

SOCIAL ECONOMY IN BULGARIA - PROBLEMS AND GUIDELINES FOR THEIR REDUCTION

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Abstract

Promoting innovative ideas in public policies is crucial to supporting the values of an active, problem-oriented social system. These views underpin the ongoing social reforms in different countries and focus on the development of social entrepreneurship and the role of social entrepreneurs. The understanding is that social entrepreneurs have the ability to find flexible approaches to addressing unsatisfied social needs by locating usable resources - human capital, buildings and equipment. When formulating policies to support the social economy, it is important to take into account the specific characteristics of this kind of hybrid structures, the variety of models and vulnerable groups that are supported, and the particular symbiosis between financial viability and the ability to socially impact.

It is undoubtedly the influence of the social economy in two directions - economic and social. Social benefits are measured by the integration and employment of disadvantaged people, contributing to the process of social inclusion and the creation of social capital. The most serious economic indicator of the benefits of the social economy is the savings in public funds for social benefits, on the one hand, and the additional means of compensating for the social cost of long-term unemployment. At the same time, the newly created value in the social economy also represents a significant economic benefit. An additional economic impact of this type of organization is their flexibility and ability to mobilize resources of different origins - market and non-market resources, voluntary work and public support.

One of the serious problems that the social economy sector in Bulgaria needs to tackle immediately is the so-called institutional inconspicuousness. It is explained not only by the characteristics of the social economy as a new sector in the economic system but also by the lack of identity as a concept, the lack of a clear, strict definition of the characteristics that are common to the different types of companies and organizations that form the social economy. It is important to note that a serious shortage of social enterprises is the lack of knowledge of their goods and services and consequently the resulting limited opportunities for successful marketing of products with social value added. In this sense, notwithstanding the fact that social enterprises are closest to disadvantaged people and are trying to create opportunities for their employment, in the mainstream they are very difficult to compete on the market due to the additional costs associated with labor and social integration.

However, there are other key issues for the development of the social economy sector in Bulgaria, which are largely present in other EU Member States as well as being considered as EU-wide challenges of EU public policies.

The development of the social economy in Bulgaria should be implemented in specific directions in order to create a favorable public environment for the social economy,

The aim of the present study is to study the main problems for the development of the social economy in Bulgaria and on this basis to put forward proposals for creating a favorable public environment for the social economy in the country.

Keywords: social economy, social support, social entrepreneurship.

1 INTRODUCTION

Promoting innovative ideas in public policies is crucial to supporting the values of an active, problem-oriented social system. These views are at the heart of the ongoing social reforms in different countries, and focus on the development of social entrepreneurship and the role of social entrepreneurs. It is imperative that social entrepreneurs have the ability, by locating available resources - human capital, buildings and equipment, to find flexible approaches to satisfying unmet social needs. [1]

When formulating policies to support the social economy, it is important to take into account the specific characteristics of this kind of hybrid structures, the variety of models and vulnerable groups that support, and the particular symbiosis between financial viability and the ability to have a social impact. The development and implementation of the National Social Economy Concept aims at harmonizing social policies with the good practices of the EU Member States based on the findings and conclusions made under the Open Method of Coordination for Social Protection and Social Inclusion for Flexicurity in the Labor Market , combined with security and implementation of the active inclusion approach. In today's European context, the social economy is an established and irreplaceable part of the social environment and social protection networks that successfully generate and combine economic profitability and social solidarity.

The social economy is a holder of democratic values that place people first, creating jobs and promoting active citizenship. The development of the potential of the social economy depends on the adequacy of the political, legislative and operational conditions. The real social-economic and humanitarian actors in the country are increasingly pressing for the need for legal and institutional differentiation in the real economy in order to develop their potential and to interact on an equal footing, both to achieve a synergistic social effect among themselves, as well as in interaction with the state and the corporate economy.

The aim of the present study is to study the main problems for the development of the social economy in Bulgaria and on this basis to put forward suggestions for creating a favorable public environment in this direction.

2 PROBLEMS TO THE SOCIAL ECONOMY IN THE COUNTRY

The impact of the social economy is twofold - economic and social. Social benefits are measured by the integration and employment of disadvantaged people, contributing to the process of social inclusion and the creation of social capital. The most serious economic indicator of the benefits of the social economy is the savings in public funds for social benefits, on the one hand, and the additional means of compensating for the social cost of long-term unemployment. At the same time, the newly created value in the social economy also represents a significant economic benefit. An additional economic impact of this type of organization is their flexibility and ability to mobilize resources of different origins - market and non-market resources, voluntary work and public support.

The Economic and Social Council (ESC) of the Republic of Bulgaria recommends the creation of a single European definition of a social enterprise, which will become the basis for drafting legal acts on the constitution of social enterprises in Bulgaria. According to the ESC, explicit recognition by public authorities of the different identities of these organizations is necessary. ESC considers it necessary to improve the cooperation of horizontal (between social enterprises) and vertical (between social enterprises and public institutions) level [2]. The social economy has a significant potential for social innovation and, on that basis, ESC urges that social enterprises be further encouraged in their efforts to find innovative solutions to social issues (such as reconciling work and private life, gender equality, life and the ability to care for children, the elderly and people with disabilities).

One of the latest innovations in the social sphere is the concept of "Experience Experts" developed as a form of social entrepreneurship. These are individuals with specific expertise acquired through personal experience and experience in social exclusion. The initiative aims to build on successful practices in Europe

to tackle social exclusion by introducing a qualitatively different approach to dealing with vulnerable groups by creating the "Expert Expertise" profession [3]

One of the **serious problems** that the social economy sector in Bulgaria needs to tackle immediately is the so-called institutional inconspicuousness. It is explained not only by the characteristics of the social economy as a new sector in the economic system but also by the lack of identity as a concept, the lack of a clear, strict definition of the characteristics that are common to the different types of companies and organizations that form the social economy. It is important to note that a serious shortage of social enterprises is the lack of knowledge of their goods and services and consequently the resulting limited opportunities for successful marketing of products with social value added. In this sense, notwithstanding the fact that social enterprises are closest to disadvantaged people and trying to create opportunities for their employment, in the mainstream they are very difficult to compete on the market due to the additional costs involved, related to labor and social integration.

Other **key issues** for the development of the social economy sector in Bulgaria, which are largely present in other EU Member States, and which are perceived as pan-European challenges of EU public policies, are:

- **Low level of knowledge and recognition of social entrepreneurship**

One of the serious deficits of social enterprises is the lack of knowledge of their goods and services, and consequently the resulting limited opportunities for successful marketing of products with social value added. In the social economy development platform adopted by a wide range of stakeholders in Bulgaria, it is recommended to clearly regulate the measurement of social return in order to take into account the specificities of the social enterprises resulting from the existing additional costs related to the labor and social integration and thus to be competitive on the market.

As a major opportunity for the development of the social economy sector in Bulgaria, the need to promote the social value added of the social enterprises' products can be defined by introducing, promoting and awarding a trademark "Product of a social enterprise". Thus, with the active involvement of the state and local authorities, it is possible to ensure the application of market-based methods for the market penetration of various goods and services, effective techniques for market research and testing and the development of distribution channels for goods focusing on product quality and promoting social value added.

- **Fragmented supporting infrastructure for social enterprises**

At present, the lack of adequate supporting infrastructure for start-up social enterprises as well as the fragmentation of existing practice and attempts to support the activities of social enterprises leads to resource scattering and ineffective interventions for the development of the social economy sector. The practice of developing social enterprises in different EU countries shows that the process is much more effective when there are specialized organizations / platforms to provide business support to beginner social entrepreneurs. Not every business consultant may be useful enough to a start-up social enterprise where, in addition to traditional business knowledge, knowledge of a much wider range of normative documents, understanding of the organization's activities, and appropriate skills to achieve balance between social and economic goals. Social enterprises need access to specially tailored training programs and technical and logistical assistance, especially in the early stages of their work. It is particularly important to encourage the structuring of an expert unit and a supportive organization at national level and with regional branches to act as a "resource center" and to provide expert support for the creation and development of social enterprises. Special emphasis should be put on investment readiness programs as well as the proper diagnosis of support and financing needs at the different stages of the development of the social enterprise. The opportunities for developing an active supportive environment for social enterprises in Bulgaria are related to targeted support for the creation of a network of business incubators for social enterprises as well as national and regional platforms and structures to support social enterprises.

- **Difficult access to markets for social enterprises**

The lack of active interaction between individual social enterprises, municipalities and business organizations, which are the main potential buyers for the goods and services of social enterprises, hinders the achievement of good market outcomes by social enterprises. The promotion of these interactions requires specialized incentive measures, especially with regard to the order in which public contracting authorities (public and local authorities) designate public procurement contractors. It is imperative to lay down additional specific criteria in favor of social economy enterprises in their participation in public procurement procedures as well as the inclusion of social clauses in public procurement to take account of the additional social effect since social enterprises can not be equivalent to capital companies. As a number

of experts and practitioners in the social economy sector in Bulgaria continue to point out the lack of legal regulation of the concept in the Bulgarian legal framework as the most important challenge, it is advisable to identify proposals and an approach for future statutory regulation of social enterprises.

Social enterprises are a flexible form to implement a variety of initiatives (private or public) to provide support to the needy. Therefore, a guiding principle in their regulatory regulation should be the establishment of criteria and mechanisms for identifying the socially significant outcomes of their activities in favor of vulnerable groups of the population. This principle should be enshrined with the necessary adaptation in the special laws regulating social relations, the normal course of which can be facilitated and supported by a social enterprise (Law on National Education, Healthcare Act, Social Assistance Act, etc.). The legal and organizational forms for carrying out their activity are sufficiently regulated by the current legislation - a non-profit legal entity under the Law on Non-Profit Legal Entities, a trader under the Commercial Law, a cooperative under the Cooperatives Act, a Civil Society under the OCA. The most functional and useful option is to create an autonomous social economy law that provides for common criteria for social enterprises. On the one hand, given the trends in the development of the social economy in the EU, the significant resources for its development, including at national level, call for the introduction of regulatory regulation of long-established social relations that the Bulgarian state has declared to use as an instrument to achieve national goals in its development. Next, regulation at law level will give sustainability to social enterprise understanding, and will thus impose and guarantee systemic planning and efficiency in allocating financial resources to support its development (4)

In the EU Member States there is an increasing tendency to include in the public contracts a "social clause" as a means of encouraging the participation of social enterprises. This can be done by aligning Bulgarian legislation (in particular the Public Procurement Law) with the following definition of the European Commission for Socially Responsible Public Procurement: "public procurement activities that take into account one or more of the following criteria: employment opportunities, decent work, respect for social and labor rights, social inclusion (including people with disabilities), equal opportunities, design, accessibility for all, taking into account the sustainability criteria. "[5]

An undeniable fact in recent years has been to direct the efforts of the Bulgarian government towards policies to ensure a favorable environment for the social economy despite the debate on the effectiveness of these efforts, mainly in terms of the legal environment and administrative measures. Nonetheless, a broad consensus basis is sought to serve as a starting point for introducing criteria for the identification of enterprises and organizations from the social economy, on the basis of which to structure the incentives and constraints on financing, social clauses in public procurement, tax reliefs and more.

- **Establishing adequate supporting infrastructure for the social economy**

A major deficit of organizations operating in the social economy sector can be defined as the lack of "resource centers" knowledge centers that offer practical advice, specialized advice, access to useful information and good practices needed by organizations ensuring sustainability and better market realization. For example, despite the high motivation and participation in training to increase capacity, or even the high level of preparedness of the business development organization, the lack of supportive environment is an insurmountable barrier that slows the process of ensuring the sustainability of the social enterprise.

Special emphasis in planning of supportive public measures should be put on investment readiness programs as well as the proper diagnosis of support and financing needs at the different stages of the development of the social enterprise. The opportunities for developing an active supportive environment for social enterprises in Bulgaria are related to targeted support for the creation of a network of business incubators for social enterprises, as well as national and regional platforms and structures for support of social enterprises [6].

The advantage of supporting infrastructure is to provide opportunities for sharing experience and effective implementation of existing European experience and good practices in the social economy field. This will encourage the motivation of social entrepreneurs in Bulgaria to apply innovative ideas that will boost the development of the social economy sector.

In order to achieve Bulgaria's national target of reducing the number of people living in poverty by 260,000 by 2020, the Strategy for Human Resources Development 2014-2020 is based on the belief that it is the most critical one for overcoming poverty and social exclusion is the application of such social policies that give people access to economic opportunities and the skills and knowledge they need in order to exploit their opportunities. They thus manage to cope with the trap of poverty and social exclusion, dependence on the

social protection system and its vulnerability to adverse economic or social events. The implementation of such active social policies must take into account not only national but also local specificities and characteristics. The role of the social economy and social entrepreneurship in addressing the issues of poverty and social exclusion is important.

The potential of social enterprises lies in two of their essential characteristics:

First of all, they act locally in a multi-stakeholder network, and knowing well that local issues can offer solutions that are proven to work on the ground by reaching those groups at risk of poverty or social exclusion to which active social policies reach much less often than purely passive assistance.

Secondly, social economy organizations have the potential to mobilize and mobilize people at risk of poverty and social exclusion and thus enable them to participate in their own lives better. These two circumstances place an important place of support for the social economy in the overall strategy of the HRD OP to promote social inclusion.

Providing support for social enterprises through the European Structural and Investment Funds (ESF) is fully in line with the popular Social Business Initiative (SBI (2011) 682) but also with the Social Investment Package (SIP 2013), in which the EC recommends that Member States support social entrepreneurs by providing incentives for business start-up and development, expanding their knowledge and networking [7].

- **Collecting social value added information**

The lack of mechanisms for collecting adequate and comparable information for assessing the effect of the social economy is one of the serious challenges of the sector in Bulgaria. An assessment of the impact of the activity of social enterprises should be provided as part of the mandatory collection of statistical information, including its analysis. The competent institution - National Statistical Institute should provide, as part of the Statistical Information Strategy, for such analysis of collected data. The periodic review of the results of such analyzes will clarify the specific policy frameworks and support that the state needs to plan and deliver to the social economy. In addition, such an analysis will help to assess the achievement of the objectives under the operational programs and other funding mechanisms as well as the effectiveness and efficiency of the funding. [8] A specific measure in the Social Economy Action Plan 2016-2017 foresees the development of a methodology for assessing the social impact of social enterprises to raise the standard of living of the target groups as well as the introduction of tools for monitoring the contribution of social enterprises to improve the quality of life of the target groups.

- **Lack of incentives and access to financial resources for social enterprises**

At present, there is no separate fund, measure or program in Bulgaria dedicated to financing social enterprises, regardless of their stage of development. There are also no incentives or preferences to support social enterprises in the legislation. The National Social Economy Concept adopted in 2011 provides for a significant role to be played by providing financial resources to support social economy actors by embracing a variety of approaches to financial support to the sector through grant and start-up schemes of social enterprises and tax incentives - extending the scope of existing preferences for all social enterprises, under strict control of the nature of the activity of social enterprises, up to low-interest crediting and stimulating donation in favor of the social economy.[9] Most of these measures are still on paper and the practice shows that only the planned and announced at the end of 2016 Grant Scheme "Development of Social Entrepreneurship" within the HRD PP provides for targeted funding for the start-up and development of social enterprises.[10]

3 CONNECTIONS FOR THE ESTABLISHMENT OF A PUBLIC PUBLIC ENVIRONMENT FOR SOCIAL ECONOMY

The development of the social economy in Bulgaria depends directly on the creation of a favorable public environment for the social economy. [9] For this purpose, targeted efforts are needed in a number of areas.

It is appropriate to introduce a definition of a social enterprise and clear legal regulation of the order for acquiring status and functioning of social enterprises.

It is necessary to adopt a legal definition of a social enterprise by regulating social enterprises as entities with certain characteristics and not in an explicit legal form, with the following main features: a grouping of persons whose business is the production of goods and / or the provision of services to achieve a socially or socially useful goal that do not redistribute profits, with equal involvement of stakeholders in decision-making and in achieving social impact on people / communities in unequal but situation.

It is urgent to facilitate access of social enterprises to public procurement, the introduction of "social clauses" and the approach of socially responsible public procurement, the introduction of impact assessment as a criterion for facilitated access to public procurement. It is necessary to synchronize the Bulgarian legislation with the definition of the European Commission for Socially Responsible Public Procurement (SRPP).

It is appropriate to introduce tax relief corresponding to the impact (utility) of the activity of social enterprises on vulnerable groups. At the same time, it is imperative to develop policies and an institutional framework for their implementation in order to create an optimal environment that encourages and supports the social economy.

It is important to institutionalize an intermediary organization or body to monitor and promote the activity of social enterprises as an expression of state policy in the field of social economy. Regardless of whether the body will be independent or institutionally related, although it is advisable to have it selected and funded by an independent organization, it should have the resources and program independence to allow it to focus on the development of the social economy environment ; The body may also be collective - with the participation of representatives of the state, municipalities and the non-governmental sector. It should make optimum use of PP HRD's capacities to build its overall administrative and professional capacity and to develop structures and instruments at regional level to support the social economy - to provide targeted institutional support through initial and in-service training programs, social enterprise business incubators, platforms for sharing experience, transferring the rich know-how of other European countries to the legal framework and supporting the development of social enterprises, etc. ;

It is advisable to periodically assess the impact (utility) of the activities of social enterprises on vulnerable groups through a set of objective, statutory criteria and publishing an annual evaluation report with recommendations to legislators, institutions and guides and teams of social enterprises .

It is expedient to develop rules and programs to subsidize the activities of social enterprises and to balance the market risk arising from the social effect of their activities. These programs can be piloted with funds under the HRD PP but can be sustainably financed with funds from the national employment programs.

It is necessary to provide incentives and access to finance for social enterprises, incl. for social innovation and know-how, direct (global) grants and microfinance organizations, public-private partnerships and risky investments.

It is desirable to promote the social added value of social enterprises through campaigns to promote positive attitudes towards social enterprises and their products and services.

Based on the study of the challenges to the development of the social economy in Bulgaria and the outlined directions for creating a favorable public environment in this direction, the following **conclusions** can be made:

- It is appropriate, in parallel with the support of existing social enterprises, to work to promote market efficiency and increase competitiveness and access to markets and procurement of social enterprises in order to reduce the share of public subsidies to social enterprises to a reasonable minimum and to ensure adaptation to the market environment and greater sustainability of social enterprises.
- The concrete recommendations for the development of the social economy to the legal framework in Bulgaria include: Firstly, the institutionalization of an intermediary organization or body for monitoring and promoting the activity of social enterprises as an expression of state care and social economy policy. [10]; Secondly, it is recommended to adopt a legal definition of a social enterprise with the following main features: a combination of persons whose object of activity is the production of goods and the provision of services in order to achieve a lawful public purpose without distributing profits with equal participation of decision makers and the introduction of uniform standards for quality management in social enterprises. Thirdly, it is the introduction of tax relief policies that are consistent with the impact and utility of social enterprises on vulnerable groups, ie the state indirectly supports structures that have made a significant contribution to achieving the objectives of employment and social inclusion of excluded persons on a lasting basis .
- Establish an active electronic register of social enterprises on the territory of the Republic of Bulgaria. The Registry should also integrate the current register of commercial enterprises and cooperatives for people with disabilities, managed by the Disability Agency. Its main objective should be to identify good practices and reproducible models by developing together with the affected countries a complete map of social enterprises in Bulgaria by defining their characteristics, economic models, their economic weight, their potential for cross-border growth, the content and criteria of legal statutes and tax regimes, as well as the

existing mechanisms.

- In parallel with support for existing social enterprises, public measures to promote market efficiency and increase competitiveness and access to markets and procurement of social enterprises should be developed to reduce the share of public subsidies for social enterprises to a reasonable minimum and to ensure adaptation to the market environment and greater sustainability of social enterprises.
- To develop structures and instruments at regional level to support the social economy, including targeted institutional support, through initial and in-service training programs, social enterprise business incubators, experience sharing platforms, transfer of rich know-how to other European countries in the field of regulation and support for the development of social enterprises.

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