

OPPORTUNITIES AND PROBLEMS TO SUPPORT SOCIAL ECONOMY IN THE EUROPEAN UNION

Vanya Banabakova, Maria Ilcheva

Prof. Dr., Mr., National Military University Vasil Levski, BULGARIA, email: v.banabakova@abv.bg

Dr., Mr., National Military University Vasil Levski, BULGARIA, email: mkilcheva@abv.bg

Abstract

The European Commission recommends that Member States encourage the creation of specific support programs for the development of social enterprises and the next generation of social entrepreneurs. Various studies in Europe show some of the recurrent difficulties encountered by social enterprises in terms of competitive development and economic sustainability and, as a consequence, the need for intervention and regulation.

The diversity of resources and the subjects of social economy organizations lead to differences in the dynamics of their behavior and their relations with the surrounding environment. At European level, a number of studies identify four main types of measures to promote social enterprises in the Member States that can contribute to sector-wide development: regulatory action and initiatives, and in particular the fact that the legislation of many EU countries provide for exceptions or special tax measures; financial support instruments, either in the form of subsidies or financial aids, and in the form of a reduction in labor costs in the case of inclusion of categories at risk of inequality in the labor market; tools to support business development, mainly by setting up business incubators, strategic and financial counseling services, and entrepreneurial development training; measures to support cooperation, that is to say, the institutionalization of forms of cooperation both vertically - between social enterprises and public institutions, and horizontally - between individual social enterprises.

Despite the existence of a variety of policies and public measures to support the social economy in the individual Member States of the European Union, there are a number of barriers and obstacles to the development of the social economy.

Regardless of the serious progress and important steps taken for the political recognition of the social economy on the agenda of the European institutions, it remains imperative to develop policies and an institutional framework for their realization in order to create an optimal environment that encourages and supports the social economy in individual member states.

The purpose of this study is to analyze the mechanisms and forms of support for the social economy in the European Union and on this basis to highlight the problems in their application.

Keywords: social economy, social policies, tools to support the social economy

1 INTRODUCTION

The European Commission recommends that Member States encourage the creation of specific programs to support the development of social enterprises and the next generation of social entrepreneurs. In parallel, the European Commission is encouraging Member States to take the initiative to create a national system for measuring social performance from the work of social enterprises and action to introduce a more transparent system for reporting social enterprises in order to increase investor confidence .

The International Labor Organization defines the social economy as a bridge linking informal with formal economy and as a sector that unites urban and rural communities and smooths economic and social problems. [1]

Various studies in Europe show some of the recurring difficulties encountered by social enterprises in terms of competitive development and economic sustainability and, as a consequence, the need to intervene in the following areas:

- availability of a regulatory framework for support;
- developing the quality of products and services;
- Raising the skills and abilities of employees and developing managerial skills;
- availability and access to financial resources;
- networking and cooperation;
- Establishing appropriate governance structures.

The purpose of this study is to analyze the mechanisms and forms of support for the social economy in the European Union and on this basis to highlight the problems in their application.

2 MECHANISMS AND FORMS FOR SUPPORT OF SOCIAL ECONOMY IN THE EUROPEAN UNION.

The variety of resources and subjects of social economy organizations leads to differences in the dynamics of their behavior and their relations with the surrounding environment. At European level, a number of studies identify four main types of measures to promote social enterprises in the Member States that can contribute to the development of the whole sector:

- Regulatory actions and initiatives, in particular the fact that the legislation of many EU countries provides for exemptions or special tax measures;
- Financial support instruments, either in the form of subsidies or financial aid, and in the form of a reduction in labor costs, in case of inclusion of categories at risk of inequality on the labor market;
- Tools to support business development, in particular by setting up business incubators, strategic and financial counseling services, and entrepreneurship development training;
- Measures to support cooperation, ie the institutionalization of forms of cooperation, both vertically - between social enterprises and public institutions, and horizontally - between individual social enterprises.

In 1989, the European Commission first tackled social economy in the publication "Social Economy Enterprises and the Creation of a European Market without Frontiers", pointing out that it is necessary to support the emerging companies in the sphere of the social economy and create a European legal basis in the form of statutes for cooperatives, associations and mutual societies. During Jacques Delors' presidency, a department dedicated to the social economy was set up in the Directorates-General responsible for enterprise policies.

By setting up such a unit, the Commission aims to carry out the following tasks:

- Take initiatives to strengthen the sector of cooperatives, mutual societies, associations and foundations;
- To prepare European legislation for cooperatives, mutual societies and associations;
- Make regular analyzes of the sector;
- Ensure consistency of EU policy towards the social economy sector;
- Establish links with representative organizations;

- Build relationships with parts of the sector that are not organized;
- Raise awareness among decision-makers on the use of cooperatives, mutual societies, associations and foundations;
- To assess the problems faced by this sector;
- Represent the Commission to other social economy institutions.

Since 2000, the areas of intervention by the Commission have been divided between two directorates:

- Enterprise and Industry Directorate-General (ENTR), where there is a department dealing with crafts, small businesses, cooperatives and mutual societies, and which focuses on the economic aspects of social enterprises;
- The EMPL, which specifically addresses issues related to the inclusion and fight against poverty, social innovation, employment and the labor integration of people at risk of discrimination.

In 2009, the European Parliament adopted a resolution on the social economy (2008/2250 (INI)) following the adoption of a report stating explicitly that "the values of the social economy are largely in line with the general social inclusion The European Union and it must go hand in hand with decent working conditions, training and reintegration. The social economy has shown that it can significantly improve the social status of disadvantaged people and that it has a remarkable social innovation capacity and by encouraging people who have difficulty finding solutions to their social problems, such as reconciliation of work and private life, gender equality, quality of family life, and the ability to care for children, the elderly and people with disabilities. [2] Parliament therefore emphasizes that the social economy, by combining profitability and solidarity, plays a significant role in the European economy, enabling the creation of quality jobs and the strengthening of the social, CONOMIC and territorial cohesion, generating social capital, promoting active citizenship, solidarity and a vision of economy with democratic values which puts people first, emphasizing sustainable development and social environmental and technological innovation. "[3]

One of the most important policy frameworks of the European Commission to support and recognize the social economy in recent years is the Social Entrepreneurship Initiative Action Plan (2012/2004 (INI)), the causes of which are linked to the high potential for growth the social business model that has not been sufficiently explored and, at the same time, the existing difficulties for the social business to access finance, while the European Commission is increasingly recognizing the contribution of social business to generating significant social, environmental and societal benefits, thus contributing to the objectives of the Europe 2020 strategy.

The Social Business Initiative Action Plan includes a total of eleven measures, broken down into three key support areas: [4]

- Improving access to finance for social enterprises, tailored to their specific features;
- Improving the visibility and recognition of the social enterprise, facilitating mutual learning and capacity building, promoting skills development;
- Simplification of European legal and regulatory frameworks to ensure that they include social enterprises on an equal footing with other forms of business, notably in the areas of public procurement, State aid for social and local services and capital markets.

Within the key area of funding of the EC Social Initiatives Initiative, the following priority actions are foreseen:

- Development of a European regulatory framework for social investment funds;
- Supporting the development of micro-credit in Europe, in particular the legislative and institutional framework;
- Creation of a European financial instrument worth € 90 million to improve access to finance for social business - in operation from 2014;
- Introducing an investment priority for social enterprises in the regulations of the European Regional Development Fund and the European Social Fund, as proposed in the Structural Funds 2014-2020 package;

With regard to financial instruments to support the social economy, it is important to take into account that, because of their specific characteristics and diverse legal forms, social enterprises need financial instruments that differ from those intended for other forms of economic activity. For social enterprises, a more tailored form of hybrid capital, containing elements of grants, equity and debt capital, is more

appropriate throughout their life-cycle. Hybrid capital combines a grant component (public grants, charitable funds, donations) together with equity and debt / risk sharing instruments.

With regard to the second key area to improve the visibility and recognition of the social enterprise, facilitating mutual learning, capacity building and promoting skills development, the following priority actions are included:

- Create a comprehensive map of social enterprises in Europe in order to identify good practices and models that can be applied in other countries;
- Creating a public database of brands, labels and certificates applied by social business in Europe in order to improve their visibility and recognition;
- Encourage mutual learning and capacity building by national and regional administrations so that they can develop integrated strategies to support social enterprises, in particular by using the European Structural Funds;
- Creating a unified, multilingual electronic base and exchange platform for social entrepreneurs, incubators and clusters, social investors to better promote and access to European Union programs and initiatives that support social enterprises.

In the process of developing the Social Entrepreneurship Initiative (SEI (2011) 682), the European Commission recognizes that social enterprises must be promoted and recognized as a vital sector in society. The European Commission goes further, considering the possibility of creating a European certificate for a social enterprise that would raise awareness and recognition and help build confidence and increase demand.

Within the key area to improve the legislative and regulatory framework for social enterprises in the Social Entrepreneurship Initiative, the following priority actions are foreseen: [5]

- Proposals to simplify the statutes of the European Cooperative Society and the European Foundation;
- Strengthening quality elements in awarding contracts in the context of public procurement, especially in the fields of social and health services;
- The principles of non-discrimination, equal treatment and transparency should be widely applied;
- Simplify the application of state aid rules for local and social services, which will benefit a number of social businesses.

The financing of the set-up activities in the Social Entrepreneurship Initiative is supported by the creation of a financial instrument for financing social enterprises within the framework of the European Union's Social Change and Innovation Program, set up on 6 October 2010 with a total budget of EUR 90 million . [6]

In 2013, the European Commission adopted a Communication on Social Investment for Growth and Cohesion (SIGC / 2013/083), including the implementation of the European Social Fund for the period 2014-2020. [7] This Communication is accompanied by a Commission Recommendation on "Investing in Children Exiting the Vicious Circle of Disadvantage" and a series of Commission Staff Working Papers, together representing a "Social Investment Package". It provides a policy framework for reorienting Member States' policies where necessary to social investments throughout all stages of life in order to ensure the adequacy and sustainability of social policy budgets and of the public and private sector as a whole, was also mentioned by the European Parliament in its resolution on the Social Investment Pact. [8]

A useful tool for raising the visibility of the social economy at European level and promoting good practices among the member states is the annual organization and holding of a European Social Innovation Competition with a total prize pool of 300,000 euros. The first edition of the competition is in 2012, with funding for its running and the prize pool being provided by the European Union budget [9]. The aim of the competition is to stimulate the potential for social innovation to provide solutions to pressing social problems and to provide opportunities for sustainable and inclusive growth. The right to participate in the competition is open to all legal entities, citizens and start-up entrepreneurs across a wide range of sectors, in partnership with academia and schools that have the capabilities to find new sources of growth and employment.

In recent years, the so-called "Social Franchise" has been widely used as a policy to implement and multiply successful business models for social enterprises. A study by the European Social Franchise Network identified 140 business models in Europe that have already been implemented elsewhere. [10] This is done by signing "franchise agreements" that define the scope of competence transfer services and which ensure

economic viability and equal quality of products under a common brand name. Practice shows that investing in social franchise is less risky than starting a self-employed social enterprise because of the lower risk of bankruptcy.

One of the remarkable steps for a new approach to social economy support policy is the Strasbourg Declaration ("Social Entrepreneurs - Innovation Factors, Inclusive Growth and Jobs" adopted on 16-17 January 2014), where the European Commission and the European the Economic and Social Council jointly take into account the importance of the social economy for the future of Europe and identify new ways of supporting the sector. [11] It underlines that the economic and social model of Europe needs to be rethought, and the direction should be towards fairer and greener growth, firmly enshrined in local communities. There is also a need for a new model to add value to social cohesion as a real source of collective welfare and to identify measures for innovative sources of funding, business support, networking and clearer European regulations. At the same time, the EESC notes that without the clear political will and commitment of public authorities at all levels (European, national, regional and local), the full potential of social entrepreneurship can not be used.

3 PROBLEMS WITH THE SUPPORT OF THE SOCIAL ECONOMY IN THE EUROPEAN UNION.

Despite the existence of diverse policies and public measures to support the social economy in the individual Member States of the European Union, there are a number of barriers and obstacles to the development of the social economy which can be summarized in the following groups:

Insufficient understanding of the concept of a social enterprise - this barrier appears to be the most important of the majority of Europe's leading experts, besides the ambiguity of the concept, there are many stereotypes that vary between countries. In general, the poor understanding of the social economy and the lack of specific and widely accepted definitions hinder the development of the sector and the provision of financial support, and at the same time it is a key factor in establishing a lasting relationship with customers and the market. The concept of social economy is still not clearly defined, and even when it is defined, it is not the same in different Member States. Often outdated, fragmented and inconsistent data make it difficult to adapt and coordinate public policies.

Fragmented Supporting Infrastructure for Social Enterprises - The lack of adequate support infrastructure for start-up social enterprises as well as the fragmentation of existing practice and experience in supporting social enterprises lead to resource scattering and ineffective interventions for the social economy sector. The practice of developing social enterprises in different countries of the European Union shows that the process is much more effective when there are specialized organizations / platforms that provide business support to beginner social entrepreneurs. Social enterprises need access to specially tailored training and technical assistance programs, especially in the initial phase of their work. It is important to encourage the structuring of an expert unit and a supportive organization to act as a "resource center" and to provide expert support to social enterprises.

Challenges for access to finance for social enterprises - Social enterprises face major difficulties in finding funding, the need for which depends on their level of development (creation, pilot projects or prototypes, large-scale development). Because of their specific features and diverse legal forms, social enterprises need financial instruments that differ from those intended for other forms of business. For social enterprises, a more tailored form of hybrid capital, containing elements of grants, equity and debt capital, is more appropriate throughout their life-cycle. Restrictions on redistribution of profits or the hiring of vulnerable workers often leave a feeling to creditors or potential investors that they are more risky and less profitable businesses than others. To a large extent, social enterprises face the shortcomings of financial markets (fragmentation, lack of pan-European loan platforms, etc.). Access to public funds is often hampered by many bureaucratic provisions.

Unclear and complicated regulatory environment - It is of particular importance to the social economy at European and national level, which does not always take into account the specificities of social enterprises, especially as regards public procurement or existing legal statuses. Very often social enterprises, other than associations, can not benefit from the tools that public authorities offer as support.

Underdeveloped system for collecting information on social value added and social benefits - Leading policy to achieve a new inclusive Europe is to create a mechanism for all stakeholders to look at growth and value creation in a wider context and taking into account the socio-economic progress, include social indicators and demonstrate positive social impacts.

Promoting exchange of experience and best practices in the social economy sector - The Commission should start work to collect and share the good practices driving innovative initiatives in the social economy sector and the experience gained in the Member States to promote social investment for social enterprises in Europe. European lead documents state that Member States and regions must stimulate cross-border cooperation between social enterprises in order to exchange knowledge and practices. The Strasbourg Declaration clearly indicates the commitment of public authorities to deepen cooperation among themselves and to strengthen their capacity to support the growth of social enterprises. [13]

Market access and confidence-building - Social enterprises must be promoted and recognized as a vital sector in society. An important task of European policies is to consider ways to create a European certificate for a social enterprise that would raise awareness and recognition and help build confidence and increase demand. Another important aspect of public policies is to ensure access to the common European social enterprise markets, which would mean applying the principles of "positive discrimination" and applying criteria for assessing the social impact of participation in public procurement.

In order to overcome these barriers, a socially responsible Public Procurement (SRPP), defined by the European Commission, is defined as "procurement activities that take into account one or more of the following criteria: employment; decent work; respect for social and labor rights; social inclusion (including the disabled); equal opportunities; design, providing accessibility for all; taking into account sustainability criteria, including ethical trade issues; and voluntary compliance on a wider scale with the principles of corporate social responsibility, while respecting the principles enshrined in the Treaty on the Functioning of the European Union and the Public Procurement Directives."

On the basis of the study of the mechanisms and instruments for supporting the social economy in the European Union and the highlighted problems related to their application, the following **conclusions** can be drawn:

- One of the most important challenges for the social economy sector, with which politicians and experts have to deal immediately with, is the institutional inconspicuousness of the benefits of the social economy.
- Despite the serious progress and important steps taken for the political recognition of the social economy on the agenda of the European institutions, it is imperative to develop policies and an institutional framework for their implementation with a view to creating an optimal environment that encourages and supports the social economy in individual Member States.
- Countries such as France, Italy, the United Kingdom, Spain, Belgium and some of the new Member States such as Poland and Romania demonstrate targeted efforts for legal and regulatory regulation of the social economy sector, allowing for the place and contribution of social enterprises to reducing social disparities and inequality in the labor market. In other countries, however, there are single initiatives in support of the social economy which can not provide a comprehensive supportive institutional environment and thus hinder the development of the social economy sector.
- The practice of the Member States of the European Union with a developed social economy shows that a legal definition should be given to the notion of a social enterprise, in which there is a prevailing rule of how the social enterprise will be organized as a subject of law but what goals he / she has and what effect he / she is pursuing. The leading role in this process must be given to the clear identification of the social benefit of the social enterprise with specific dimensions of lasting social effect on disadvantaged people. For countries where there is no legal regulation of the social economy, including Bulgaria, it is necessary to introduce a legal definition that encourages the development of various entrepreneurial initiatives with a social effect, not restricting social enterprises to just one legal form [14].

In conclusion, the European Union, with its institutions and policies in support of the social economy, play a decisive role in strengthening the sector and enhancing its institutional visibility, consolidating this process by incorporating the social economy into the heart and focus of leading European policies and documents related to employment and social inclusion policies. [15] On the other hand, without taking specific commitments from national public authorities, it would be very difficult to achieve the effect of adopting public support for the social economy in national policies that have a direct bearing on the regulation of the social economy in individual Member States.[16] This conclusion is confirmed by the fact that, on the one hand, European policies are perceived by all Member States,[17] but the application and the direct effect vary depending on the degree of perception in national policies and the commitment of the national authorities.

REFERENCE LIST

- http://www.ilo.org/empent/Publications/WCMS_175515/lang--en/index.htm The ILO approach to social economy – Sustainable Enterprises
- <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A6-2009-0015+0+DOC+XML+V0//BG> Report on Social Economy, EP,, 2009 г.
- European Parliament resolution of 19 February 2009 on the social economy (2008/2250(INI))
- „ Initiative for Social Entrepreneurship Brussels, 25.10.2011, COM(2011) 682
- <http://seconomy.mlsp.government.bg/upload/docs/2012-01/LexUriServ.pdf> Initiative for Social Entrepreneurship Program for Social Change and Innovation
- <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0609:FIN:EN:PDF>
- Communication from the Commission COM (2013) 83 "Social investments for growth and cohesion, including the implementation of the European Social Fund 2014-2020"
- European Parliament resolution of 20 November 2012 on the Social Investment Pact as a response to the crisis, <http://www.europarl.europa.eu>
- http://ec.europa.eu/enterprise/policies/innovation/policy/social-innovation/competition/index_en.htm/ European Social Innovation Competition
- <http://www.socialfranchising.coop/>, European Network for Social Franchising "
- http://www.eesc.europa.eu/resources/docs/a_eesc-2014-00376-00-00-decl-tra-bg.pdf „ Strasbourg Declaration "Social Entrepreneurs - Innovation Factors, Incorporating Growth and Jobs"
- Ilcheva, M. Dissertation on Public Policy of the European Union for Support and Development of the Social Economy, VTU St. St. Cyril and Methodius, 2017, pp. 86-88.
- http://www.eesc.europa.eu/resources/docs/a_eesc-2014-00376-00-00-decl-tra-bg.pdf Strasbourg Declaration "Social Entrepreneurs - Innovation Factors, Incorporating Growth and Jobs"
- Platform for the Development of Social Economy in Bulgaria, Sofia
2014 <http://pgf.osi.bg/data/file/Documents/Platform%20Social%20Economy%20BG%20MERI%20EUROCIITIES.pdf/>
- Chaves Rafael, Public Policies and Social Economy in Spain and Europe, University of Valencia, CIRIES, 2005
- Terziev. V. Impact of active social policies and programs in the period of active economic transformations in Bulgaria, Аннотированный указатель научной и учебно-методической литературы, представленной авторами на I-XXXIII всероссийских выставках, проводимых академией естествознания <http://rae.ru/ru/chronicle/>, Материалы для экспозиции на XXX Московской Международной книжной выставка-ярмарка Москва, ВДНХ, павильон № 75 06-10 сентября 2017г. XXVIII, с. 150-153.
- Terziev. V. E. Arabska, Social entrepreneurship, social values and social impact, Journal of International Business Studies, No.9 (2), (December). Volume 48. Palgrave Macmillan Ltd., 2017, Source Normalized Impact per Paper (SNIP): 2.450 SCImago Journal Rank (SJR): 4.208 Impact Factor: 3.620, ISSN: 0047-2506 (print version) ISSN: 1478-6990 (electronic version), pp. 1341-1351.