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## **Current situation of social entrepreneurship in Bulgaria**

### **Policy and legal framework**

#### The national policy framework for social enterprise

The National Social Economy Concept represents the Government's framework for the development of the social economy in Bulgaria. The Action Plan for the Social Economy 2014-2015 which supports the implementation of the National Social Economy Concept lays out a series of priority actions aimed at facilitating the development of social economy (including social enterprises) in Bulgaria:

- Priority 1: Raising awareness among stakeholders about the nature and functioning of the social economy;
- Priority 2: Establishment of support structures for the social economy and social enterprises;
- Priority 3: Information about the social economy;
- Priority 4: Creation of favourable conditions for education, training and research in support of the social economy, and
- Priority 5: Creation of a favourable environment that encourages the development of the social economy.

Actions under Priority 1 include information campaigns and events for regional and local authorities, businesses and other stakeholders in order to raise their awareness about the



opportunities and conditions for the development of social entrepreneurship in Bulgaria. Also envisaged under this priority are:

- Development of a methodology for assessing the social impact of social enterprises as well as a mechanism for monitoring the social impact;
- Development of rules for introduction and application of a kitemark (“Social enterprise product”);
- Actions that aim to improve access to financing for social enterprises, such as proposals for introduction of additional financial instruments and incentives (e.g. microcredits at preferential terms, opportunities for more efficient use of EU funds, support for access to markets, stock financing, etc.).

One of the main actions under Priority 2 is the establishment of a standing working group chaired by the Ministry of Labour and Social Policy, whilst Priority 3 actions are mainly concerned with the expansion of the social economy website maintained by the Ministry (<http://seconomy.mlsp.government.bg/>), as well as creating an internet space as a network for social enterprises. Foreseen Priority 4 actions include initial and continuing training of stakeholders in the area of the social economy. Priority 5 of the Action Plan aims to improve access to public procurement opportunities for social enterprises; the action foreseen in this regard is a proposal for amending the Public Procurement Act so that it provides a level playing field to social enterprises when applying for public procurement opportunities. The Action Plan dedicates specific resources to each action envisaged by it. The sum allocated to the actions is BGN 360,200 in 2014 and BGN 259,700 in 2015; hence more than half a million BGN (ca. €317,000) is foreseen for the development of the social



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economy in Bulgaria over the next couple of years.

Other strategic documents which foresee measures to support the development of the social economy (including social enterprises) in Bulgaria include:

- The National Reform Programme 2011-2015<sup>7</sup> which foresees measures such as the development of a Handbook on legal forms for social enterprises, National Concept for Active Live of Elderly People, support in the form of social housing for vulnerable, minority and people on social assistance, as well as support for new and existing social enterprises;
- The National Youth Strategy 2012-2028 which states that public-private partnerships and social entrepreneurship in the sphere of services for young people should be encouraged, in order to raise awareness and improve the career development of young people;
- The National Strategy for Poverty Reduction and Social Inclusion 2029 and the Long-term Strategy for Employment of Disabled People 2011-2020.

#### **Legal framework for social enterprise**

There is no exclusive legal form for social enterprise in Bulgaria. Consequently, social enterprises adopt a variety of legal forms, the three most common ones being:

- Non-Profit Legal Entities (NPLEs) such as associations and foundations;
- Cooperatives for people with disabilities, and
- Specialised enterprises for people with disabilities.

The Not-profit Legal Entities Act<sup>11</sup> allows non-profit organisations to engage in economic activity, subject to certain conditions:



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- The economic activity must be supplementary to the main non-profit activity;
- The economic activity should be related to the non-profit objectives of the entity;
- The scope of the economic activity must be explicitly stated in the Bylaws/Act of Incorporation;
- The economic activity must not be restricted for this legal form by another legal act;
- The income from economic activity must be reinvested for achieving the non-profit objectives of the NPLE and cannot be distributed in any way.

There are few tax incentives available to social enterprises that use legal forms other than cooperatives for people with disabilities or specialised enterprises for people with disabilities.

NPLEs such as associations and foundations benefit from some tax incentives but are not exempt from tax on dividends that NPLEs receive as a shareholder in a commercial company. This is notwithstanding the fact that NPLEs are required to use such income to further their, often social, purpose.

Current laws and regulations often fail to consider the particular features and characteristics of a social enterprise, which often acts as a practical impediment to the development of social enterprise. For example, there are sensitive areas of public policy, such as education, health and social care, where the State either is not permitted to contract out the delivery of the services to private entities or if it is permitted to do so, the State often decides to deliver the services directly. The only exception is social contracting – contracting out social services to be provided by private providers (more than 20 percent of all community based services are currently contracted to private providers).



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Another major obstacle is that the term social enterprise has no legal recognition in the Bulgarian legislation which makes it difficult to be considered under the legislation which provides incentives for employment and skills development of disadvantaged groups (e.g. tax incentives for WISE).

### **Public support and initiatives**

According to the National Social Economy Concept support to the social economy sector in Bulgaria will come from a variety of public financial sources, such as:

- Grant schemes for the establishment and development of social enterprises and social platforms;
- Tax relief in the form of extending the existing provisions for corporate businesses to social enterprises, as well as introducing new provisions especially for social enterprises;
- State subsidies admissible under the so-called Block Exemption Regulations for State Aid;
- Access to credit and social funds;
- Defining additional specific criteria in favour of social economy enterprises when they participate in public procurement procedures, and
- Encouraging donations in favour of the social economy through tax relief for donors.

In addition, EU funding under the OPs Human Resources Development and Competitiveness for the period 2014-2020 are also contributing to the development of social enterprises in Bulgaria. Under Priority 5 on social inclusion and promotion of social economy of OP Human Resources Development, financial support has been provided among others to NGOs, specialised enterprises and cooperatives of people



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with disabilities, social and health service providers, municipalities, etc. In general, the scope of this OP is broader in comparison to OP Competitiveness.

Under OP Competitiveness beneficiaries representing cooperatives of people with disabilities were supported under a scheme for technological modernisation for a total of BGN 5 million in 2007-2013. During the new programming period (2014-2020) a similar scheme is planned under the OP Innovation and Competitiveness which will cover not only cooperatives of disabled people but also other applicants provided that they fulfil the condition that they are registered as commercial entities.

According to one of the interviewed stakeholders, opportunities for financing social enterprises in Bulgaria also exist under the Horizon Programme, the programme COSME of DG Enterprise and Industry, and the new Employment and Social Innovation (EaSI) programme of DG Employment, Social Affairs and Inclusion. Overall, there is limited public support targeting social enterprises in Bulgaria, with a lot of the support coming from the EU.

### **Networks and mutual support mechanisms**

There are no networks of social enterprises in Bulgaria at present, though one could argue that the Ministry of Labour and Social Policy's social economy website could serve as the base for establishing one in the future. As mentioned previously, the Action Plan 2015-2016 includes a specific action on developing an online platform which connects social enterprises in a network.

The Pia Mater Foundation, one of the main social enterprises in the capital Sofia, has set up



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an online portal called Institute for Social Entrepreneurship<sup>20</sup> which provides information on social entrepreneurship and good practice examples from across the country.

The Bulgarian Charities Aid Foundation (BCAF) has launched an information platform Social enterprises in Bulgaria: When the Business has a Social Mission which provides up-to-date information on contests, funding opportunities and other resources for social enterprises.

The platform represents both start-up and existing social enterprises, connects them in a network, and supports the development of their capacity and their growth. The platform is part of a project implemented by BCAF in partnership with Social Enterprise UK and the MLSP.

Other information platforms for social enterprises in Bulgaria have been established within the framework of projects funded by OP Human Resources Development, for example the regional platform Social Economy established to support social enterprises in Northern Bulgaria and the Virtual Resource Centre for the Social Economy maintained by the Millennium Foundation.

### **Social investment markets**

#### The supply of finance

There are no specialist investor, intermediaries or financial instruments for social enterprises in Bulgaria. The importance of such specialist financial instruments, however, is recognised both by interviewees and the Action Plan for the Social Economy 2015-2016, which envisages microcredits and stock financing among others under Action 3.2.



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Given the above, the social investment market in Bulgaria could be described as emerging and immature at present. The interviewed stakeholders report that most of the financing for social enterprises comes from foundations and savings, friends and family, with only one stakeholder reporting that commercial banks are a source of finance as well. Literature and interviewees note that most of the limited state funding available goes to social enterprises set up by municipalities and cooperatives for disabled people. This might be partially due to the fact that social services are largely provided by the state, through the local branches of the Agency for Social Assistance.

#### The demand for finance

Whilst there is no secondary literature on this, the interviewed stakeholders implied that there is great demand for financing of both existing and newly-established social enterprises in Bulgaria. Lack of finance and markets is clearly the number one barrier for starting up and scaling up a social enterprise.

#### Market gaps/ deficiencies

There appears to be a clear mismatch between supply and demand for social finance in Bulgaria. One of the main market deficiencies seems to be the relatively high reliance of social enterprises on public support. As stated previously, the latter is limited. The lack of legal recognition of social enterprises in the country may be considered an additional



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obstacle for public authorities in terms of establishing support schemes. Another barrier to the development of social enterprises is the fragmented evidence to demonstrate their social and economic impact and values. This is to be overcome by planned governmental actions<sup>26</sup> which may help address or at least reduce gaps in the market.

### **Spectrum of social enterprise**

Social enterprises in Bulgaria are typically one of the following kinds:

- Non-profit Legal Entities with public benefit status (associations and foundations) with revenue generating activities;
- Cooperatives pursuing a social mission, including cooperatives for the disabled;
- Specialised enterprises for people with disabilities;
- Social enterprises created by municipalities, and
- Other social enterprises (e.g. cultural centres (читалище), lyceums, etc.).

Mainstream enterprises emphasising on a social mission in their business models are not well-developed in Bulgaria at present.

### Non-profit Legal Entities (NPLEs)

The Non-profit Legal Entities Act<sup>27</sup> came into force in the beginning of 2002. It defines two types of non-profit legal entities: associations and foundations. The Non-profit Legal Entities Act allows NPLEs to perform economic/ revenue generating activity, subject to certain conditions. The Act defines the following criteria for economic activity, performed by the



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NGOs:

- The economic activity must be supplementary to the main non-profit activity;
- The economic activity should be related to the non-profit objectives of the entity;
- The scope of the economic activity must be explicitly stated in the Bylaws/ Act of Incorporation;
- The economic activity must not be restricted for this legal form by another legal act;
- The income from economic activity must be reinvested for achieving the non-profit objectives of the NPLE and cannot be distributed.

According to one of the interviewed stakeholders, because of their access to project financing (e.g. grants received by donors, donations, etc.), for most NPLEs revenue generating activities are only ad-hoc as they are perceived as riskier.

### Cooperatives

The Cooperatives Act, 28 regulates the activities of cooperatives in the country. On the basis of the Cooperatives Act, cooperatives, regional cooperative unions and cooperative companies are organised in four National Cooperative Unions:

- The Central Cooperative Union comprises consumer cooperatives and represents 155,000 cooperative members and 10, 300 employees, members and employees in 808 cooperatives and 34 regional cooperative unions;
- National Union of Agricultural Cooperatives consists of agricultural cooperatives for production and services with 903 agricultural cooperatives established in the period



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1992-1994: 240,000 members provide 16,000 permanent jobs.

- The National Union of Workers Producers' Cooperatives comprises small and medium-sized enterprises for cooperative production of industrial goods and provision of services with over 20,000 cooperative members; approximately 15,000 people are employed, including 11,000 workers with disabilities.

- National Union of Cooperatives of Persons with Disabilities unites cooperatives of people with disabilities.

Cooperatives generally serve the mutual interests of their members; only cooperatives of persons with disabilities can be regarded as pursuing a social mission. The latter are WISE (they deliver societal impact through the people they employ) – mainly for people with disabilities.

## **Scale and characteristics**

### Legal forms

Bulgarian social enterprises take different legal forms –primarily cooperatives and associations and foundations undertaking revenue generating activities.

### Business models

The business models differ between social enterprises in Bulgaria.



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### Sources of income

While no official aggregate and comparable data is available, the overall financial condition of social enterprises in Bulgaria – judging by the interviewed representatives of this sector and literature reviewed for this country report – appears to be weak. The main source of income for the interviewed social enterprises is savings, as well as help from friends and family; this is in particular the case for non-profits with revenue generating activities. Cooperatives, on the other hand, usually apply for funding from the Agency for People with Disabilities and the OPs. Interviewees generate revenues from provision of fee-based services, production of goods for sale and participation in tenders announced by the national authorities.

### Social impact

Measuring the social impact of social enterprises in Bulgaria is not yet applied in practice. Nevertheless, there are plans for such an assessment in the Action Plan 2014-2015 supporting the implementation of the National Social Economy Concept.

The focus of many social enterprises on work integration implies that their main societal impact is through the disadvantaged groups of people who find employment, such as the disabled and unemployed people. The interviewed social enterprises report different public benefits of their actions. In addition to full work integration of disadvantaged people, these are:



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- Providing/ improving social and health care for disadvantaged people;
- Delivering social assistance and care services of general interest;
- Facilitating access to and delivering education and lifelong learning, and
- Supporting the social integration and personal accomplishment of children, youth and other people needing care.

Use of paid workers

Apart from voluntary associations/ NGOs, social enterprises in Bulgaria largely rely on paid workers. The interviewed social enterprises are micro- and medium-sized enterprises, employing a range of 8 to 60 persons, both on a full- and part-time basis; only one of them reports employing about 5 volunteers. Cooperatives are mostly medium-sized enterprises.

#### Fields of activity

The Economic and Social Council reports<sup>37</sup> that the main fields of activity of social enterprises in Bulgaria are:

- Social services delivery;
- Employment of people with disabilities;

Factors constraining the start-up and development of social enterprise ■ Mediation in finding a job for unemployed people;

- Provision of health services;
- Activities in the sphere of education, etc.

NGOs with revenue generating activities in Bulgaria principally provide social services to



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elderly or young people, and children. One example of such a NGO-social enterprise is the Pia Mater Foundation<sup>38</sup> which is the biggest provider of social services to elderly, disabled and ill people in the capital Sofia. Their services include a 24-hour home care of these people, affordable food delivery and crisis social assistance to people who are not able to afford regular services. The foundation also provides training to the people who perform social services, usually disabled or long-term unemployed people, as well as training of assistants who would like to work in other EU countries (e.g. Germany, Austria, Italy, etc.). One of the interviewed stakeholders reports that by law NGOs with revenue generating activities cannot provide health services because they have to be registered as commercial entities .

The main field of activity of specialised enterprises or cooperatives of people with disabilities is work integration; such enterprises are mainly working in the 'light' industry.

### Target groups

As mentioned previously, the main target groups served by social enterprises in Bulgaria are elderly people, young people and children, people with disabilities and the long-term unemployed ('discouraged workers').

### **Factors constraining the start-up and development of social enterprise**



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An important enabling factor for the development of social entrepreneurship in Bulgaria identified by all interviewed stakeholders is awareness-raising among the wider public and education.

Several universities (e.g. University of Veliko Tarnovo, etc.) have started offering majors in Social entrepreneurship, but one of the stakeholders comments that it is important to introduce the concept earlier, as part of high school education. Another stakeholder observes that in general in Bulgaria the focus is on money and there is a perception that those who manage to earn “good money” are successful. According to this stakeholder, there needs to be more public talk about people who work for “the greater good” and that they are also successful. He continues that there should be a good understanding of the concept of social entrepreneurship so that the public does not think that those who cannot earn money become socially engaged, instead.

Another key enabling factor for the development of social enterprise in Bulgaria is the creation of micro-finance institutions that can provide start-up support to social enterprises, for example, loans up to BGN 25,000 (ca. €12,800). Such SIFIs can be created under the innovation strand of the ESF but eligible organisations need to express an interest/ apply first. There is a microfinance institution called Jobs, as part of the Bulgarian Bank for Development, which provides low-interest loans to sole traders (еднолични търговци) but there is no special scheme for financing social enterprises in Bulgaria per se.

In general, it is easier to start up a social enterprise in Bulgaria than to scale one up. The interviewed stakeholders comment that accessing finance and markets are clear barriers to both starting and scaling up social enterprises in Bulgaria. This is followed by inability to employ suitably skilled staff and lack of internal skills (e.g. management, etc.) in how to start



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up a social enterprise. Lack of innovation is also suggested as a barrier to scaling up social enterprises.

The interviewed social enterprises had differing views on the barriers they experienced when starting up or scaling up their activities. One of them reports that the availability of finance is a barrier when starting up a social enterprise, whilst insufficient government support for social enterprises is a barrier to both starting up and scaling up the activities of a social enterprise.

The other interviewed stakeholder representing the sector reports that they experienced the following barriers when starting-up:

- The terms and conditions attached to bank finance (e.g. personal guarantees on loans);
- The amount of finance that banks are willing to provide;
- Access to public procurement opportunities (this one is noted as the only barrier experienced

for starting up by another of the interviewed stakeholders (social enterprises);

- Lack of social clauses in public procurement practices;
- Insufficient government support for social enterprises, and
- Availability of skilled workers (paid employees).

This stakeholder also reports that for scaling up its operations they experienced all of the barriers mentioned above, along with:

- Availability of finance;



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- Non-availability of financing on suitable terms from sources other than banks;
- General economic conditions, and
- Delays in receiving payment for services delivered.

Further to the above-mentioned barriers, the stakeholder states that the Bulgarian government should establish a voucher model for financing social service providers<sup>39</sup> so that social enterprises can compete for public funding for social services. According to this stakeholder, at present the government prefers to fund its own structures and municipalities aiming to strengthen their capacity. This is viewed as unfair and not appropriate for those who need social services, as well as for the market economy, as only a model based on competitiveness can lead to quality services, improved access and innovation. The stakeholder claims that the approach of municipalities delivering social services will be backed with funds by the ESF in the programme period 2014-2020. The stakeholder further reports:

“Thus we cannot expect scaling up of our social enterprise, as we provide quality services for the 1 per cent of people who can afford the service fee. The other 99 per cent will be expecting municipal services waiting to be shortlisted or receiving services with quality "as it is".

The best thing the government could do for social enterprises in Bulgaria is not to compete with them, withdraw from the market and concentrate on regulation and facilitation of the processes. It would be better to allocate the EU funds to the development of a competitive and nurturing environment.”

According to another stakeholder, there is a lack of financing for cooperatives, apart from



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financing for technical equipment. This stakeholder continues that the state policy is still focused on providing social assistance to vulnerable groups rather than on creating employment for them.

Some of the interviewed stakeholders pick up on the current lack of statistical recognition of people with disabilities and vulnerable groups in general.

Social dialogue in Bulgaria is reported as difficult by one of the interviewed stakeholders; this has a negative effect on social enterprises such as cooperatives. Even though there are quotas for disabled people in the Labour Code, there are no sanctions for violations and penalties for the non-abiding employers are really small as well; the same applies to the adaptation of workplaces to the needs of disabled people which is sometimes not up to the required standard. According to this stakeholder while all of these exist on paper, there should be more social dialogue with the support of the state.

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