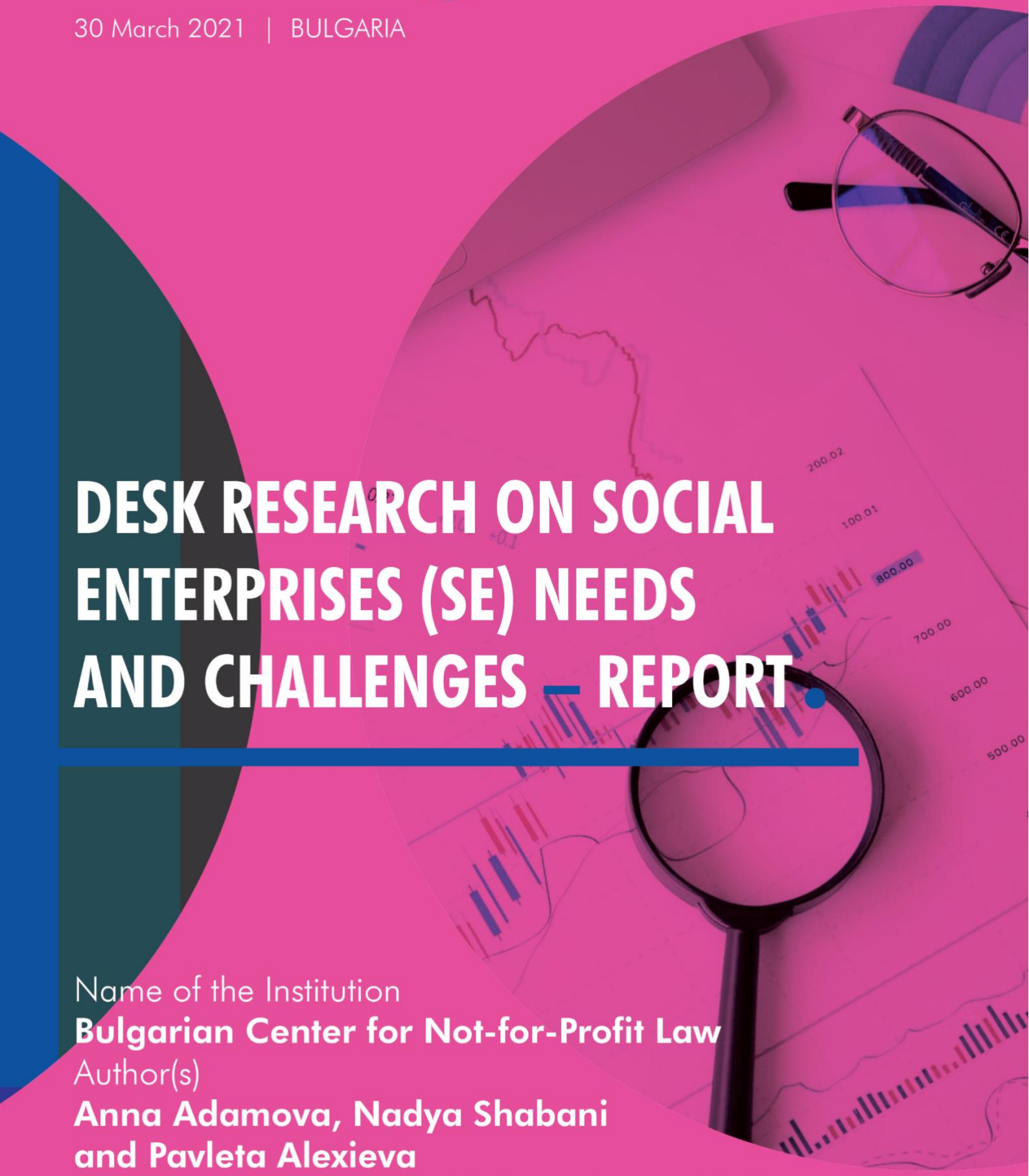
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SE HUBS
Co-creating Hubs for Social Enterprises

30 March 2021 | BULGARIA



# DESK RESEARCH ON SOCIAL ENTERPRISES (SE) NEEDS AND CHALLENGES – REPORT

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# 1. Challenges and needs of social enterprises in the analysed country

## 1.1 Characteristics of social enterprises in the partner country (concept, statistics etc.)

### The Concept

Generally, social enterprises are a specific group of enterprises that meet certain requirements regarding the purpose of their activities and the way their activity is being organized. The combination of social aim and enterpreounr activity makes them unique subject that operates at the border of the public and business spheres. They are recognized in many European countries, as well as in European Union policies, as an effective tool for achieving sustainable solutions to major societal problems. The universal understanding of "social enterprise" includes organizations that meet the following 4 characteristics:

- The activity is aimed at achieving socially significant goals, benefits and effects. Social enterprises set themselves a direct, leading goal of creating social benefits in the interest of society or its members.
- The activity performed by the social enterprise is economic in nature. Social enterprises provide goods or services in a competitive market and in an entrepreneurial way. It is possible that the goods and services are directly intended to achieve the socially significant goal or the products of social enterprises themselves are not directly linked to the achievement of the public goals they set, but the achievement of the socially significant goal is involved in the process.
- Reinvestment of the profit from the economic activity.
- Transparent management.

### Historical Development

Historically the social economy concept is introduced in Bulgaria through the cooperatives and specialized enterprises of people with disabilities. The law that regulates them is the Law for integration of people with disabilities adopted in 2004 and replaced in 2018 with the new Law for people with disabilities. The cooperatives had been existing even during the communism as one of the few forms of private enteties. These legal entities provide employment for three specific groups of people with disabilities (blind, deaf and people with physical impairments). In 2018 a forth group was introduced – people with intellectual disabilities. The special status that they receive after registering in a special registry under the Law for people with disabilities make them eligible to use a special package of support measures and public funding.

According to the Law for people with disabilities there are two types of legal entities - specialized enterprise of people with disabilities established under the form of a commercial company and a cooperative of people with disabilities. Both have to fulfil the following criteria in order to qualify as such according to the law:



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1) They have to produce goods or provide services on the market *and*
2) They have to provide employment to a specific number of people with permanent disabilities, as follows:
   - for specialized enterprises and cooperatives for blind and partially sighted persons - not less than 20 percent of the list number of staff;
   - for specialized enterprises and cooperatives of persons with hearing impairment - not less than 30 percent of the list number of staff;
   - for specialized enterprises and cooperatives of persons with intellectual disabilities or mental disorders - not less than 20 percent of the list number of staff;
   - for specialized enterprises and cooperatives of persons with other disabilities - not less than 30 percent of the list number of staff.

In the end of 2018 a special new piece of legislation was adopted that regulates explicitly the social enterprises – *the Act on Enterprises of Social and Solidarity Economy* and the regulation for its implementation. It entered into force in the beginning of 2019. The law is an attempt to keep the wider understanding for social enterprise (as variations in legal form, vulnerable groups, public benefit spheres such as ecology, culture, etc.) and to introduce specific criteria that will allow the state to further develop supportive policies and measures targeting the development of that specific sector. The Law regulates:

- the categories of social enterprises and the characteristics that an organization and its entrepreneurial activity must meet in order to be defined as a social enterprise;
- special registration regime for social enterprises;
- the specific benefits in the form of specific incentives and programs to which registered social enterprises have access.

The goal of the reform aimed by the bill is the delineation, the development and promotion of an industry that is characterized as mainly socially oriented and whose main purpose is to generate positive social added value in terms of employment, living standards and social inclusion of vulnerable groups of the population. The Law aims at the development of the social and solidarity economy as an industry with special rules to improve access to employment and trainings for qualification and pre-qualification as a way to increase the living standards of people from vulnerable groups; creating conditions for providing support to vulnerable groups for social inclusion and independent lifestyle; reducing social inequality and sustainable territorial development.

The public policy instruments so far such as the annual Action Plan on Social Economy, the National Concept on Social Economy, adopted in 2010, as well the the draft of the Plan for Reconstruction and Development of Bulgaria – all these documents proclaim the importance of the social enterpises' sector. None of them however does include well-structured measures and instruments that will actually support the development of the ecosystem in a holistic and comprehensive manner. There are no specific instruments for impact funding, no support for intermediaries that provide support to the social enterprises (such as accelerator programs,



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capacity-building etc.) or manage training facilities and programs, specialized marketing channels and so on. The support is envisaged only within the form of an administrative register and case-by-case attempts to boost the visibility of the sector through centralized initiatives as annual awards and a fair.

## The practice

In the practice several legal organizational forms are recognized as the most preferred for the establishment and development of social entrepreneurship. These are:

- *a non-profit legal entity (association or foundation), which carries out additional and mission-related business activity*

In these cases, the social enterprises represent an internally separate activity within the organization itself, which activity is developed within the legal limits for carrying out mission-related additional economic activity by the non-profit legal entity, defined in the Non-profit Legal Entities Act. The criteria that this additional economic activity must meet are: 1.The subject of economic activity must be specifically indicated in the statutes of the organization; 2.The business must be additional to the organization's main non-economic activity; 3.The subject of economic activity must be related to the main (non-economic) activity of the organization; 4. Profit distribution is prohibited

- *a commercial company, which is owned by a non-profit legal entity and through which its additional economic activity is separated*

In this case, the social enterprise and the criteria it must meet under the Act on Enterprises of the Social and Solidarity Economy will be applied to the company itself and not to the NGO that owns it? The establishment of a social enterprise of a non-profit legal entity in the form of a separate commercial company may be the subject of a management decision from the very beginning of the development of the social-entrepreneurial activity or it could be a decision taken afterwards. The main stages in the process of differentiation of the social-entrepreneurial activity of a non-profit legal entity into a separate, own company are:

- decision-making by the competent body of the non-profit legal entity for establishing a company;
- Registration of the company;
- Registration of the company as a social enterprise under the terms of the Social and Solidarity Economy Act.

If a non-profit legal entity has managed to register as a social enterprise under the Act on Enterprises of Social and Solidarity Economy, then this registration is not used by the company in which the non-profit legal entity has separated the social-entrepreneurial activity. Also, at the moment when the non-profit legal entity itself ceases its social entrepreneurial activity, its registration as a social enterprise will be terminated accordingly. The most frequently used



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forms of commercial companies for the establishment of social-entrepreneurial activity of a non-profit legal entity are a limited liability company and a sole proprietorship limited liability company (Ltd.).

- *a traditional commercial company*

There is no obstacle for a social enterprise to be registered as a traditional commercial company, which has no relations with a non-profit legal entity and which is not registered as a specialized enterprise of people with disabilities as presented above. In these cases, however, it should be guaranteed in accordance with the internal organizational documents of this company that it develops its economic activity by achieving a lasting socially measurable effect and by managing it in a transparent manner.

## Some interesting trends and statistics

- Good understanding about the role of SEs but still there are some aspekts of SE concept that are not understood by the sector itself and by the general community.
- The audience is familiar with the requirement that the social enterprises should use the profits from their entrepreneurial activity for the cause they are pursuing (80% of respondents), that the social enterprise is called to solve a specific social problem in a sustainable way (73% of respondents) and that it must generate sales revenue (66% of respondents). However, only 25% of respondents note that the existence of forms of democratic decision-making in the organizational structure of the enterprise is mandatory[1]. All these are prescribed by the Bulgarian law on social enterprises as criteria for being recognized officially as such (see 1.2.1.).
- Almost half of the officially registered and well known social enterpises are from the non-profit sector
- The Act on Enterprises of Social and Solidarity Economy creates an obligation for those who want to seek specific support as a social enterprise to register in a special public registry within the Ministry of Labor and Social Policy. According to the data in the Registry the number of registered social enterprises is 29[2]. 10 are in the form of non-profit organizations, 3 are commercial companies owned by non-profit organizations, 2 are municipal enterprises and the rest are commercial companies - Ltd., Ltd., ET (14). Two of the companies - social enterprises are registered as specialized enterprises of people with disabilities at the Agency for People with Disabilities. The districts with the largest number of registered social enterprises are Sofia-city (7), Varna (4) and

[1] This is a conclusion made on the basis of an online survey among 80 participants (social enterprises, experts in public administration, and representatives of financial institutions), conducted during an online discussion "Financial instruments for sustainability and growth of social enterprises", and held on November 27, 2020.

[2] By 19 March 2021. Source: https://secprod.mlsp.government.bg/index.php?section=HOME&a=16



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Blagoevgrad (4), followed by Sofia district and Lovech, where there are 2. In 14 districts there is no registered social enterprise.

- Lack of accessible comprehensive statistics on the sectoral development
- The Ministry manages a specialized website for social economy that provides up-to-date statistics for registered social enterprises and an access to the registry. An interactive map has been published that visualizes up-to-date statistics on the number of currently registered social enterprises, their legal form and the cities in which they are based. The statistical indicators however are not developed so in practice there is no base data that is officially gathered and that could be used to analyze the level of development of the sector and its needs. In parallel to the data on the ministry website, the National Statistic Office also collects and published data on social enterprises. This initiative started in 2012 and its main aim was to collect preliminary information among interested parties whether they recognize themselves as social enterprises or not. It should be mentioned that the data within the years is collected based on a definition provided within the statistical forms that are filled annually by non-profit and for-profit legal entities. This definition is wider than the one provided in the Law. According to NSO in 2018 1706 non-profit enterprises identify themselves as social enterprises while in 2019 the number drops down to 1680. As this statistics is collected also from for-profit enterprises – there is no publicly available data on the numbers within that group of enterprises.

In addition to the data above various organizations that are investing and supporting the development of the sector are collecting feedback through their own inquiries. Since the beginning of 2020 BCNL had made 3 inquiries among the social enterprises that it is working with – those from the non-profit sector.

## 1.2 Models of the functioning of social enterprises - legal perspective

### 1.2.1. Legal definition of social enterprise and legal criteria (if any)

According to the law, a "social enterprise" in Bulgaria is an enterprise that can exist in a different legal form (association, foundation, trade company or cooperative) and which simultaneously meets the following requirements:

- has as its object of economic activity the production of goods or the provision of services,
- within its economic activity, employs persons from vulnerable groups and / or mainly spends its profit for social activity or social purpose specified in the memorandum or articles of association of the enterprise,
- combines economic performance with social goals by achieving positive social added value



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- is managed transparently with the participation of members, employees or employees in making management decisions.

## Categories of social enterprises and vulnerable groups of people under the Act on Enterprises of the Social and Solidarity Economy

The Act on Enterprises of the Social and Solidarity Economy determines two categories of social enterprises according to the scale of their activity or the characteristics of the staff (how many and what people are employed in it, what revenues it realizes and reinvests in achieving the social effect).

Class A social enterprise must meet the following criteria:

1. carries out a social activity that produces social added value, determined in accordance with the Methodology for determining the social added value adopted by the Ministry of Labor and Social Policy.
2. manages its activity transparently with the participation of the members, the workers or the employees according to an internal procedure prescribed in the statutes or in the memorandum of association,
3. As well as at least one of the following requirements:
   - more than 50 percent and not less than BGN 7,500 of the positive accounting financial result of the enterprise after taxation for the last reporting period (financial year) is spent for social activities or purpose

   or
   - not less than 30 percent and not less than three persons from the employees in the enterprise are from the vulnerable groups listed in the Act.

Class A + social enterprise must meet the following criteria:

1. meets the conditions for registration of a social enterprise class A
and
2. meets at least one of the following additional conditions:
   - the social added value is realized entirely within the administrative boundaries of municipalities, which for the previous year have a unemployment rate equal to or higher than the national average compared to the available statistical data as of the date of submission of the application for entry in the register; or
   - the positive accounting financial result of the enterprise after taxation is spent more than 50 percent and not less than BGN 75,000 for social activities; or
   - •at least 30 of the employees in the enterprise are persons from the vulnerable groups specified in the Act and have worked without interruption in the enterprise during the last 6 months.

Vulnerable groups of people within the meaning of the Law on Enterprises of the Social and Solidarity Economy include:



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- people with permanent disabilities;
- long-term unemployed persons who are entitled to monthly social assistance in accordance with the Social Assistance Act and the regulations for its implementation;
- persons up to 29 years of age who have no previous professional experience;
- persons accommodated outside the family by the order of art. 26 of the Child Protection Act, including after termination of their placement;
- unemployed persons over 55 years of age, who are registered in the "Labor Office" directorate;
- persons who raise children with permanent disabilities and receive benefits under Art. 8e of the Family Benefits for Children Act;
- persons who have served a sentence of imprisonment for a period of not less than 5 years, if the end of the sentence has occurred in the last three years of employment;
- persons with alcohol or drug addiction who have successfully passed a medical or psychosocial rehabilitation program in the last two years before starting work, which is certified by a document issued by the persons undergoing treatment or psychosocial rehabilitation;
- homeless persons - persons who do not own a home, are not able to rent a home with their own funds and are not accommodated in a municipal home and / or who due to accidental circumstances (fire, natural disasters, collapse of a building, etc.) are left homeless;
- foreigners who have received protection in the Republic of Bulgaria under the Asylum and Refugees Act during the last three years of their employment;
- persons who have received the status of special protection under the Anti-Trafficking in Persons Act;
- persons victims of domestic violence within the meaning of the Domestic Violence Protection Act.

### 1.2.2. Legal forms for establishment of social enterprises according to the local legislation (NGOs, trade company, cooperatives, etc.)

The law does not regulate a special legal organizational form under which to develop social entrepreneurial activity. Therefore, it can be differentiated into one of the traditionally known legal forms for an enterprise - sole trader, commercial company, non-profit legal entity, which carries out additional business activities related to its mission or as a cooperative. In addition to the definition of a social enterprise, the law also provides for the possibility of entry in the Register of Social Enterprises maintained by the Ministry of Labor and Social Policy. This entry is optional meaning that if the enterprise is not registered it does not prohibit it from performing its activity and no fines will be imposed on it. The registration is related only to qualifying the social enterprise for applying for the special incentive measures and programs drafted in the Law.



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### 1.2.3. Special registration procedure of social enterprises (if any) – where, how, why

The special registration as a social enterprise under the Law on Enterprises of Social and Solidarity Economy requires the submission of an application form for the respective type of social enterprise - class A or class A + by the representative before the Ministry of Labor and Social Policy. When the requirements for entry are met, the Minister of Labor and Social Policy shall, within 14 days from the submission of the application for entry, issue a certificate to the enterprise for entry in the register.

For the purpose of the registration the relevant Class A application shall be accompanied by:

- A social value-added form certifying the social added value produced by the enterprise - it describes details of the activity of the enterprise, which is aimed at achieving its social goal.
- development document of the enterprise (memorandum of association, articles of association, partnership agreement or other), which includes a procedure for transparent management with the participation of members, employees in decision-making;
- the last annual financial report with a positive financial result, a report for the last reporting period, as well as explanatory information about the funds spent by types of expenses for the regulated activity and their connection with the goals and programs of the organization;
- to prove that the relevant percentage of staff meets the requirements for the relevant vulnerable group specified in the application for registration, the following documents are submitted:
  (a) a document issued by the persons undergoing the treatment or psychosocial rehabilitation;
  (b) a copy of a certificate that the person has received protection within the meaning of the Asylum and Refugees Act;
  (c) a copy of an order for use of a service as a person - victim of trafficking in human beings within the meaning of the Anti-Trafficking in Human Beings Act;
  (d) a copy of an order for use of a service as a person - victim of violence in the sense of the Law for protection from domestic violence;
  (e) a statement of the average number of staff of the undertaking.
- Indicate the three names and PINs of persons from vulnerable groups who are part of the company's staff.

Necessary documents for registration as a social enterprise class A + include the same set of documents as for class A, but also a declaration certifying that the employees have not interrupted their work in the enterprise for at least 6 previous months.

The mechanism for verification of whether the enterprise fulfils the criteria is regulated in the Methodology for assessment of social added value, adopted on the basis of the Law on



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Enterprises of Social and Solidarity Economy. The mechanism covers data submitted through the social value-added form and includes only quantitative indicators. A point system has been introduced, in which the individual indicators according to the filled in data receive a certain number of points. The applicant should collect a minimum of 9 points in order to assume that there is social added value from its activity. The main problem in this way of measuring social added value is that it does not take into account the qualitative social change that social enterprises achieve. This could create serious problems when the deadline expires, in which the social enterprise must re-certify that it continues to meet the criteria of the law, i.e. - re-fill in and submit the form for measuring social value added. At this future point, however, some of the numbers, for example of employees from certain vulnerable groups, will no longer be available, because these people will have overcome their vulnerable situation precisely thanks to the efforts of the social enterprise. For example, a permanently unemployed person will no longer be such within the meaning of the Law for encouraging the employment if he/she has been employed for at least 12 months. The very employment of such persons in social enterprises leads to a qualitative change in their social, labor and living situation. At the same time, this social enterprise could not include them in the number of vulnerable groups it works with in the form after a certain period of time. As a result a social enterprise that has been registered at some point will be deregistered from the Register of social enterprises because, as a result of its intervention, a certain number of persons have come out of their vulnerable position from a formal point of view. The terms for the periodic submission of information regarding social added value are 3 years after initial registration - for social enterprises class A and 2 years since initial registration - for social enterprises class A +. This is an extremely short period of development of the social enterprise, in which it can be expected that it will constantly maintain a certain level of employment of a vulnerable group. On the one hand, the specifics of some of the vulnerable groups predetermine this impossibility, and on the other - the purely economic results and business approach in carrying out the activity are incompatible with this - successful businesses retain their staff, but its expansion is associated with a stage of economic growth. When this will happen depends on many things outside the power of the social enterprise, such as market conditions, the availability of financial investments, the bureaucratization of procedures and the introduction of restrictive legislation, etc.



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### 1.2.4. Special benefits for social enterprises provided by legislation (for example – tax benefits, „reserved tenders", right to use public property, special grants, and impact funds for SE, etc.).

All social enterprises entered in the register are entitled to use the distinctive certification mark 'Social enterprise product' for their goods or services free of charge.

Class A + social enterprises can benefit from the following special incentives:

- remunerative establishment of the right to build on properties - private municipal property, without a tender or competition after a decision of the municipal council to achieve their social goals;
- remunerative establishment of the right of use on property and belongings - private municipal property, without tender or competition after a decision of the municipal council for the achievement of their social goals;
- financial support for training to improve the professional qualification of the employees of the enterprise from vulnerable groups

Along with these special incentive measures, there are general measures and programs that could be used by social enterprises according to the specific social problem, the solution of which is sought and the economic sphere in which the business activity is carried out.

### 1.2.4 General benefits provided by legislation that could be used by social enterprise:

With regard to the taxation and reporting of the activities of social enterprises, the general rules that apply to the relevant legal and organizational form under which the social enterprise is established apply. The legislation provides for several tax preferences that are relevant to the activities of social enterprises:

- General tax benefits for social enterprises
  When a social enterprise donates goods and / or services, technical means for the benefit of people with disabilities, socially disadvantaged persons, children with disabilities or without parents, drug addicts for their treatment, the Corporate Income Tax Act provides for tax purposes to recognize the accounting expenses for these donations in the amount of 10% of the accounting profit.
- The Corporate Income Tax Act provides for a specific tax relief for employers who employ permanently unemployed individuals for more than 12 consecutive months. The specific conditions for using the tax relief are specified in Art. 177 of it.
- For tax purposes, the accounting costs of an established and awarded scholarship to a student acquiring secondary education (if in the last two years of education) or to a



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student in a Member State of the European Union or in another country party to the Agreement on the European Economic space (if in the last two years of study).

The pupil / student must be under the age of 25 and the profession of the scholarship holder must be applied in the activity of the employer, who in return undertakes to employ him after the completion of the respective education, for a period not less than the period for which the scholarship was granted. Additional conditions for using this tax relief are specified in Art. 177a of the Corporate Income Tax Act.

- Exemption from value added tax /VAT/ on certain transactions, regardless of whether their supplier (social enterprise) is registered under the VAT regime - the so-called "exempt supplies". They are exhaustively listed in the Value Added Tax Act and it is stipulated that they are not subject to VAT if the conditions specified in the law for each specific case are met. With regard to social enterprises, the following categories of exempt supplies would be of the greatest importance: supplies related to social care and insurance, such as the provision of social services and benefits; non-profit supplies, for example when a social enterprise that is part of a non-profit legal entity organizes fundraising events to achieve its non-profit objectives.
- The Employment Promotion Act and the Act for People with Disabilities provide specific preferences for employers of persons with disabilities, which are generally expressed in the possibility of receiving funds from the national budget to cover the percentage of due social and health insurance for employees with disabilities.
- Incentive measure for employers to purchase goods and services from social enterprises: employers that are not able to fulfil their obligation to provide a specific number of jobs (quota) from their staff schedule and employ people with permanent disabilities can compensate that by purchasing goods or services of social enterprises class A or class A +. This measure is provided for in the Law on People with Disabilities (Article 38 et seq.) And the regulations for its implementation. The condition is that the monthly amount of funds for the purchase of goods or for the use of services is greater than twice the monthly amount of the minimum wage in the country, for each unoccupied job for a person with permanent disability, until the quota is fulfilled.

There is a group of general benefits that could be used also by social enterprise only if they perform specific activities and have a special status. Such benefits include: tax incentives for corporate donors of social enterprises registered as medical establishments or as providers of social services or as nurseries, kindergartens, schools, cultural institutes; tax incentives for individual donors of social enterprises registered as medical establishments or as providers of social services or as crèches, kindergartens, schools, cultural institutes or community centers; exemption from taxation with local tax on donations received from registered providers of social services of residential type, medical institutions, community centers.

There is also a group of benefits that apply only to specialized enterprises and cooperatives of people with disabilities and are not related to their additional registration as social enterprises:



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- Assignment of corporate tax due: The Corporate Income Tax Act allows the corporate tax due by specialized enterprises and cooperatives to people with disabilities to be transferred. The specific conditions for this are specified in Art. 178 of the law. The transfer is admissible when the transferred tax is spent entirely on the integration of people with disabilities or on the maintenance and creation of jobs for employed persons in the next two years after the year for which the transfer is used.
- Tax incentives for corporate donors of specialized enterprises and cooperatives of people with disabilities: The Corporate Income Tax Act provides for tax recognition of accounting expenses for donations amounting to 10 percent of the accounting profit of the company that provided the donation (donor) as a condition is the enterprise or the cooperative must be entered in the register at the Agency for People with Disabilities.
- Tax incentives for individual donors of specialized enterprises and cooperatives of people with disabilities: when the donor is a natural person, the Personal Income Tax Act provides for tax recognition of up to 5% of the value of the donation as a condition that the enterprise or cooperative is registered in the register at the Agency for People with Disabilities.
- Incentive measure for employers to purchase goods and services from specialized enterprises and cooperatives of people with disabilities: the incentive is that the purchase of goods and services thus relieves employers of their obligation to provide a certain percentage of their jobs in the state for borrowing by people with permanent disabilities. The measure is provided for in the Law on People with Disabilities (Article 38 et seq.) And the regulations for its implementation. The condition is that the monthly amount of funds for the purchase of goods or for the use of services is greater than twice the monthly amount of the minimum wage in the country, for each unoccupied job for a person with permanent disability, until the quota is fulfilled.
- "Reserved" public procurements under the Public Procurement Act for specialized enterprises or cooperatives of people with disabilities: The Public Procurement Act allows contracting authorities to limit potential candidates for public procurement notices only to the group of specialized enterprises and cooperatives of people with disabilities, if the products and the services, subject of the procurement are included in a special list of goods and services, prepared by the Council of Ministers on the proposal of the Minister of Labor and Social Policy.

There is also a small group of benefits that are specifically applicable to NGOs in general and could be used also in the case when the NGO is registered as a social enterprise:

- Relief for corporate donors of non-profit organizations in public benefit: The Corporate Income Tax Act provides for the recognition for tax purposes of accounting expenses for donations amounting to 10 percent of the accounting profit of the company that provided the donation (donor).



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- Relief for individual donors of non-profit organizations in public benefit: when the donor is a natural person, the Personal Income Tax Act provides for recognition for tax purposes up to 5% of the value of the donation.
- Exemption from local taxation of donations of donations received and provided or other grants from non-profit organizations in public benefit: The Law on Local Taxes and Fees provides for donations received and provided by social enterprises in the form of non-profit organizations in public benefit to be exempt local tax donation.

## Financial instruments to support social enterprises

The main public programs for providing targeted grants that could be applied to the start-up and operation of social enterprises are the Operational Program "Human Resources Development" and the Operational Program "Innovation and Competitiveness", some support measures designed for special groups such as the project program for financing the Agency for People with Disabilities, the Social Protection Fund, the Working Conditions Fund and the like. Along with these programs at the national level, in some municipalities there are also local programs aimed at supporting the development of social entrepreneurship at the local level - for example, the Social Innovation Program of Sofia Municipality.

The social enterprises and entrepreneurship are planned for support through the Operational Program Human Resources Development for the new programming period (OPHRD) 2020 - 2027 (version as of 28.10.2020, sent to the European Commission). According to the document ".There is a need for support for social enterprises in the use of new technologies and the improvement of digital skills, workplace equipment, providing access to markets and financing, as well as providing a quality workforce .."[3] Support for social enterprises and entrepreneurship is provided for in Specific Objective 1 "Improving access to employment for all jobseekers, in particular young people and the long-term unemployed, as well as the inactive, by promoting self-employment and social Economy "of Priority 1 of OPHRD for the next programming period" Employment Promotion and Skills Development ". The analysis of the activities set in the project shows the following:

• Activities in support of social enterprises are provided under Objective "Support for the development of social enterprises, incl. and the digital skills of those working in them "(p. 42 of the project), however, social enterprises as such are not envisaged among the specific target groups of this Objective, such as local action groups.

• Social enterprises are also part of the measures under the Community-Led Local Development (CLLD) Approach, applicable in the territory of selected local action groups, provided that the funded operations are part of the measures of their multi-fund CLLD strategies approved for funding from HRD 2021-2027 through a selection procedure at national level and taking into account local specifics. Under this specific objective, OPHRD may support ITI and CLLD measures aimed at:

[3] p. 9 from the project of OP Human Resources Development 2020-2027



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o Support for the development of enterprises in the social economy in order to create conditions for sustainable employment of highly vulnerable groups and the implementation of socially significant activities.
o Creating partnerships and networks, clusters in the social economy.
o Support for conducting trainings for employees and workers in social enterprises; validation of acquired skills at the workplace in the social enterprise (especially for people with disabilities) in order to integrate into the labor market
o Stimulating the forms of cooperation between social enterprises for shared production and distribution of products. Support for activities to raise awareness, recognition of the products of social enterprises on the market.
o Support for self-employment, incl. in the field of social economy: a. measures to stimulate entrepreneurship of those wishing to start a business, development and evaluation of business ideas, training for entrepreneurial skills, support for registration of business activities; b. measures for development of skills in the field of social entrepreneurship, incl. for the unemployed and young people; c. measures to support and develop start-up entrepreneurs; d. access to finance for start-up entrepreneurs; e. specific support for self-employment of young people and other disadvantaged groups in the labor market f. support for social entrepreneurship.

A total of € 14,024,082 has been set aside to support the social economy and social enterprises under specific objective 1 "Improving access to employment for all jobseekers, in particular young people and the long-term unemployed, as well as the inactive promoting self-employment and the social economy"of Priority 1 of OPHRD for the next programming period"Promoting employment and skills development".

The Fund of Funds provides interest-free financing in the form of a percentage share in credit exposures to final recipients, which are start-ups or social enterprises. Advantages of this type of financial instruments (other than grants) are that they allow more efficient use of public resources and greater sustainability of results. To the public funds are added funds from the private sector (financial institutions - banks and microcredit institutions, which are intermediaries between the Fund of Funds and the final recipients and who manage the financial instruments themselves), thus the resource that reaches the final recipients is significant. When the funds are recovered, they can be used to support new projects. The financial instruments overcome the dependence on public funding through grants; accumulate significant experience and funds from the final recipients.

The types of financial instruments that can be developed with the support of the Fund of Funds include:

- Microcredit with shared risk - the support is expressed in interest-free financing in the form of a percentage share in credit exposures to final recipients. Start-ups and social enterprises are the main target groups for this funding. Persons from vulnerable


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groups (young people under 29, unemployed over 6 months, people with disabilities) are supported, including as self-employed.

- Portfolio guarantee with a ceiling on losses for microcredit, through which loans of up to € 50,000 current amount can be granted. When part of the amount is reimbursed, the loan amount can be increased again to the ceiling.

Loans can be investment and revolving, and in some cases overdraft and financial leasing are allowed. The terms of the loans are eased - lower interest rate (there is a maximum of 7.5% as a weighted average of the public resource and the private resource with market interest); less collateral; Grace period; they are exempt from bank fees and credit management fees. The private funds that supplement the public financing vary between 10 and 30% of the amount of each loan and it is precisely because of their inclusion that the loans cannot be interest-free. A reference on the website of the European Commission shows that in Bulgaria there are three financial institutions that participate in microcredit with shared risk and provide preferential loans for social enterprises.

Support for social enterprises is also envisaged in the Plan for Reconstruction and Development of Bulgaria. At the end of October 2020 the government presented a Draft Plan for Reconstruction and Sustainability of the Republic of Bulgaria - October 2020. The main goal of the Plan is "economic and social recovery from the crisis caused by the COVID-19 pandemic," and in the long run "convergence of the economy and incomes to the Central European ones"and laying the"foundations for green and digital transformation of the economy, in the context of the ambitious goals of the Green Deal." According to the EU requirements, Bulgaria's plan must address the country-specific recommendations for 2020 and 2019, to contain elements of reforms and to lead to economic growth. It is recommended to prioritize investment projects with higher project readiness in view of the time horizons of the Mechanism, to create jobs and strengthen the economic and social sustainability of the Member State and territorial cohesion. An effective contribution to the environmental and digital transition is also a precondition for a positive assessment, with a minimum of 37% of spending currently planned to go to green investment and 20% to digitalization.

With regard to the development of the social economy, the latest version of the Plan provided for the following:

"*Supporting the social economy*
*Support will be provided for start-up and existing social enterprises, as well as for the subjects of the social economy by creating focus points for promotion, promotion, consulting and assistance for starting and developing social entrepreneurship, supporting the digitalization of (production) processes of the subjects of social and solidarity economy, incl. and in the field of*


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*green economy. The total planned resource is BGN 21.5 million with an implementation period of 2021 - 2024.* "[4]

Yet there are no impact funds dedicated especially to social enterprises created in Bulgaria.

[4] P. 49 from the draft of the Plan for Reconstruction and Development of Bulgaria published for public consultation in the end of October 2020.



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## 1.3 Review of available research carried out in partner country in the three identified areas

### 1.3.1. Staff recruitment, retention and internal training of SEs' personnel promoting inclusive educational approaches and mainstream practices

There is no specialized research for Bulgaria so far that focuses on staff recruitment, retention and internal training of SEs' personnel. It is worth mentioning that there is guidance on staff recruitment in SEs' elaborated within the SE-HUB PROJECT, 2019.

The available research on various challenges before social entrepreneurship in Bulgaria tackles two main problems when it comes to staff recruitment in SEs. First of all the existing enterprises of entrepreneurial type (most often the specialized enterprises for people with disabilities) often have problems related to finding and training suitable staff – candidates have the attitude to have higher expectations of the employer to provide work while not being motivated to defend their job position with appropriate qualification and desire to work. The second problems is the so called "welfare trap". Interviewed employers of people with disabilities describe cases in which people with disabilities who apply for a job are not motivated and give up. The reason is that they receive enough social benefits and therefore have no incentive to work. (Terziev et al., 2016, p. 60). The same problems are outlined in a Report on SEs in Bulgaria (Mihaylov, 2014, p. 17). On the other hand, another research suggests that SEs in Bulgaria provide low quality jobs, namely "jobs are characterized by low labour productivity and low wages" (Jeliazkova, 2019, p. 51).

With regard to the personnel retention and internal training of SEs' personnel there is a small number of research materials. In one of them the author concludes that "…. many social enterprises seek to serve as a springboard for the long-term unemployed to the free labor market - through the skills they develop in the labor process or during special training provided by the enterprise" (Terziev et al. , 2017, p. 332). The same author identifies the "need of training and motivation of people working in SEs as well as for people willing to start work in SEs" as one of the "challenges before the SEs in Bulgaria" (Terziev et al., 2016, p. 4). There are also other sources that briefly mention the possibility for SEs to apply for state funding for trainings of newly or already employed personnel (Petrova, 2002, p. 28; Jeliazkova, 2019, p. 59). Most research materials focus on external trainings for the management of the SEs or for entrepreneurs who willing to establish a SE and examine internal trainings only in the scope of case studies of certain SEs (Kumanova, 2012; Jeliazkova, 2019; Terziev, 2019).



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### 1.3.2. Securing of training facilities and expert knowledge on communication of SEs' impact and community importance

An analysis of the needs of SEs for support and expert knowledge shows that the most needed consultations are in the following areas – financing, fund raising, participation in funding programs, access to markets, strategic planning and governance. (Bencheva, 2019). Further on one researcher notes that the communication skills of social entrepreneurs are highly regarded (Terziev et al. , 2016, p. 60). According to the same research the preferred ways of raising awareness at community level about social entrepreneurship are "purposeful information campaigns organized by state authorities" and "purposeful information campaigns organized by NGOs" (Terziev et al. , 2016, p. 11). Ilcheva (2020) analyzes "community strategies for SEs," "social change as a strategy for SEs" and "strategies for greater social impact by establishing partnerships" as key strategies for the development of the Bulgarian SEs.

According to a case study on good practices there is no adequate methodology for measuring social impact of SEs in Bulgaria. This is seen as a major obstacle for the development of effective support schemes. The same study also outlines the activity of two Bulgarian facilities providing space for trainings as examples of good practices – VarnaLab (https://www.varnalab.org/) and Zone 21 (https://zona21.bg/). (SE-HUB PROJECT, 2019[5])

Although there are not many research materials on the topic, there are some examples of securing of training facilities and expert knowledge in Bulgaria:

- Bulgarian Design Group (BDG) - Pro Bono Design Initiative of BDG provides a platform for connecting NGOs (including SEs) with professional designers who can volunteer to help volunteer to help with design work - https://bdg.bg/probono/
- Acceleration programs for SEs – examples of acceleration programs for SEs are:
- Rinkers' Challenge (https://rinkercenter.org/bg/) - The mission of Rinker Centre is to support and develop a spirit of entrepreneurship in Bulgaria. The programmes developed by the Center are oriented towards the creation of opportunities for sustainable employment, improving competitive power, adding value and innovation aiming to improve the quality of life in Bulgaria, primarily rural areas of the country. The Centre's main programmes work towards training and spreading the spirit of entrepreneurship among children and adults.

[5] SE-HUB project is an initiative supported by the ERASMUS + Programme. It runs in Bulgaria, Greece, Mexico, Brazil, Namibia and South Africa. It provides targeted training and learning tools for young people and youth workers interested in social entrepreneurship and career in the citizen sector. The main outputs of the project include: 1) capacity building activities such as training of trainers and non-traditional experiential capacity building with the involvement of disadvantaged youth (with disabilities, NEETs, etc.). In that SE-HUB will test and disseminate two novel practical training methods - peer coaching and blended learning; 2) training materials and a data-base of good practices in the field of SE and social innovation in the citizen sector, presented through OERs and a MobileApp; 3) establishment of Social Innovation Training Hubs in the project countries, connected in a SE-HUB Network; 4) local multiplier trainings.



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- The NGO Entrepreneurship Program (http://bcnl.org/trainings/category/programa-predpriemachestvo-za-nestopanski-organizatsii.html) – the Program provides training opportunitiesfor new social entrepreneur ventures as well as already developed SEs. Different intitatives in the scope of the Program also offer monetary support for business ideas of SEs which are developed with the support of experts provided by the Program.
- the Reach for Change Bulgaria (https://bulgaria.reachforchange.org/bg/about/our-method) – supports social entrepreneurs to develop sustainable business ideas by investing in them, providing them with expert knowledge, creating a network of potential investors, media and corporate partners and other important connections and by reinforcing the trust of the community in SEs.

All of these programs focus on provision of training facilities, access to expert mentorship and cpacity building instruments for SEs, access to small-scale start-up funding.

### 1.3.3. Distribution of SEs' goods in a sustainable way visible for the community

Ilcheva (2000) argues that the key product strategy for SEs in Bulgaria should be differentiation of the goods and services provided by SEs from other goods and services available on the market. The paper outlines as other successful business strategies for SEs "strategies of innovation by new products and services" and financial strategies based on income and not on donations which are typical for NGOs (p.169 - 171). According to another research, one of the challenges for Bulgarian SEs is the "Lack of sufficient incentives related to the supply of products of social enterprises in the market" (Terziev, 2017, p. 5). The same author finds out that other initiatives of social enterprises are the provision of services as well as the production of specific products intended for persons from vulnerable groups. It is a frequent practice for these activities to be combined with the labor process of the respective enterprise by involving representatives of the target group in whose interest the respective services are carried out or production is produced. (Terziev et al. , 2017, p. 332)

According to the Law on enterprises of Social and Solidarity Economy each registered social enterprise receives the right to use a joint certification mark "Social Enterprise Product" for its goods or services. The mark however is not linked to a comprehensive information campaign to promote this sector among the public and to stimulate customer choice in favor of products and services of social enterprises. The brand also does not confer an advantage or create an obligation for municipalities, municipal enterprises (such as municipal markets and marketplaces) or companies with a wide store network to provide retail space for such products or services. The general conditions for using places in municipal markets or for negotiating partnerships with companies can in most cases be unbearable for social enterprises, especially for those that are micro or small. This challenge can be overcome by providing communication campaigns to the two main stakeholders in the development of the



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sector - government institutions and social enterprises. Directing public resources to such actions will certainly lead to better visibility and promotion of the social economy among the public. A similar goal had the initiative of the Ministry of Labor and Social Policy to provide in the end of 2020 an advertising time on the national radio for the presentation of various social enterprises and their products and services. The initiative was met with a positive feedback from those involved. The annual awards presented by the Ministry of Labor and Social Policy in the field of social economy have a similar goal, but in order to have even greater resonance and recognition, it is necessary for those awards to be recognized as an initiative by a wider range of partners.

Although, the matter has not been a subject of elaborated research work so far, there is a number of initiatives in Bulgaria which aim to aid the distribution of SEs' goods in a sustainable way visible for the community:

- The Little is a Lot Bazars – bazars held in shopping centers offering goods from SEs https://www.darpazar.bg/bg/news/malkoto-e-mnogo-bazart-za-produkti-s-kauza-i-tekhnite-istorii-koito-dokosvat-dushite
- National exhibition of goods and services of specialized enterprises and cooperatives of people with disabilities promotes products and services of social enterprises http://nfri.bg/?page=28&lang=bg
- The online Platform "DarPazar" - a place where you can find goods, products and services that are sold by social enterprenuers with the aim to generate income that will help them achieve their missions. https://www.darpazar.bg/en/za-platformata
- The Social Market – online platform providing SEs virtual space where they can sell their goods and services https://thesocialmarket.eu/
- Ole Male – an online shop offering goods produced by mothers of children with disabilities. The platform also organizes bazars. https://www.olemale.bg/

## 1.4 Conclusions on the needs and challenges in the three identified areas

*Limitation of the legislation*

The lack of comprehensive research of specific practices used within the sector in terms of management of personnel, training facilities and distribution of goods and services as well as the lack of accessible statistical data motivate us to take forward the general challenges related to the regulatory framework of the sector. Nevertheless that the new piece of legislation was adopted with the aim to support the development of SEs and supports the growth of the ecosystem, there are some problematic aspects that hinder this growth to happen so far. These are:

- The quantitative indicator for profit that is reinvested in the social activity as a prerequisite to be officially recognized as a social enterprise is inconsistent with the



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natural way of development of social-entrepreneurial initiatives and with the level of development of the ecosystem in Bulgaria

First of all, the amount of profit on an annual basis, which is the only criterion for social enterprises that produce social added value in a way other than directly providing employment to people from vulnerable groups, is too high for start-ups. From an economic point of view, it is extremely difficult for any start-up business, even for one that does not aim to achieve social added value within the meaning of the law, to realize an annual profit of BGN 7,500 for the year of its establishment. In the case of social enterprises, this is even more difficult due to the very fact that access to financial investments to ensure the start of activities is very limited in Bulgaria. However, even if there are similar opportunities for investing in start-up social enterprises or the enterprise itself manages to find support through donations and project financing, the practice gained so far in Bulgaria for this sector shows that the average time needed to develop the business potential of a social enterprise is a minimum of 2 years. Only then would it have a chance to meet the criteria and be entered in the register. At the same time, however, entry in the register is linked to certain benefits that should be available to start-ups as well, so that they have an even greater chance of achieving stability and sustainability of their activities and social impact. At the moment, this is impossible and in practice it turns out that instead of the law promoting social entrepreneurship, it creates formal obstacles for a number of enterprises to be officially recognized as such.

- The quantitative indicator for the number of persons from vulnerable groups employed in the organization as a prerequisite to be officially recognized as a social enterprise is inconsistent with the natural way of development of social-entrepreneurial initiatives and with the level of development of the ecosystem in Bulgaria.

The number of employees from vulnerable groups is the other main criterion for a social enterprise, provided for in the Law on Enterprises of the Social and Solidarity Economy, and is an alternative to the criterion for annual profit. The law stipulates that at least 30% of the staff and at least 3 people be employed by one of the vulnerable groups in the social enterprise. The problems in practice that are related to this criterion are also in several directions. On the one hand, the law takes into account the criterion only in respect of employed persons from vulnerable groups through labor contracts. Being the most expensive types of contracts in terms of social payments and taxes as well as considering the highly beurocratic procedures of changing and terminating the contracts such legal instruments of employment require guarantees for long-term employment and assume a large scale of economic activity to ensure them. Next, the social enterprises themselves do not have the necessary administrative and managerial capacity to plan and use various forms of employment that are more flexible and relevant to the specific economic opportunities of the enterprise. Such a process requires a comprehensive analysis and good knowledge of the economic activity of the enterprise, the staff structure, adaptation of job descriptions, very good exchange of information and coordination between the pace of economic activity and productivity of employees. For this to happen, it is necessary to go through a certain period of development of the social-



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entrepreneurial activity itself, to have a clear setting of goals in its development, which, however, are not only social or only financial, but are a set of such. To this end, NGOs for example themselves should have a clear internal policy for allocating staff between their two main activities. These difficulties are further complicated and become unbearable for social enterprises that provide employment to vulnerable groups who need greater and more intensive additional support to develop their work skills and keep their jobs. Thus, in practice, because the employment of people from certain vulnerable groups is more expensive, economically social enterprises that work with these groups would find it difficult to meet this criterion at the beginning of their development and they are put in an unequal situation compared to others.

The challenges outlined so far lead to the conclusion that the set quantitative parameters of the criterion for hiring people from vulnerable groups in social enterprises actually severely limit the possibility of registration of social enterprises, because they put them in the dilemma of how to plan and develop their economic activity in a sustainable way and at the same time to achieve, maintain and prove measurable social impact, especially in the initial phase of their development. It is necessary to rethink this criterion and develop matrices for its measurement, which are more sensitive to different nuances of the activities of individual social enterprises. Next, comprehensive programs are needed to stimulate capacity building in the micro and small social enterprise sector and the exchange of experience in introducing practices through which to plan and achieve this balance, for the development of additional programs in the social enterprise itself to allow them to expand the vulnerable groups they work with, etc.

- Quantitative measurement of the criteria for social enterprises does not allow to measure the qualitative social change that they achieve and sustain over time

When registering under the Law on Enterprises of the Social and Solidarity Economy, the applicants should submit an application according to the class for which they are applying and a Form for determining the presence or absence of social added value. The form uses a fully quantitative methodology to measure the presence of the criteria, without the possibility to perform a qualitative assessment of these criteria. The problem is exacerbated when the time comes for a follow-up inspection of an already registered social enterprise to see if the criteria continue to be met (.

- Lack of practical dimensions of the envisaged benefits, which are directly related to the economic and social activity of the social enterprises (see the next part of the analyses in terms of the certificate mark "Produced by Social Enterpise") actually hinders their development rather than supports it.
- Lack of obligation on the part of municipalities to set aside part of their municipal property in order to provide it for use by social enterprises.

The measures that provide for a privileged regime for using under rent such property do not work in practice. At present, there is no easily accessible uniform statistics and information for



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the whole country on the use of this measure. Therefore, it is not possible to conclude at all to what extent it works, whether there is potential in its development or only a measure remains on paper.

- Lack of a single channel for providing information in relation to the intended benefits for social enterprises and the current specific opportunities

The individual measures are further developed into separate thematic laws that are relevant to them and the implementation of which is part of the activities of various rank and territorial scope of institutions - ministries, agencies, municipalities (see next part of the analyses). The lack of a single point of contact that social enterprises can turn to for information on current opportunities makes it very difficult for them to understand, prepare and take advantage of it in time. This challenge can be overcome by creating a unified information system / platform where up-to-date information can be published and exchanged. The thematic website of the Ministry of Labor and Social Policy, dedicated to the social economy, had a request to be developed as such a platform, but at present, unfortunately, it cannot fulfill this function.

- Unequal sectoral competition is created between specialized enterprises and cooperatives for people with disabilities and social enterprises

Due to their specifics, specialized enterprises and cooperatives of people with disabilities fully meet the criteria for social enterprises. They are also the pioneers in carrying out social entrepreneurial activity by providing employment to a specific vulnerable group. Historically, a number of incentive measures and preferences have been provided for them, some of which, with the adoption of the Law on Enterprises of the Social and Solidarity Economy, have been extended to other social enterprises. This approach raises the question of the need for the existence of a separate registration for a specific group of enterprises, which in their nature, logic and structure correspond to the concept of social enterprise. This approach also raises the issue of the additional administrative burden for those social enterprises that meet the criteria for a specialized enterprise and the need for a new, partially duplicating procedure for their registration as a social enterprise in order to be recognized as such and be able to benefit from more specific incentives and programs. The opposite is true with the same force. It would be logical to merge these two registrations, which would also be related to the extension of support measures to all enterprises that provide employment to people from vulnerable groups, and not only to those that provide employment to a specific vulnerable group. The need for enhanced support in a given area can always be achieved with thematically developed programs, but access to them should be the same for all who work for this area.

- No instruments for developing the human capital of social enterprises

We can conclude that adopting new legislation or reforming the existing one will not be enough to support the development and the growth of SEs. One key issue for SEs is to find resources to invest in developing the professional skills of the staff, train and retain it, motivate it to stay



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and find long-term career in this sector. Nevertheless that there is lack of comprehemsive research on all three topics in practice however there are a number of examples that are actually targeting the various challenges that SEs in Bulgaria meet in those three areas.

- There are no specialized programs for staff recruitment, retention and training of the human resources in social enterprises.

Each social enterprise finds its own way to design such internal program. Most of the social enterprises do not have an HR expert on their teams to focus precisely on that task or even to have resources to contract and external one for some support. Among social enterprises who are employing people from vulnerable groups there are such programs specially dedicated to develop social skills and in most of the cases they are part of the social services provision that these organizations provide to the specific vulnerable group and are part of the social work performed by various specialists within the social work field (psychologist, social rehabilitators, labor mentors, etc.).

- There are no targeted campaigns focusing on the motivation of people to work in social enterprises.

The sector is considered underdeveloped and not able to secure a high salary especially for young experts. Very often the staff within SEs is also staff of NGOs and is involved in other not-for-profit activities.

- There are no opportunities for developing special knowledge and skills among social enterprises' teams on public communication and social impact mesuarment.

Most of them do not have an internal PR expert as part of their teams and they usually use external services for different campaignes. Such inconsistent approach however does not help the sector to become more recognizable and its products - more visible within the community. Within the last 2-3 years initiatives in that area started to emerge which is an indication that various stakeholders recognize the need of such promotion.

- There are a number of initiatives that are aiming at promotion and distribution of social enterprises' services and goods.

Most of them however, are funded with private resources and need to be upgraded with a common communication sector strategy in order for social enterprises to reach the desired level of visibility and recognition among business and community.

- Good examples are having the following common specifics:

Nevetheless of the strong motivation, there is a slow development, because there are not a lot of funding, mainly they have to start with fundraising and grants. They are microundertakings,



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with not more than 2-3 persons as team, and very often they are engaged in other activities. They do not have big opportunities for bying the materials they need on a affordable price and they do not have a lot of pportunities for reaching wider markets and possibilities for sale. Lack of resources for campaigning and marketing ends in small communities that are devoted to buy and support them, but not to target wider public/clients.

# 2. Challenges and needs of social enterprises in EU

## 2.2. Review of available relevant researches carried out by the EU institutions in the three identified areas

### 2.2.1. Staff recruitment, retention and internal training of SEs' personnel promoting inclusive educational approaches and mainstream practices

There are several researches in the context of the EU that tackle some aspects of staff recruitment, retention and training in social enterprises. According to one of them - a report on SEs and their ecosystems in Europe, "growing ecological awareness and idealistic interest in achieving social goals has particularly increased among youth" (in Austria, Estonia, Latvia, Luxembourg, Portugal, Turkey and United Kingdom). This study bases its findings on several country reports and concludes that „youth values tend to differ from those of previous generations: youth are more oriented towards the general public benefit, seek jobs that are meaningful, think more about how to exploit resources efficiently (including new available technologies), and are often ready to work towards social goals at lower remuneration." (Borzaga et al., 2020, p. 140). The same research also provides estimated data on emplyment in SEs and finds that „social enterprises are generally micro- and small organisations with high proportions of female workers." (Borzaga et al., 2020, p. 105). According to Doherty et al. (2014) the majority of SEs are small, resource-constrained and do not have sufficient financial resources to pay the market rate to employees which leads them to the need to rely on non-financial incentives to motivate staff members. Therefor, based on recent studies exploring employment and volunteering, Doherty et al. (2014) finds the social component of the dual mission to be instrumental in enabling SE leaders to recruit and mobilize effort from employees, volunteers and supporters. On the other hand, in terms of barriers to employment in social enterprises Eurofound (2019) identifies as "main barriers to job retention and creation in cooperatives and social enterprises"- access to finance; regulatory environment; access to skilled labour; macroeconomic factor; management capacity (Eurofound, 2019, p. 45). A broader research (not limited only to SEs) of vocational training in the EU enterprises concludes that: „Policy attention paid to SME training patterns should be kept particularly high in countries where, by international comparisons, they account for a larger share of the economy. This is the case in Bulgaria, Greece, Italy, Cyprus, Latvia, Lithuania and Romania, which also present comparatively lower levels of enterprise training performance." (Cedefop, 2019, p. 128)



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Doherty et al. (2014) identifies as management mechanisms to cope with SE hybridity (social mission and economic activity) the skills-based trustee recruitment, explicit use of social mission to motivate stakeholder groups and cross-training of employees, volunteers and trustees. Additionally, Davister et a. (2004) examines two modes of professional training in work-integration initiatives within the social economy - "On-the-job" professional training and work-integration initiatives within the social economy (p. 9).

### 2.2.2. Securing of training facilities and expert knowledge on communication of SEs' impact and community importance

It is commonly agreed that training, coaching or consultancy services play critical role in building social entrepreneurs' skills. OECD/EU, (2017) provides some examples of best practices in that regard. Very often shared training facilities and expert knowledge on communication come as a main focus of sectoral networks and associations. According to a report on SEs and their ecosystems in Europe the overall, significant differences are nevertheless noticeable across countries. These differences are noticeable on a regional level as well - while in some countries primarily in Western and Northern Eurape a plurality of networks with representation, lobbying and coordination purposes exist (e.g., Belgium, Denmark, Finland, France, Italy, Sweden, United Kingdom), in CEE and SEE countries intermediary structures and networks representing or gathering social enterprises are poor. Examples provided by Borzaga et al. (2020) are Slovakia, where no dedicated formal networks exist at all, and Ireland and Spain which are placed in between - with some networks playing mainly a representation and support role. According to Borzaga et al. (2020) in order for these self-initiated networks to emerge, there needs to be a pre-existing community. In this sense, co-working spaces that generate a community of social entrepreneurs like the international network Impact Hub and the organisation of awareness-raising and networking events at the national and federal level (such as "Social Business Day" in Austria and "Social Enterprise Bulgaria") are of paramount importance to create such basis. (Borzaga et al., 2020, p. 52). The same research also concludes that „While social enterprises are progressively gaining more visibility, there is still limited information, low awareness and little knowledge about social enterprises amongst the general public" (Borzaga et al., 2020, p. 142).

GECES (2016) also emphasises the need for better coordination of social enterprise players and increased investment in their capacity to demonstrate their social impact and social added value and take ownership of the process. According to this research the achievement of those goes require the development of „skills and training, recognised methodologies, as well as a process of bottom up co-creation in order to reach a critical mass of social enterprises that present appealing stories supported by reliable data." GECES (2016) also points out that Member States and local administrations should facilitate and support this capacity building. (GECES, 2016, p. 20).



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Chandra (2016) examines ways in which social entrepreneurs give sense to and legitimize their work by introducing a rhetoric-orientation view. The research suggests that:

"... orientations and skills could be used during SE-startup financing success, opportunity creation, social capital development and performance. For instance, good justification of one's social change strategies and how they will benefit others could make a social entrepreneur sound more legitimate than rhetoric that emphasizes one's self too much. Proficient use of rhetoric with solution and impact orientations might also help a social entrepreneur sound more credible and more knowledgeable." One of the most important findings in this study is the notion that social entrepreneurs do not eschew the use of economic-oriented words (Chandra, 2016, p. 189).

Arena et al. (2014) proposes step-wise method which „specifically aims to encourage SEs managers to reflect on their informative needs (and understand how to satisfy them) moving from the expectations and requirements of their stakeholders, enacting a learning cycle" (Arena et al., 2014, p. 669).

### 2.2.3. Distribution of SEs' goods in a sustainable way visible for the community

According to Díaz-Foncea & Marcuello, 2012, social enterprises are winning a more visible place in economic reality, demonstrating a tremendous capacity for innovation and responding to the needs and well-being of people. The same research notes as an advantage of SEs their tradition in building a trustworthy image: „social enterprises have a greater tradition for transparency in their actions and rendition of their profit and loss statements than in other economic sectors. They are developing tools for social auditing specific to these organizations in order to facilitate communication of purposes, means, and results. This in turn increases the confidence of users, collaborators, financiers, and society in general" (Díaz-Foncea & Marcuello, 2012, p. 79)

A more recent comaprative research of three EU countries – UK (member-state at the time of the research), the Netherlands and Sweden shows that „a notable trend in almost all our case studies is that they rely heavily on public or charitable grants and loans in the early years but then increasingly seek ways to increase their trading income and thus to ensure their longer term financial sustainability." (Bailey et al., 2018, p. 44).

In terms of distrubution of SEs' goods and services on EU level it is recognized that membership organziations as a channel for sales play a significant role. According to a report on SEs and their ecosystems in Europe a demand from individual users exists for both „social and health services that are not fully covered by public welfare policies or that are less standardised, as well as alternative (such as some educational services) and personal services that, although affecting well-being, are not included in the public supply, such as cultural, sport



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and recreational services (including forms of social tourism, circular economy, new sustainable and ecological agribusiness activities, etc.)" These services are recognized as activities in which social enterprises can develop significant new markets with great potential in terms of both economic growth and employment. The provision of some of these services, benefits greatly from the contributions of their users, which mostly take the form of membership fees (Borzaga et al., 2020, p. 86).

Another way to boost the visibility of SEs'goods an dservices is throug special labels, marks or registers. An analyzes on the impact of the European Commission's Social Business Initiative suggests that:

> Concerning labels, marks or registers the influence of SBI/EU is perceived as marginal and related to small exchanges in specific circles, e.g. GECES on existing labels and registers. There is no common opinion among experts on whether and to what extent labels or registers are beneficial for SE development, apart from adding to visibility. Experts alert that it is difficult to address all types of SE with rigid criteria. Usually, certain types of SE are excluded when registers are introduced. (Haarich et al., 2020, p. xiii)

A recent research on SEs and digitilization concludes that „digital platforms facilitate also the commodification of knowledge through use of local communities. The digital social economy platforms assist towards the provision of better social services to a larger audience..." (Executive Agency for Small and Medium-sized Enterprises (European Commission), 2020, p. 105).

According to Noya & Galitopoulou (2016) raising awareness of social enterprises' mission and activities provides many advantages – „it can enhance their access to markets and finance, heighten their legitimacy in the eyes of potential partners, inspire and encourage other social entrepreneurs to scale, and stimulate demand from mainstream consumers. " The same document suggests that „public support, for example through campaigns and awards, has the capacity to promote and raise the profile of social enterprises" (Noya & Galitopoulou, 2016, p. 11).

## 2.3 Conclusions on the needs and challenges in the three identified areas.

The analyses of the EU researches on the three topics shows that there are various practices and initiatives in the countries that address the challenges in terms of staff recruitment, retainment, training, sharing facilities and promotions, distribution and visibility of SEs' goods and services. Those that have the most positive assessment include:

- The investment in staff development is a key issue that is recognized as part of the state policy measures that are supporting SEs;



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- Methodologies and practices to help SEs' access their social impact and communicate it to the public are of great importance because they help them communicate the results - such methodologies are popular among mainstream businesses to report the impact from their CSR policies. There are methodologies that are elaborated especially for measuring social impact of social enterprises but they need to be adapted in order to identify those results that are worth to be integrated in their communication strategies. Such methodologies however need to be redesigned in a very practical tools for periodical internal collection of data so that their application is not time consuming and burdensome having in mind that SEs have really very small management teams. Such methodologies could help SEs how to communicate the results they achieve and that are considered as important by their customers and in this way – they manage to gain more trust and build a stronger relationship with clients;
- Labels, marks and registers are not very effective mechanisms to support the actual distribution of the SEs'goods and services besides promoting their visibility.
- Public campaigns and awards are an effective instrument to boost the wider recognition of the social enterprises' sector.

## 3. Main conclusions and recommendations for the SEHUBS vision for SE co-creation hubs as an innovative model

There are several key recommendations that could be outlined when building the concept of SE co-creation hubs in terms of the Bulgarian context:

- the model should provide an universal framework of various programs and instruments that could be used for staff management and this framework should be adaptive to the context specifics.

This segment will allow the transfer of knowledge and expertise from well developed SE sectors to those that are in the very beginning of modernization. The segment should provide the main princpiples on how to develop integral programs for staff recruitment, retention and training. A brief general guidelines is a possible approach, combined with a comprehensive training tools on 3 main categories: staff recruitment and building teams, staff retention and motivation, and approaches to build up the capacity of teams and keep them up to date with the newest tendencies and approaches in the staff management sphere.

- The model should have a mechanism to encourage transnational cooperation between small social enterprises and those with more experience

That is a key to have a greater promotion of SEs products within a single country but also a way to bring the attention to SEs even when they are micro enterprises. The sector of SEs now is characterized by the domination of larger social enterprises but now there is a trend to have successful business models of strat ups in the sphere. They are still not very popular and in



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most countries social entrepreneurship is conotated with large enterprises that have accumulated more recources.

- The model should be accessible to various social enterprises from different economic areas, social contexts and experience

This a key aspect to making the tools that the model will provide adpatable to local contexts and conditions. The model should be negotiated among the sectors in the countries and should be transfarable to each of them. Existing SE networks primarily focus their activities on local social enterprises rather than on supporting the wider exchange of practices, knowledge and experience among SE communities coming from different local contexts. The SE hub model should address that lack of cooperation tools and provide an innovative approach to it. SE hubs should provide a comprehensive peer-to-peer inclusive training programmes, organizational management matrixes, opportunities for direct contact between SE and potential clients (such as shops, workshops, bazars, etc.) and last but not least – opportunities to find counterparts outside of their local communities in order to exchange ideas and identify joint fields of cooperation and growth. Also that approach should be understandable by various SEs no matter of the stage of development and also – should provide an easy tool of exchanging information and boosting cooperation. A partners' database is not enough to make that work – it is necessary to have a series of small online initiatives that will meet the SEs in a very practical way. It is better to think for such approach as an online tool because we believe in this way it will be more sustainable and easy to maintain.

- Self-sustainability and operational capacity of the model itself

It should have a special focus on how the model will be able to generate resources so it will continue to exist. A business plan and financial forecasts is a good strating point for each context. Above that – there should be a coordination mechanism established that will continue to exist after the project itself, so the transnational component is preserved.



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