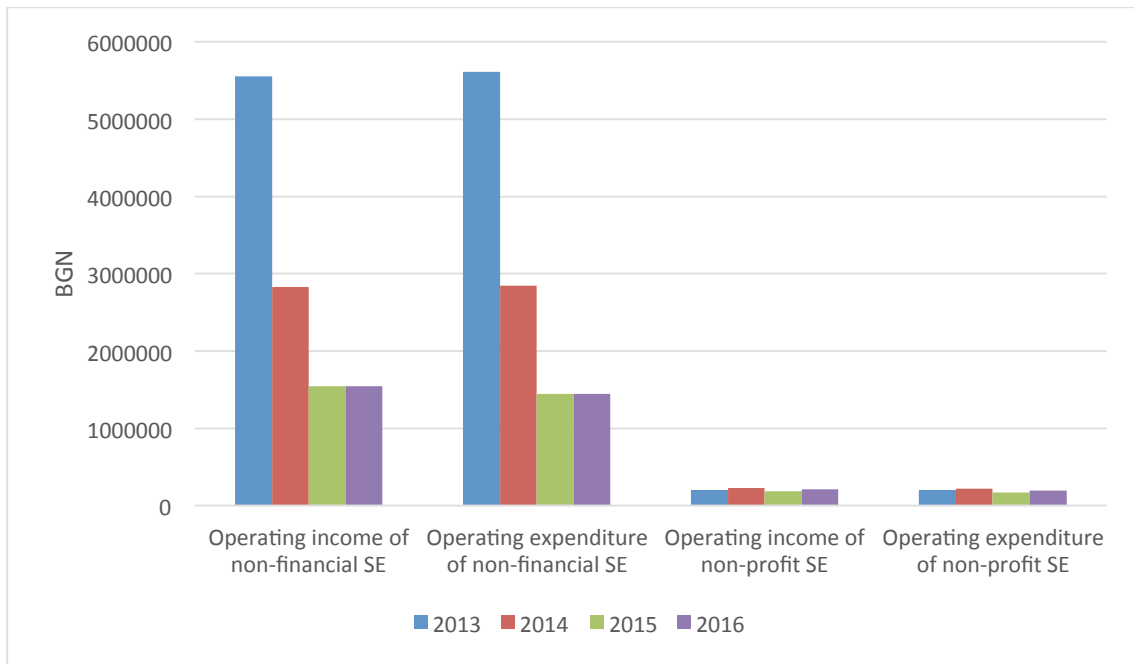
As the figure clearly show the percent of profitable non-financial enterprises is much higher than the ones in the non-profit sector. Also, the percentage of the non-profit companies, which declare profits, remains low and steady throughout the period (also confirmed by Staicu, 2017). At the same time a small but stable increase is seen as a tendency in the non-financial companies, which end the year with a positive balance. The percentage of profitable entities is an indicator for the success of the SE to a certain extend. One of the ideas of these companies is to reinvest their profit for social causes and be self-sustainable in order to continue their missions. In order to fulfill their long-term goals and plans SE should generate profit and remain stable on the market.

From data of figure 11 we can conclude the follows:

- The total amount of revenue and costs is declining with time. In consistency of the number of entities and employees, the amount of resources circulating decreases considerably as well, going only in negative direction, supporting other evidence that social economy needs a boost.
- Non-financial SE generate far greater amounts of operating income and expenditure. The last leads to the conclusion that although the non-financial SE are a little less than 1.5 times more than the ones in the non-profit sector, they account for much bigger part of social economy compared to them.



**Figure 11.** Operating income and expenditure of non-profit and non-financial SE

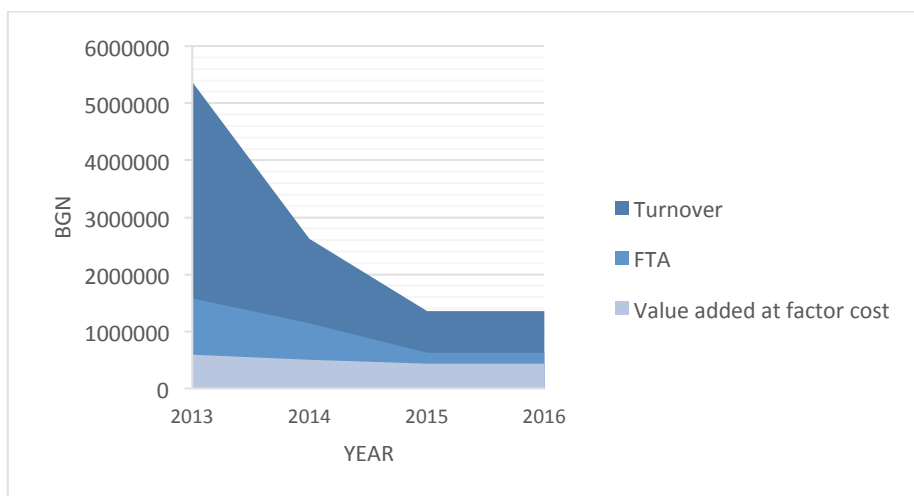


Source: Ministry of Labor and Social Policy, 2019.

On Figure 12 the proportion between the turnover, value added at factor cost and fixed tangible assets of non-financial social companies is represented. The same negative trend appears for these indicators as well. A good sign is that the decrease in the value added at factor cost is relatively slower than the decline in the turnover.

All analysis of the financial indicators of both types of SE clearly reveal that the state of social economy in Bulgaria is deteriorating. However, through a certain increase in the national funding and legal reforms, the national government is willing to work towards improving the sector.

**Figure 12.** Proportion between the turnover, value added at factor cost and fixed tangible assets of non-financial SE



Source: Ministry of Labor and Social Policy, 2019.

In Bulgaria considerable part of the funding is received by EU under several programs: Human Resources Development and Competitiveness, specifically Priority 5 on social inclusion and promotion of social economy; Horizon Program, the program Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) of Directorate-General Enterprise and Industry, and the Employment and Social Innovation (EaSI) program of Directorate-General Employment, Social Affairs and Inclusion (Pisano et al., 2015).

## 7. Successful stories of social enterprise in Bulgaria

Social innovation work for the public good and one could identify inspiring examples of social innovation in the country regardless of the generally unfavorable environment.

Such example is considered Telerik Academy, which trains students and young professionals for software engineers and helps fill the gap between university education in ICT and requirements of the labor market in the IT sphere. The Academy was set up in 2009 and until this moment trained more than 51,000 young people. The organization expands its target audiences and its portfolio as well keeping up with the latest technologies. The Academy proves itself as a leading organization in the field of education.

Another example for social innovator is Listen Up Foundation. It aims to provide equal access to information and communication for deaf people, wide opportunities for education and career development, tolerant and accepting society, mutual cooperation and support. The organization was founded in 2014 and its work is related to video sign-language interpretation, creating speech-to-text app, supporting the access of deaf and hard-of-hearing children in Bulgaria to education through speech-to-text technologies. Listen Up Foundation gave opened up space for social innovation to support volunteers and social entrepreneurs, who understand current society needs. The organization also actively works for creating infrastructure for social enterprises and interconnected NGOs. Examples are SE "Total K", which provides accessibility services for deaf people and "Deaf kids power", which supports the education for deaf and hard-of-hearing children.

## 8. Challenges faced by social enterprises

The profile of social enterprises in Bulgaria shows that they qualify as micro or small enterprises, mainly in the field of social services. Most often their social mission is accomplished by providing a temporary employment, supported employment, special education and training programs for people from the vulnerable groups they work directly with. Currently, there is a trend of increasing stimulating interest in social enterprise quality, which leads us to identifying the most common challenges before them.

- 1) Lack of awareness of social enterprise concepts;
- 2) Lack of adequate financing, supporting social enterprises – both initial and working capital;
- 3) Lack of resources for starting a business - along with financing, there are several components to start a business that are usually absent in the majority of start-up social enterprises (both entrepreneurial and social type): buildings/land equipment
- 4) Lack of sufficient incentives related to the supply of products of social enterprises in the market;
- 5) Lack of training and motivation of people working in social enterprises and those who wish to take up a job there; lack of mentoring;
- 6) Lack of managerial and marketing experience - problem of the NGO sector, which generally attracts employees with different profile than is the one necessary for the managerial and marketing specialists;
- 7) Lack of information circulation;

- 8) Lack of active engagement of target groups in social entrepreneurship, opposed to passive providing of different types of services, which is mainly the case at the moment
- 9) Lack of interaction between social enterprises other companies, organizations, administrations;
- 10) Lack of steady SE networks at national and transnational level for exchange of good practices and lessons learnt;
- 11) Lack of experience in measuring social impact and evaluation and assessment tools;
- 12) Lack of visibility and brand recognition of product and services provided by SE and thus failure to recognize the social value added in the process;

A group of Bulgarian researchers (Terziev et al., 2017) analyze and structure part of the main challenges facing social enterprises in Bulgaria as well.

## 9. Conclusions

Based on the analysis there are several directions in which Bulgaria could work to improve the success of social enterprises. The trends relevant to the country correspond to the eco-system in the other EU members in the region.

Below recommendations towards improvement of the eco-system for social innovation are summarized:

- Defining the short- and long-term, planned measures in national policies aiming at supporting social enterprises and respectively, provision of public resources;
- Implementing adequate incentives, (tax incentives or reducing the administrative burden for example);
- Involving all stakeholders, including the enterprises, in the process of policy preparation and in this regard supporting an open dialogue and cooperation;
- Fostering social entrepreneurship at local level, involving municipalities in the process.

A general goal for social enterprises, in order to ensure their long-term success, is to help them make a transition from grant-dependency to financial self-sustainability. That is why building adequate regulatory framework, support for young entrepreneurs, including mentoring, training, information on financial resources and providing social spaces and hubs are strongly recommended.

**Funding:** This work was supported by National Science Programme “Young Researchers and Postdocs”, beneficiary Sofia University “St. Kliment Ohridski” - Faculty of Economics and Business Administration.

## References

Asenova, D. & Damianova, Z. (2017). *Social innovation – an emerging concept in Eastern Europe*. Available at: [https://www.socialinnovationatlas.net/fileadmin/PDF/einzeln/02\\_SI-in-World-Regions/02\\_08\\_SI\\_Emerging-Concept-in\\_Eastern-Europe\\_Asenova-Damianova.pdf](https://www.socialinnovationatlas.net/fileadmin/PDF/einzeln/02_SI-in-World-Regions/02_08_SI_Emerging-Concept-in_Eastern-Europe_Asenova-Damianova.pdf)

Bertelsmann Stiftung. (2012). *Index of Modern Social Market Economies Explorative Study*. Available at: [https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/GP\\_Index\\_of\\_modern\\_social\\_market\\_economies.pdf](https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/GP_Index_of_modern_social_market_economies.pdf)

Boelman, V. & Heales, C. (2015). *SI-DRIVE: Social innovation strategies regional report, D3.6*. London: The Young Foundation. Available at: <https://www.si-drive.eu/wp-content/uploads/2018/03/D3.6-SI-DRIVE-Global-Region-Report-2015.pdf>

CIRIEC-International - Centre international de recherches et d'information sur l'économie publique, sociale et cooperative. (2017). *Recent evolutions of the Social Economy in the European Union, Full Study*. Brussels: European Economic and Social Committee (EESC).

Available at: <https://www.eesc.europa.eu/sites/default/files/files/qe-04-17-875-en-n.pdf>

European Commission. (2014). *Proposed Approaches to Social Impact Measurement*. Brussels: European Commission. Available at: <https://op.europa.eu/en/publication-detail/-/publication/0c0b5d38-4ac8-43d1-a7af-32f7b6fcf1cc>

European Commission. (2016). *Social Enterprises and their Eco-systems: Developments in Europe*. Brussels: European Commission. Available at: <file:///C:/Users/Martina/Downloads/KE-01-16-853-EN-N%20-%20%20Report.pdf>

European Commission. (2018). *SI-DRIVE: Social Innovation: Driving Force of Social Change, Final Report*. Brussels: European Commission. Available at: <https://cordis.europa.eu/docs/results/612/612870/final1-si-drive-final-report-2018.pdf>

European Commission. (2019). *European Innovation Scoreboard 2019*. Brussels: European Commission. Available at: <https://ec.europa.eu/docsroom/documents/35883>

Foundation Listen Up. Official website. Available at: <https://zaslushaise.bg/en/home-2/>

Ilieva-Koleva, D. & Dobрева, J. (2015). Social entrepreneurship as a form of social responsibility in Bulgaria. *Megatrend Review*. 12, (2), 123-136. Available at: <https://scindeks-clanci.ceon.rs/data/pdf/1820-3159/2015/1820-31591502123I.pdf>

Lex BG. Law on Enterprises of Social and Solidarity Economy 2137187968. Available at: <https://www.lex.bg/bg/laws/ldoc/2137187968>

Ministry of Labor and Social Policy. Social Economy official website. Available at: <http://seconomy.mlsp.government.bg>

National Statistical Institute. Republic of Bulgaria. Available at: <http://www.nsi.bg/en>

Pisano, U., Lange, L., & Berger, G. (2015). Social Innovation in Europe: An overview of the concept of social innovation in the context of European initiatives and practices. *European Sustainable Development Network. ESDN Quarterly Report N°36*. Available at: [https://www.sd-network.eu/quarterly%20reports/report%20files/pdf/2015-April-Social Innovation in Europe.pdf](https://www.sd-network.eu/quarterly%20reports/report%20files/pdf/2015-April-Social%20Innovation%20in%20Europe.pdf)

Staicu, D. (2017). Policy framework and legal forms of social enterprise in Central and Eastern Europe. In De Gruyter Open (eds), *Proceedings of the International Conference on Business Excellence*, 11(1), 875-883. DOI: <https://doi.org/10.1515/picbe-2017-0093>

Telerik Academy. Official website. Available at: <https://www.telerikacademy.com/>

Terziev, V. & Nichev, N. (2017). Strategic framework for social entrepreneurship development in Bulgaria. *Knowledge International Journal*, 25(1), 23-34. Available at: <https://ikm.mk/ojs/index.php/KIJ/article/view/705>

Terziev, V., Arabska, E., Nichev, N., Bencheva, M., Stoeva, T., & Tepavicharova, M. (2017). Social Entrepreneurship in Bulgaria: Barriers to Growth. *SSRN Electronic Journal*, 13(1), 197-202. DOI: <http://dx.doi.org/10.2139/ssrn.3157985>



© Attribution-NonCommercial-NoDerivatives 4.0 International (CC BY-NC-ND 4.0)

<https://creativecommons.org/licenses/by-nc-nd/4.0/>