



European  
Commission

SOCIAL ENTERPRISES  
AND THEIR ECOSYSTEMS  
IN EUROPE

Country report  
**BULGARIA**  
Maria Jeliaskova

This report is part of the study “Social enterprises and their ecosystems in Europe” and it provides an overview of the social enterprise landscape in Bulgaria based on available information as of March 2019. It describes the roots and drivers of social enterprises in the country as well as their conceptual, fiscal and legal framework. It includes an estimate of the number of organisations and outlines the ecosystem as well as some perspectives for the future of social enterprises in the country.

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# SOCIAL ENTERPRISES AND THEIR ECOSYSTEMS IN EUROPE

Country report  
**BULGARIA**

Maria Jeliazkova

This report provides an overview of the social enterprise landscape in Bulgaria based on available information as of March 2019. The report updates a previous version, submitted by ICF Consulting Services to the European Commission in 2014. The current report has been prepared as part of a contract commissioned by the European Commission to the European Research Institute on Cooperative and Social Enterprises ([Euricse](#)) and the EMES International Research Network ([EMES](#)). Maria Jeliaskova from the Bulgarian Academy of Sciences was responsible for the revision of the report.

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Countries included in the three social enterprise mappings by the European Commission

No	Country	TYPE	2014	2016	2018-19
1	Albania	Fiche	-	-	✓
2	Austria	Report	✓	-	✓
3	Belgium	Report	✓	✓	-
4	Bulgaria	Report	✓	-	✓
5	Croatia	Report	✓	-	✓
6	Cyprus	Report	✓	-	✓
7	Czech Republic	Report	✓	-	✓
8	Denmark	Report	✓	-	✓
9	Estonia	Report	✓	-	✓
10	Finland	Report	✓	-	✓
11	France	Report	✓	✓	-
12	Former Yugoslav Republic of Macedonia	Fiche	-	-	✓
13	Germany	Report	✓	-	✓
14	Greece	Report	✓	-	✓
15	Hungary	Report	✓	-	✓
16	Iceland	Fiche	-	-	✓
17	Ireland	Report	✓	✓	-
18	Italy	Report	✓	✓	-
19	Latvia	Report	✓	-	✓
20	Lithuania	Report	✓	-	✓
21	Luxembourg	Report	✓	-	✓
22	Malta	Report	✓	-	✓
23	Montenegro	Fiche	-	-	✓
24	The Netherlands	Report	✓	-	✓
25	Norway	Fiche	-	-	✓
26	Poland	Report	✓	✓	-
27	Portugal	Report	✓	-	✓
28	Romania	Report	✓	-	✓
29	Serbia	Fiche	-	-	✓
30	Slovakia	Report	✓	✓	-
31	Slovenia	Report	✓	-	✓
32	Spain	Report	✓	✓	-
33	Sweden	Report	✓	-	✓
34	Switzerland	Report	✓	-	-
35	Turkey	Fiche	-	-	✓
36	United Kingdom	Report	✓	-	✓

## TABLE OF CONTENTS

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List of acronyms	8
List of illustrations and tables	9
Executive summary	11
<b>1. BACKGROUND: SOCIAL ENTERPRISE ROOTS AND DRIVERS</b>	<b>15</b>
1.1. Rural cooperatives	16
1.2. The community cultural centres ( <i>chitalishta</i> )	17
1.3. Specialised enterprises for people with disabilities	18
1.4. Non-profit organisations	19
1.5. Main drivers of social enterprise development	19
<b>2. CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK</b>	<b>23</b>
2.1. Defining social enterprise borders	24
2.1.1. The EU operational definition of social enterprise	24
2.1.2. Application of the EU operational definition of social enterprise in Bulgaria	25
2.2. Legal evolution	32
2.3. Fiscal framework	38
<b>3. MAPPING</b>	<b>41</b>
3.1. Measuring social enterprises	44
3.2. Social enterprise characteristics	48
3.2.1. Fields of activity	48
3.2.2. Labour characteristics	49
3.2.3. Regional differences	52
3.2.4. Governance models	52

<b>4. ECOSYSTEM</b>	<b>53</b>
4.1. Key actors	54
4.2. Policy schemes and support measures for social enterprises	57
4.2.1. Support measures addressed to all enterprises that fulfil specific criteria	57
4.2.2. Support measures addressed to social economy/non-profit organisations	57
4.2.3. Support measures specifically addressed to social enterprises	58
4.3. Public procurement framework	59
4.4. Networks and mutual support mechanisms	60
4.5. Research, education and skills development	62
4.6. Financing	65
4.6.1. Demand for finance	65
4.6.2. Supply of finance	66
<b>5. PERSPECTIVES</b>	<b>69</b>
5.1. Overview of the social enterprise debate at the national level	70
5.2. Constraining factors and opportunities	71
5.3. Trends and future challenges	73
<b>6. APPENDICES</b>	<b>76</b>
Appendix 1. The EU operational definition of social enterprise	77
Appendix 2. Data availability report	80
Appendix 3. Exploratory case studies	84
Appendix 4. Reference list	94
Appendix 5. List of stakeholders engaged at national level	97

## List of acronyms

- > **ALMP** Active Labour Market Policies
- > **BCNL** Bulgarian Center for Not-for-Profit Law
- > **BULSTAT** Bulgarian Statistical Code (number) for identification of all juridical entities, operating on the territory of the country
- > **EC** European Commission
- > **EMES** EMES International Research Network
- > **ESF** European Social Fund
- > **EU** European Union
- > **GDP** Gross Domestic Product
- > **MLSP** Ministry of Labour and Social Policy
- > **NGO** Non-Governmental Organisation
- > **NPO** Non-Profit Organisation
- > **NSI** National Statistical Institute
- > **OP** Operational Programme
- > **OSF** Open Society Foundation
- > **SG** State Gazette
- > **SME** Small and Medium-sized Enterprises
- > **VAT** Value Added Tax
- > **WISE** Work Integration Social Enterprise



## List of illustrations and tables

- > **Illustration 1.** Definition of social enterprise and related terms in Bulgaria
  
- > **Table 1.** Correspondence of the legal forms in Bulgaria to the EU operational definition of social enterprise
- > **Table 2.** Fiscal framework for social enterprises in Bulgaria
- > **Table 3.** Associations and foundations performing as social enterprises
- > **Table 4.** Community cultural centres (*chitalishta*) with numbers and members
- > **Table 5.** Number of active NPOs
- > **Table 6.** Specialised enterprises and cooperatives of people with disabilities
- > **Table 7.** Social enterprises in Bulgaria
- > **Table 8.** Social enterprises established as associations and foundations according to the numbers of employed
- > **Table 9.** Other social enterprises—mainly specialised enterprises and cooperatives of people with disabilities
- > **Table 10.** Overview of the key actors involved in the social enterprise ecosystem in Bulgaria



## Executive summary

### Background

Enterprises with social aims in Bulgaria have a long history and tradition, mainly in the form of the powerful cooperative movement and community cultural centres (*chitalishta*). These influential institutions first displayed the main characteristics of future social enterprises. Cooperatives experienced a remarkable expansion before World War II as a form of economic organisation that allowed people with limited material resources to cope with economic and social problems. In historical terms, cooperatives and *chitalishta* have centuries' long traditions in the country. A third pillar, enterprises that provide sheltered employment for people with disabilities, also contributes to the development of contemporary social enterprises. Such enterprises started to emerge at the beginning of the 20<sup>th</sup> century. They underwent a rapid growth and development in the period 1951-1989 due to the legally defined right of reserved market niches for their products. After a period of difficulties during the first decade of transition, currently the enterprises facilitating work integration of disabled people are gradually restoring their capacity to fulfil their functions. As for the associations and foundations, their development started in the first half of 20<sup>th</sup> century although they faced interruption during the socialist period, and after 1990 non-profit organisations (NPOs) again experienced fast expansion.

In the current period of democratic development social enterprises emerged mainly as an evolution of the following forms: cooperatives, enterprises for work integration of people with disabilities, plus associations and foundations. Still, the services delivered by the range of social enterprises operating in Bulgaria do not match the growing unmet needs arising in society, including the integration of vulnerable people.

### Concept, legal evolution and fiscal framework

Social enterprises in the country cover different legal forms, namely: associations and foundations; cultural community centres; specialised enterprises for work integration of people with disabilities; and cooperatives of people with disabilities.

The lack of clear criteria for identifying social enterprises in Bulgaria and the fragmented legal framework have confused the field of social enterprises. In an effort to provide clarity, the government elaborated a draft Law on Enterprises of Social and Solidarity Economy, adopted by the National Parliament. The new Act came into force on 2 May 2019. The available legal framework for the above-mentioned organisational forms as well as the new Act parallel parts of the EU operational definition. The requirement for economic activity, the defining role of the social aim and the independence of the

entities all resonate with the EU definition. The new legislation provides a few fiscal preferences relevant to the activities of social enterprises.

## Mapping

Due to the lack of sufficient statistical data and with many reservations, currently established social enterprises could account for around 1% of all the enterprises in the country, employing about 2% of the employed population. They contribute to about 0.7% of the added value produced in the country. All three figures lie well below the EU averages.

## Ecosystem

The ecosystem for social enterprises in Bulgaria takes shape according to the interplay among different key actors contributing to their development. These key actors include: high and second level governmental institutions (ministries and agencies), regional and local authorities, social partners, different NPOs and cooperative networks, donors and financial programmes, research and educational institutions. The interactions among these actors serve as the main drivers shaping the ecosystem for social enterprises in Bulgaria.

## Perspectives

The most visible and frequently mentioned constraining factors of social enterprises development come in the form of: weak governmental funding, insufficient targeted assistance through dedicated financial instruments, lack of adequate support from municipalities and lack of skilled staff. Some suggest the low propensity to innovate also presents a barrier to start or scale up social enterprises. However, it seems that the fundamental constraining factor jeopardising social enterprise development is the general economic and social situation in the country. Currently social enterprises rely mainly on public (budget) support, but the opportunities of public budgets (national and local) to support social enterprises remain quite limited. This combines with a high level of (income) poverty, which ranks the highest in the entire EU. The effect of this combination shows that, despite large-scale needs for social services, limited public budgets and low incomes reduce the solvent (public and private) demand of goods and services that social enterprises could provide. Against the backdrop of rising needs that social enterprises could directly address, the surrounding ecosystem struggles to fully harness their potential.

However, one could also expect a better future for Bulgarian social enterprises. The Bulgarian economy has overcome the long-term decline in economic growth rates and has achieved a good annual Gross Domestic Product (GDP) growth. These growth

rates create better opportunities for development and for social enterprises. The main challenge facing the country lies in improving the distribution of rising GDP so as to strengthen public budget capacities, reduce poverty and income inequalities. The future of social enterprises depends on how this challenge gets met. In particular, one could expect that national and local governments will provide better support (higher public expenditures for social services, tax alleviations, reserved market niches, etc.) to social enterprises and therefore the tools for providing such support will improve. At the same time, if the incomes of the most deprived groups increase, their solvent demand for social services also will increase. And as the needs for such services already rank high and will certainly increase in the future, the country could experience a trend towards expanding the social enterprises sector.

However, even under current conditions, several opportunities for establishing social enterprises exist and show signs of increase. The NPOs (including *chitalishta*), the different types of cooperatives and the specialised enterprises of people with disabilities provide the soil on which social enterprises can grow in Bulgaria. To what extent they will grow and bloom depends on the various key factors, including the legally enforced definition and the further development of an adequate ecosystem.




# 1

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## BACKGROUND: SOCIAL ENTERPRISE ROOTS AND DRIVERS

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This section discusses the historical emergence of the main prototypes of modern social enterprises in Bulgaria. Later, legal forms (such as associations and foundations) and the main drivers of their dynamics (including relatively recent political and economic changes in the country), are also analysed.



## 16 | Background: social enterprise roots and drivers

Bulgarian history has grown rich in economic entities possessing features that permit interpretation as predecessors (or prototypes) of contemporary social enterprises. The main forms of these prototypes are rural cooperatives that flourished from the end of the 19<sup>th</sup> to the middle of the 20<sup>th</sup> century (before the socialist period); the *chitalishta* cultural associations (whose definition lies close to a reading room) and specialised enterprises for people with disabilities.

### 1.1. Rural cooperatives

**The main driving force in the birth of cooperatives emerged with the impoverishment of large parts of the rural population** at the end of the 19<sup>th</sup> and the very beginning of the 20<sup>th</sup> century. This was due to the diminishing availability of arable land possessed by many households (as a result of the concentration of land ownership and fast growth of rural population). Therefore, a significant proportion of rural households were forced to borrow at high interest rates, and their bet often fell on a future crop at a much lower price than the market.

These processes began in the second half of the 19<sup>th</sup> century (when present-day Bulgaria formed part of the Ottoman Empire) and continued until the middle of the 20<sup>th</sup> century. **Under the pressure of these processes Bulgarian cooperatives experienced a remarkable expansion before World War II**, allowing people with limited land and other material resources to cope with economic and social problems.

**Due to the large credit needs of the rural population, the first cooperatives were created as credit institutions for their members' mutual assistance.** Later, in the course of their development, the cooperatives gradually started to fulfil other functions: pricing policy, trade structures for realisation of the produced products, etc. and thus became "multi-functional" cooperatives.

**Additional support for the emergence, development and operation of rural cooperatives took root with strong rural political parties and the powerful cooperative movement in general.** The basic organisational and governance principles of Bulgarian cooperatives followed the typical cooperative principles shared at international level.

**After 1944 (the beginning of the socialist period), the credit activity of the rural cooperatives discontinued, and they functioned mainly as consumer cooperatives.** The Communist Party began to apply a different model resembling the Soviet model of "collectivisation" by creating units of the "kolkhoz" type. About 400 such units had been created by the year 1948—so-called "labour cooperative farms", covering 8% of the farmers at the beginning of "collectivisation". During this period,



membership in the new type of cooperatives still remained voluntary, with mainly communist or sympathising members, though the state administration began to exert serious economic pressure on traditional cooperatives. **The agricultural inventory became nationalised, and in 1950 the pressure for mass “collectivisation” began.** Thus by the end of 1957, the vast majority of peasants already had been included in cooperatives. **After 1989, when Bulgaria began transitioning to a market economy and democracy, the land was “restituted” to the former owners, who did not rebuild the previous cooperatives.** Most of the rural cooperatives (especially but not only in agriculture) collapsed because of the economic changes and the negative political and public attitudes towards them—the cooperative form became perceived as a remnant of socialism. Today, cooperatives continue declining and in while conventional private firms dominate the agricultural sector.

## 1.2. The community cultural centres (*chitalishta*)

**The unique Bulgarian institutions named *chitalishta* perform enlightenment and cultural functions.** The first were established in the beginning of 1856, during the Ottoman Empire. Between 1856 and 1869, 30 such community centres blossomed in Bulgaria, and from 1869 to 1878 (the creation of an independent Bulgarian state) their number flourished to 130.

**Prior to the liberation of the country, the *chitalishta* supported the process of national consolidation and formation of a national community. After the Liberation, the *chitalishta* became centres for education and preservation of traditions, values and virtues.**

The *chitalishta* supported the development of schools in the villages; created boarding houses for students from rural villages; organised regular teacher’s meetings; supported the education of poor children; disseminated useful public information. In addition, they created public libraries. This process began with church books, schoolbooks, donations, and purchasing subscriptions for periodicals and books with initial capital raised. **In this way the *chitalishta* contributed to the strengthening and development of the national culture and consciousness, influencing the creation of the independent Bulgarian state.**

A problem with financing and options to diversify financial sources appeared right from the beginning of *chitalishta*’s development. **The main sources of funds came from membership fees and donations.** Some community centres have also introduced a kind of “library tax,” paid by the members according to their property status. The *chitalishta* received additional funds through the creation of the so-called “*chitalishta*

## 18 | Background: social enterprise roots and drivers

cafes,” lotteries and others. Interestingly, several attempts to earn revenues through entrepreneurial activity have played out since then.

*Chitalishta* experienced a sharp crisis during the first decade of the transition but survived. Thanks to different political and financial measures, they now experience relative stability. **Contemporary *chitalishta* usually manage libraries and clubs and deliver a variety of services to local communities:** music and dance classes, sport training, foreign language courses, theatre, literary readings, celebrating publicly significant events for the city, locality and holidays, conferences and community meetings. Some *chitalishta* manage cinemas, clubs of pensioners or other groups. *Chitalishta* in small and medium-sized cities often have their own orchestra, mixed choir and folklore ensemble. In January 2016, the number of registered *chitalishta* in Bulgaria reached 3,614.

### 1.3. Specialised enterprises for people with disabilities

**The establishment of cooperatives of people with disabilities in Bulgaria (injured veterans, blind and deaf people) started in the early 20<sup>th</sup> century.** During the socialist period, cooperatives and specialised enterprises of people with disabilities (especially the blind and the deaf) developed intensively, starting in 1951. Labour-productive cooperatives of people with disability provided sheltered employment and grew rapidly in the 1960s and 1970s. The state performed supervisory and control functions, while unions of people with disabilities usually held responsibility for the activities (Ivkov 2013). Although well developed during the socialist period, some of these entities nearly faced ruin in the first decade of transition and most experienced a crisis. In the new century they experienced renewed interest and establishment.

**Recently these enterprises underwent a significant transformation** through which they have turned into more efficient units with social aims, supported by the state mainly through reserved market niches.

## 1.4. Non-profit organisations

**New civil society organisations that emerged in the beginning of the transition experienced two stages of development.** In the first stage, most of them participated actively in the general democratic political and institutional changes and received support mainly by foreign donors. Considering their activities, the term non-governmental organisations (NGOs) appropriately described the social role of the associations and foundations (or at least it acquired large publicity). In the second stage (approximately after 2000–2005) many NGOs reduced their political activities and have redirected their attention to predominantly social activities. This reorientation gave a strong impetus to the emergence of social enterprises. Perhaps for these NGOs (during the second stage) the term non-profit organisations (NPOs) seems more appropriate. However, since most remain unaware of the two stages of transformation of most NGOs and since some organisations continue to participate in the political process of decision-making, the term NGOs still persists and dominates in Bulgarian language.

## 1.5. Main drivers of social enterprise development

**Three main drivers fuelled the further expansion of the germs of social enterprises: growing needs, EU integration and newly accrued sources of financing.**

Initially, the need for jobs for large professional groups (due to a long period of unemployment during the first years of transition) took precedent. These groups presented a relatively qualified labour force looking for a field of occupation—a prerequisite for the mushroom growth of NGOs. The need of civil society participation in the transition and the emergence of sources of funding for NGOs at the start of transition (early 1990s) made the prerequisite a real process. In this way the **emerging NGOs provided jobs for many of those who were fired due to the reduction of the former state enterprises and personnel renewal of the state bureaucratic apparatus.** Another important field that contributed to developing social enterprises (mainly as transformation of former NGOs into social enterprises) was the increasingly diversified needs of many vulnerable groups combined with a significant collapse of state-provided social services. These needs proved particularly relevant and significant during the so-called “deinstitutionalisation” phase aimed at creating new social service units to replace previous state structures for specialised social care for some particularly vulnerable groups. **The “prototypes” of social enterprises emerged despite the lack of a normative framework.** An additional driver explaining social enterprise

## 20 | Background: social enterprise roots and drivers

development came with the municipalities' progressive welfare activities combined with the lack of financial resources to respond to the local population's needs.

**The second important driver came with the EU trigger effect.** In the 1990s, main developments focused on privatisation and over-dominance of poorly understood market orientations that produced mass unemployment and rising poverty. Since the beginning of this century, however, the highly publicly shared consensus on moving towards the EU started slowly and with many difficulties to change these directions. The interest in key issues like the fight against poverty, social inclusion, social cohesion, and work integration, all added a new momentum to the expansion of the concept and practices of social enterprises. Furthermore, **after Bulgaria integrated into the EU, such funds became available to support social enterprise development.** Specifically, government support for the development of social enterprises over the past period manifested primarily through the Human Resources Development Operational Programme (OP), which helped create and develop new forms of social enterprises along with new jobs for people from vulnerable groups. For example, institutional support for social entrepreneurship came through in 2009 when the Social Assistance Agency launched a procedure for direct grant awarding "Social Entrepreneurship - Promotion and Support of Social Enterprises / Pilot Phase."<sup>1</sup> The purpose of the procedure aimed to support the development of social entrepreneurship as an opportunity to improve the quality of life of people in risk groups and to overcome their social exclusion. Another example took place in 2011 under a new procedure, namely "New Opportunities."<sup>2</sup> The main objective looked to support the development of social economy and to generate social capital, supporting municipalities to ensure the employment and activity of people in at-risk groups. In fact, Human Resources Development OP (2014–2020) remains a very important source of financing social enterprises development.

Additionally, around 2002–2003, thanks to the efforts of the EMES International Research Network, **an understanding of the meaning and importance of social enterprises began to grow**, including capacity building and research in the field. Gradually, the negative attitude towards cooperatives and established *chitalishta* changed as well. Meanwhile, a change had also occurred in the understanding of already built-up NPOs (in the 1990s mainly thanks to USA's private foundations and programmes). With the integration of the country into the EU (from 2007 onwards), these trends have accelerated. Around 2010, already an official political vision considered social economy and social enterprises as important drivers of social development.

**The third main driver to develop social enterprises' prototypes came with the appearance of new sources of financing.** These sources (direct subsidies as well as access to financing of different projects) present very important and attractive

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(1) Under scheme BG051P0001-5.1.01.

(2) Scheme BG051P0001-5.1.02.

options for NPOs and social enterprises, due to the lack of solvent consumer demand and weak state demand. In this regard, financing from foreign assistance—non-EU (especially during the first stages and transition periods of NGOs) and EU (mainly during the second stage)—plays an extremely important role. For instance, development of social enterprises in Bulgaria often links to a programme implemented by Counterpart International – Bulgaria, funded by the US Agency for International Development (USAID). Considered the first entity to purposefully introduce and use the term “social enterprise” in the public space in Bulgaria, it has provoked significant interest among NPOs and local communities. This programme launched social promotion campaigns in 2002–2006 in support of social enterprise as a social inclusion mechanism, field of employment of disadvantaged groups and a strategic opportunity to increase the capacity of social service providers. In addition, 45 organisations from 17 communities received training, technical assistance and funding to create social enterprises. It also fomented support activities, such as a campaign to prepare legislative changes, and contributed to regulate legal training, technical assistance and funding for the creation of social enterprises.

**In summary, although the cooperative tradition has supported social enterprise emergence, its impact does not seem significant so far.** The impact of voluntary engagement/associative tradition and philanthropic tradition (connected mainly with *chitalishta*) also measures modestly. Some NPOs provided important support for social enterprises emergence, but it would be an exaggeration to state that they played a key role in social enterprise development. Neither did social workers play an initiating role. **The impact of national government, local governance and some state agencies and foreign donors seems stronger.** The complex interplay of different drivers and conflicting interests of different stakeholders have resulted currently into adoption (2018) and enforcement (2019) of the first Act on Enterprises of the Social and Solidarity Economy in the country.




# 2

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## CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK

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This section presents a review illustrating how the creation of the legal framework of social enterprise emerged as a response to new needs and available resources. Indeed, across time periods different legal frameworks have been adopted for different types of enterprises (with different social aims). As the development of social enterprises has not been driven by a unified strict definition or by a relevant regulatory framework the question arises as to what extent existing social enterprises in Bulgaria really meet the EU operational definition of social enterprise. The section also includes an assessment of the correspondence between social enterprises in Bulgaria and the EU operational definition of social enterprise. Thirdly, the section presents a review of the fiscal framework as an instrument to stimulate social enterprises. The review depicts that efforts to stimulate social enterprises in Bulgaria focus on providing support through public funding rather than fiscal exemptions.



## 2.1. Defining social enterprise borders

### 2.1.1. The EU operational definition of social enterprise

This report draws on the organisational definition included in the Social Business Initiative (SBI) of 2011. According to the SBI, a social enterprise is an undertaking:

- > whose primary objective is to achieve social impact rather than generating profit for owners and shareholders;
- > which uses its surpluses mainly to achieve these social goals;
- > which is managed in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity.

This definition arranges social enterprise key features along three dimensions:

- > an entrepreneurial dimension,
- > a social dimension,
- > a dimension relative to governance structure.

Provided that the pursuit of explicit social aims is prioritised through economic activities, these three dimensions can combine in different ways; it is their balanced combination that matters most when identifying the boundaries of social enterprise.

Building upon this definition, the Commission identified a set of operational criteria during the previous stages of the Mapping Study (European Commission 2015, 2016) and refined them again for the purpose of the current phase of the study (see appendix 1 for further details).

### 2.1.2. Application of the EU operational definition of social enterprise in Bulgaria

**Bulgaria only recently enforced a legal framework specifically designed for social enterprises in 2018**, with no clear definition that could determine boundaries. The persistent lack of a specific legal framework has had several implications for the development of social enterprises in the country. First, the economic entities that possess some of the social enterprise dimensions listed above were created on the basis of different laws. Explaining this status quo, some representatives of public authorities have argued that several other relevant laws compensated the lack of specific regulation. Second, predecessors of today's social enterprises were established to solve specific social problems and the relevant laws did not intend to construct social enterprises under the actual EU guidelines. Indeed, the EU concept itself did not exist



at the time the laws were created. These peculiarities suggest that the evolution of the legal framework and the history of social enterprises' precursors bear markings of conceptual and normative ambiguity when defining a social enterprise.

It seems that the existing acts created a normative framework, which could distort the performance of social enterprises in some cases. Moreover, the state often delivers services directly through its own structures in areas such as education, health and social care.<sup>3</sup> This spontaneous development results today in a significant number and wide variety of forms of enterprises with (dominantly) social aims. The list of enterprises with social aims includes:

- > Associations and foundations carrying out economic activities
- > *Chitalishta*
- > Cooperatives of people with disabilities
- > Specialised enterprises for the integration of disabled people

**The dominance of social aims does not ensure that all these enterprises fully meet the criteria outlined in the EU operational definition.** It may prove necessary to assess the match between enterprises with social aims and “authentic” social enterprises.

This section seeks to answer how legal frames for enterprises with social aims in Bulgaria meet the EU operational definition, both in wording and practice.

The most significant acts that shape the legal construction of the mentioned enterprises with social aims include:

- > Act on Public Cultural Associations (*chitalishta*) (SG. No.89/1996, last amended 2018);
- > Act on Non-Profit Legal Entities (SG. No.81/2000, last amended 2018);
- > Act on Cooperatives (SG. No. 113/1999, last amended 2018);
- > Act on Integration of People with Disabilities (SG. No. 81/2004, last amended 2017).

The **Act on Public Cultural Associations (*chitalishta*)** defines *chitalishta* as specific self-governing community associations, developing and enriching local cultural, social and educational activities. These associations take the legal form of NPOs as well, and they register both in the Register of the Ministry of Culture and the NGO register.

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(3) One of the exceptions is social contracting i.e., contracting out social services to be provided by private providers (more than 20% of all community-based services are reported to be contracted to private providers).

All individuals may participate in the activities of *chitalishta* regardless of age or gender, political and religious views, and ethnic origin. At least 50 individual members in villages can found *chitalishta*, while 150 members can found them in cities. The founders hold a constituent assembly, which adopts the charter of the *chitalishta* and chooses its governing bodies. Managing bodies consist of the general assembly, the board of trustees and the control commission. The supreme governing body, the general assembly, consists of all members of the *chitalishta*, who have the right to vote. These organisations also have a chair and secretary who organise the activities.

*Chitalishta* can implement business activities related to the subject of their main activity and use related revenues to achieve their statutory goals. They cannot distribute profit and thus receive finance through: membership fees; cultural-educational and information activities; subsidies from state and municipal budgets; rent from movable and immovable property, and donations.

The **Act on Public Cultural Associations (*chitalishta*) contains elements that provide solid basis for the three dimensions of the EU operational definition:** entrepreneurial, social and inclusive governance structure.

The **Act on Non-Profit Legal Entities<sup>4</sup>** defines the way foundations and associations are legally established in the country. It distinguishes between associations and foundations in public and private benefit.

The public benefit includes: 1) development and promotion of civil society, civic participation and good governance; 2) development and validation of spiritual values, health, education, science, culture, technology, technology or physical culture; 3) supporting children, people with disabilities and people and communities at risk of social exclusion; 4) protection of human rights or the environment; 5) other purposes set by law. Associations and foundations established for the public benefit are included in a special register.

At its establishment, any non-profit legal entity must identify itself as an organisation for private or public benefit. The decision shall be specified in the statutes/bylaws or in the constitutive act and shall be registered in the Registry Agency. While NPOs for private benefit can change their status and define themselves for public benefit, the opposite is impossible. For public benefit organisations, opportunities to spend the resources at their disposal are more strictly defined and have more stringent disclosure requirements for financial statements. Annual financial statements are published in the Registry of Non-Profit Legal Entities kept by the Registry Agency.

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(4) Non-profit Legal Entities Act, <http://www.bcnl.org/en/articles/866-law-for-the-nonprofit-corporate-bodies-legal-entities.html>

The law allows all NPOs to engage in economic activity, subject to certain conditions:

- > The economic activity must be supplementary to the main non-profit activity;
- > The economic activity should relate to the non-profit objectives of the entity;
- > The scope of the economic activity must be explicitly stated in the bylaws/act of incorporation;
- > The revenues from economic activity must reinvest in achieving the non-profit objectives of the organisation and cannot be distributed in any way.

The compliance of the Act on Non-Profit Legal Entities with the EU operational definition seems satisfactory. **Undoubtedly, associations and foundations in public benefit (as well as the subsidiary enterprises they may establish) meet the three dimensions of EU definition of social enterprise.** The act requires dominant social aim; allows economic activity supplementary to the main non-profit activity; forbids distribution of revenues from economic activities and requires the revenues to reinvest in achieving the organisation's non-profit objectives.

The **Act on Cooperatives** defines the cooperative as an association of individuals with variable capital and a variable number of members who, through mutual assistance and cooperation, carry out business activities to satisfy their economic, social and cultural interests. Each member of the cooperative makes a mandatory introductory and instalment payment, whose size, procedure for submission and form are specified in the statutes. Irrespective of the shareholding size, each member has the right to one vote. The statutes regulates labour and social security relations between the cooperative members and the cooperative in accordance with the applicable labour and social legislation.

The general assembly of the cooperative, in accordance with its statutes, allocates the profits and losses and determines the type of cash funds and the amount of their deductions, the order and the manner of their collection and spending. The deductions for cooperative funds naturally reduce the amount of profit. The general assembly then decides how to distribute the remainder, to members' dividends and other purposes related to the activity of the cooperative. By decision of the general assembly a mutual fund may form for the members of the cooperative.

**The Act on Cooperatives contains elements providing basis for the entrepreneurial dimension and inclusive governance dimension as well as (partially)—for the social dimension.** While the social dimension may seem obvious in the case of the cooperatives of people with disabilities, one could consider how other forms of cooperatives carry out activities to the benefit of the entire community. Agricultural cooperatives, for instance, have a very strong social dimension. **However,**

**the Act allows distribution of profit (dividends) to cooperative members, which does not align with the EU operational definition.**

The **Act on the Integration of People with Disabilities**. The specialised enterprises and cooperatives of people with disabilities are the only type of social enterprises that have a special legal framework. According to the Act, in order to be recognised as enterprises of people with disabilities cooperatives and conventional companies (such as limited liability companies) must meet the following conditions:<sup>5</sup>

- > Registered under the Commerce Act or the Cooperatives' Act;
- > Manufacture goods or provide services;
- > Have a relative share of employed people with disabilities as follows:
  - > For specialised enterprises and cooperatives of blind and partially sighted persons: not less than 20% of the total number of staff;
  - > For specialised enterprises and cooperatives of people with hearing impairment: not less than 30% of the total number of staff;
  - > For specialised enterprises and cooperatives of persons with other disabilities: not less than 50% of the total number of staff;
- > They are enlisted in the register of the Agency for People with Disabilities.

Additionally, for the purposes of the Public Procurement Act, a specialised enterprise or cooperative of disabled persons is one that:

- > Is registered under the Commerce Act or the Cooperatives Act;
- > Has a total staff of no less than 10 people;
- > Manufactures goods or provides services, and
- > Not less than 50% of the total number of employees are disabled.

**In fact the specialised enterprises for people with disabilities function as work integration social enterprises (WISEs), although they do not carry the name.**

The Act provides legal framework for the three criteria set out in the EU operational definition. No explicit rule applies for reinvesting revenues, but as some studies and documents show, these types of enterprises usually do not generate or distribute profits.

**Overall, these basic legal provisions provide opportunities for enterprises with social aims to be identified as social enterprises according the EU operational definition.** Other forms do not correspond fully with the EU definition, although they share some of the key features of social enterprise: for instance, municipal enterprises

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(5) According to the law, associations and foundations (including *chitalista*) cannot be specialised companies for persons with disabilities.

with social aims, such as the widespread "Landscaping and Public Works"; "Ancillary Activities"; "Public Laundries" etc. These municipal enterprises emerge as projects, financed under the Human Resources Development OP within the frame of the Procedure "Development of Social Entrepreneurship." These enterprises could fall into a so-called "grey area", despite the fact that they usually do not generate, distribute or reinvest profit, but they aim to address social needs of the local community (to provide social services, and/or to facilitate access to employment and provide support for the social inclusion of individuals from socially vulnerable groups). But since these enterprises come from the municipality, they lack an important feature of social enterprises—autonomy. The inclusion of contemporary cooperatives (besides those of people with disabilities) in the list of social enterprises seems also somehow controversial, because of the legal opportunity to generate and distribute profit.

The following section summarises how the above-mentioned enterprises with dominant social aims differ in their conceptualisation and legal frameworks.

**Social enterprises generate jobs for socially vulnerable groups, especially people with disabilities.** This counts as a dominant social objective of social enterprises. Considering this feature as well as the predominant focus on "economic benefits," one can conclude that economic effects (objectives) of social enterprises dominate over the achievement of social goals, although legislation clearly establishes the primacy of a social aim and must be defined at statutory/legal level. However, the meaning of "public benefit" and "social aim" remains quite broad and vague. This has resulted in narrowing the meaning of social enterprises to mainly work insertion of disadvantaged groups. Additionally, for quite some time, providing employment for people with disabilities remained the easiest way for a social enterprise to gain recognition in the country.

**An inclusive governance dimension seems problematic especially in reference with social enterprises aimed at work integration of disadvantaged people.** They often imply hierarchical structures of governance with low inclusive capacity. The decision-making process hardly seems democratic, as workers' participation gets restricted as a rule. One should note, though, that the relatively low inclusive capacity of governance does not only apply to social enterprises in the country, as some stakeholders have declared.<sup>6</sup> In any case, the legal frameworks of the different forms of social enterprises seldom strongly support the dimension of inclusive governance. Another problem appears even when legal framework includes some requirements concerning the governance structure for some types of social enterprise (e.g., NPOs in public benefit and cooperatives). The problem lies in the gap between formal/normative regulation and the real situation and behaviour of the enterprises. This gap may be explained by the following: although cooperative members have a legitimate right to

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(6) For example an ex Vice Minister stated: "We cannot include such requirement in the Law, as then we probably will not have even one social enterprise in Bulgaria".

take part in the management, their real participation usually remains quite limited. Beside the numerous management bodies (general assembly, management council, and supervisory board), cooperatives also have one special body, called either the executive director or the chairman of the board. It may prove difficult for members to monitor the work of all these bodies and, moreover, many do not have the appropriate skill-set to do so. **Although the regulatory framework limits the authority of the executive director and the administration, they still have the opportunity to informally concentrate significant decision-making power.** Thus the power of the cooperative members in practice could face significant limits.

By law, these social enterprises operate autonomously from public authorities, while they could be established and owned by conventional enterprises and NPOs. Still, they have high share in delivering products and services addressed to fulfil a public demand based on contractual relations or agreements with public authorities. While increasing their dependency upon public policy lines, this affects all the important dimensions of social enterprises, including their autonomy. Table 1 presents a summary of the correspondence between the EU operational definition of social enterprises and the discussed legal forms above.

**Table 1. Correspondence of the legal forms in Bulgaria to the EU social enterprise operational definition**

Legal form	Law and year of adoption	Main aim	Fulfilment of EU operational definition
<i>Chitalishta</i>	Law on Public <i>Chitalishta</i> , 1996 (last amended 2018)	Establishes specific form of traditional community associations aimed at development and enrichment of cultural, social and educational activities in the locality where they carry out their activities; The associations established by this Law are at the same time NPOs. The <i>chitalishta</i> is a legal entity.	<p><b>Economic dimension:</b> Additional business activity only if it relates to the subject of the main activity. Full constraints on profit distribution as <i>chitalishta</i> are NPOs as well.</p> <p><b>Social dimension:</b> Broad definition.</p> <p><b>Inclusive governance:</b> Collective management bodies: general assembly of the members and board of trustees (3 people). By law <i>chitalishta</i> are autonomous juridical bodies.</p>
<b>Cooperatives (excluding the ones for disabled people)</b>	Law on Cooperatives, 1999 (last amended 2018)	Establishes cooperatives and cooperative enterprises that, through mutual assistance and cooperation, carry out commercial activities to satisfy economic, social and cultural interests of their members. The cooperative is a legal entity.	<p><b>Economic dimension:</b> Cooperatives are for business activities; no constraint on profit distribution to members.</p> <p><b>Social dimension:</b> To satisfy economic, social and cultural interests of members.</p> <p><b>Inclusive governance:</b> Collective governance bodies of members: one member-one vote (general assembly and board). By law cooperatives are autonomous juridical bodies.</p>
<b>Associations and foundations (excluding <i>chitalista</i>)</b>	Law on Non-Profit Legal Entities, 2000 (last amended 2018)	Establishes associations and foundations; distinguishes between organisations for public benefit and for private benefit; allows business activities to both types. The NPO is a legal entity.	<p><b>Economic dimension:</b> Additional business activity only if it relates to the subject of the main activity. Full constraint on profit distribution is applied for the NPOs.</p> <p><b>Social dimension:</b> Broad definition.</p> <p><b>Inclusive governance:</b> For some of the types collective bodies of owners and members; not concerning workers and not linked with the business activity. By law NPOs are autonomous juridical bodies.</p>

## 32 | Concept, legal evolution and fiscal framework

Legal form	Law and year of adoption	Main aim	Fulfilment of EU operational definition
Specialised enterprises and cooperatives of people with disabilities	Law on Integration of People with Disabilities, 2004 (last amended 2017)	Establishes the functions of the state agency for people with disabilities and defines the basic criteria of specialised enterprises of people with disabilities: share of employed people with disabilities independent from the legal form (company or cooperative).	<p><b>Economic dimension:</b> Producing of goods or provision of services. No constraint on profit distribution.</p> <p><b>Social dimension:</b> Employment of people with disabilities.</p> <p><b>Inclusive governance:</b> No specific attention to governance, depends on the legal form. These specialised enterprises could be autonomous juridical bodies or municipal enterprises. Cooperatives of people with disabilities have inclusive governance as they follow the Cooperatives' Act.</p>

**Due to the lack of legal recognition/definition of social enterprises until recently, the presented legal regulations often fail to consider and fully value their particular features and competitive advantages.** They specify the types of different legal forms and provide opportunities for them to establish enterprises in principle. When enterprises are established, these laws as a rule simply refer to the Commercial Law (SG. No. 48/1991, last amended 2018), Corporate Income Tax Act (SG. No. 105/2006, last amended 2018), Small and Medium Enterprises Act (SG. No. 84/1999, last amended 2018), etc., placing social enterprises in similar conditions with mainstream business.

## 2.2. Legal evolution

**Overall, the evolution of the social enterprise legal framework has manifested as a slow and difficult process in Bulgaria.** Several important steps outline the main points of this process and the implementation of EU frameworks in the field:

- > Establishment of a Working group on Social Economy at the Ministry of Labour and Social Policy (MLSP) (from 2010);
- > Establishment of the National Concept for Social Economy (2012);
- > Adoption of biannual Social Economy Action Plans;
- > Most importantly, the recently adopted Act on Enterprises of the Social and Solidarity Economy (18 October 2018), in force from 2 May 2019.



The **working group on Social Economy at the MLSP**, established in 2010, aimed to promote the development of social economy and social enterprises in the country, to elaborate a national concept of social economy, and to prepare and adopt biannual action plans in the field. The working group involves a wide range of stakeholders—representatives of state bodies and organisations, trade unions and employers, NPOs, social enterprises, the academic community, unions of cooperatives.

The **National Social Economy Concept**, adopted by the Council of Ministers in 2012, provides the conceptual framework for the nature and development of social enterprises in Bulgaria.

## Illustration 1. Definition of social enterprise and related terms in Bulgaria<sup>7</sup>

According to the National Social Economy Concept, social enterprises in Bulgaria are businesses that produce goods and services for the market economy and allocate part of their resources to the accomplishment of social and economic goals. Social enterprises also:

- > Develop within a specific local context;
- > Include all types of enterprises regardless of their legal structure, so long as they are established and function mostly in view of social goals, e.g. cooperatives, local self-supporting enterprises or groups, associations, mutual-support companies, foundations, unions, etc.;
- > Operate between the traditional private and public sectors; and
- > Contain key characteristics of social goals combined with the entrepreneurial potential of the private sector.

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 organisations is their flexibility and ability to mobilise resources of different origins—market and non-market resources, voluntary work and public support.

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(7) National Social Economy Concept, <http://seconomy.mlsp.government.bg/en/page.php?c=1&d=54>

The concept has the following specific objectives:

1. To serve as a starting point for introducing criteria for the identification of enterprises and organisations from the social economy;
2. To serve as a current "standard" to assist in the development of the social economy and to encourage contractors and supporters to implement and disseminate the spirit of social solidarity;
3. To serve as the basis for creating a favourable administrative and legal environment for the development of social economy enterprises (access to finance, social clauses in public procurement, tax relief, etc.).

**The biannual Action Plans for the Social Economy** support the implementation of the National Social Economy Concept and lay out a series of priority actions aimed at facilitating the development of social economy (including social enterprises) in Bulgaria:

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

The implementation of the biannual plans contributed to elaborating a methodology for monitoring and assessing the social impact of social enterprises and drafting a law on social enterprises.

**The new Act on Enterprises of the Social and Solidarity Economy** was adopted by the National Assembly on 18 October 2018 and will come into force on 2 May 2019. This is the first law recognising legally important aspect of the changing realities in Bulgaria—the existence and function of the various actors of the social economy. **It aims to provide a clear definition of social enterprises, measures to promote them along with mechanisms of interaction with the state and other stakeholders.** The Act introduces the following principles of the social and solidarity economy:

1. Priority of social to economic objectives;
2. Cooperation for public and/or collective benefit;
3. Publicity and transparency;
4. Independence from the public authorities;
5. Participation of members, workers or employees in managerial decision-making.

The law also contains a definition of the nature, location and role of social enterprises as economic units, with a distinctly different value orientation and hybrid nature, and aiming to achieve high economic and social efficiency.

Apart from identifying the principles shared by all entities falling within the broad ensemble of the social and solidarity economy, the Act also provides for:

- > The introduction of formal criteria and procedural rules for identifying the main actors of the social and solidarity economy;
- > The establishment of a national register of social enterprises in the country and a procedure to establish the creation of social added value. The creation of a register aims to maintain the specificity of the social enterprises' model, by targeting their activities explicitly to pursued social goals. It aims also to enable objective and accurate information on the state and dynamic of social enterprises and to increase the capacity of government policy to promote and regulate their future development, increase citizens' confidence, and raise the awareness of citizens, consumers and investors about the specificities of social enterprises and their social impact.

The required information on voluntary registration in the register is simplified, standard and small in volume. The Act does not foresee registration fees or other financial burdens. The Act envisages the development and validation of a methodology for assessing the social value added of any social enterprises wishing to be included in the National Register of social enterprises (Art. 5, para. 5, item 1). A negative assessment opinion cannot be appealed.

A distinctive certification can mark social enterprises according to the goods and/or services delivered. Social enterprises can use this mark freely if they have registered in the national register of social enterprises. The Act defines two classes of social enterprises:

1. Class A;
2. Class A+.

**Class A social enterprise** consists of any enterprise, irrespective of its organisational legal form, which satisfies the following requirements:

1. Carries out a socially significant activity that produces social added value, measurable according to a methodology approved by the Minister of Labour and Social Policy;
2. It is transparently managed with the participation of its employees according to the procedure established by the memorandum of association, statutes or other structural document;

Additionally, the Class A social enterprise needs to satisfy either requirement 3 or requirement 4 presented below:

3. The enterprise spends over 50% of its profits after tax for the last reporting period (and a minimum of 7,500 BGN or 3,835 EUR) for carrying out a social activity and/or purpose. The National Register will not rescind its recognition of a social enterprise due to loss of profits, if it spends an amount at least equal to the preceding (positive) accounting period for carrying out a social activity and/or purpose.
4. A minimum of 30% and no less than 3 persons of the enterprise's employees get recruited as representatives of enlisted disadvantaged groups.

**Class A+ social enterprise** describes any enterprise, irrespective of its organisational legal form, which simultaneously meets all the conditions for a class A social enterprise and at least one of the following additional conditions:

5. The social value added is fully implemented within the administrative boundaries of municipalities which experienced a level of unemployment equal to or higher than the average for the country in the previous year;
6. The enterprise spends over 50% of its profits after tax (a minimum of 75,000 BGN or 38,350 EUR) for carrying out a social activity. Class A + does not lose the acquired category when, irrespective of the status of its profits, it spends an amount at least equal to the preceding (positive) accounting period for implementing a social activity and/or purpose.
7. At least 30% of the employed from the disadvantaged groups have worked continuously within the enterprise for the last six months.

Funds get disbursed through state aid schemes<sup>8</sup> and incentive measures under the Act do not restrict or exclude the application of any other support measures provided for in other legal acts. In addition, the law creates an opportunity for registered social enterprises to benefit from different sources of financial resources such as resources from

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(8) Subject to the requirements of Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market.

the Social Protection Fund. It also provides for the possibility of facilitating investments that have a significant social impact (corrigenda is foreseen in the Corporate Income Tax Act). This aims to attract potential investors for social enterprises.

**The law also allows local authorities to promote social services and other forms of the social and solidarity economy.** In particular, the law creates the possibility for authorities to provide municipal or state property for the needs of social enterprises in a mitigated manner (without a tender or competition) in order to facilitate their establishment and operation. In this way the law favours cooperative relations (and thus moves beyond public contracting) among social enterprises and public authorities especially in providing welfare services.

**The new Law on Enterprises of the Social and Solidarity Economy in Bulgaria corresponds to the EU operational definition** in reference with the *economic dimension* (production of goods or provision of services); *social dimension* (employment, social inclusion, improving of living standards, access to education and professional qualification and protection of rights of representatives of disadvantaged groups as well as protection of the environment and biodiversity and support of ecological balance); and *inclusive governance* (transparent management with the participation of member and employees in decision-taking).

Thus any association/foundation (including *chitalishta*) recognised as social enterprise by the Act could potentially correspond to the EU operational definition (regardless of their rank as Class A or Class A+). The same does not hold for cooperatives and conventional enterprises: those of them that receive Class A+ recognition *will* correspond to the EU operational definition; however, only some of those included in Class A will correspond to the EU operational definition since the profit distribution constraint is not obligatory for Class A cooperatives and conventional enterprises.

## 2.3. Fiscal framework

**In principle, the efforts to stimulate social enterprises in Bulgaria focus on providing support through public funding (at the national and EU level) rather than with fiscal exemptions.** However, the legislation does provide some fiscal advantages (not specific to social enterprises) that are particularly relevant to the activities of social enterprises. These include tax incentives provided by the Corporate Income Tax Act for donors of certain vulnerable groups (people with disabilities, socially disadvantaged, etc.) and benefits for employers of long-term unemployed people or people with disabilities.

**According to the same law, specialised enterprises and cooperatives of people with disabilities may request the assignment of the annual corporate tax due from them and use it fully to integrate people with disabilities or to maintain and open jobs for employed persons in the next two years.** Specialised enterprises and cooperatives for people with disabilities could get reimbursed up to 30% of the insurance contributions for the total number of working staff. Additionally, they could receive financial support from the Agency for people with disabilities. Still, this concerns all such enterprises and does not specifically address social enterprises.

The Act on Value Added Tax allows for exemption from VAT on certain goods and services. However, social enterprises benefit from this exemption in the same way as conventional enterprises.

**Despite the mentioned advantages for insertion enterprises (cooperatives of and for disabled), few tax incentives come available to other forms of social enterprises.** Non-profit legal entities registered for public benefit are exempt from paying local tax, which is required by the Local Taxes and Fees Act. Associations and foundations benefit from some tax incentives but are not exempt from tax on dividends that they receive as a shareholder in conventional enterprises.

The same logic seems to hold in the newly adopted Act—while it does not provide fiscal exemptions, it tries to establish specific incentives for social enterprises. Still, the new Act provides a tax reduction to institutional donors of up to 10% of the accounting profit if they donate to registered social enterprises.

Tax reductions to private and/or institutional donors are also available under certain conditions. Table 2 below presents the currently available fiscal exemptions.

Table 2. Fiscal framework for social enterprises in Bulgaria

Reduced social security contributions/ costs	Tax exemptions and lower rates	Tax reductions to private and/or institutional donors
<p><b>Cooperatives and specialised enterprises of people with disabilities:</b> An employer who has a contract with the Agency for people with disabilities enjoys the following preferences (provided that such preferences are not used under the Employment Promotion Act):</p> <p>Funds from the state budget for 30% of the contributions paid by the employer for the state social insurance, compulsory health insurance and the additional obligatory pension insurance for employees with disabilities.</p> <p><b>All types of enterprises:</b> An employer who has taken a previously unemployed worker, under certain conditions, is entitled to twice the labour and social security costs at the expense of the employer for the first 12 months of recruitment. The tax relief may be used if: The previously unemployed person is employed on a labour contract for a minimum of 12 consecutive months; At the time of recruitment, the person must meet at least one of the conditions: be registered as unemployed for more than one year, be an unemployed person over the age of 50 or be disabled; For these persons, the costs must not be received under the Employment Promotion Act;</p> <p><b>All types of enterprises:</b> under the Employment Promotion Act and many Active Labour Market Policies (ALMP), providing wages and/ or contributions for employment of different categories of unemployed (for example NEETs, new comers at the labour market, unemployed around the retirement age, etc.)</p>	<p><b>Cooperatives of and for people with disabilities:</b> Total tax exempt: after reduction for cooperative funds, the profit is distributed to members' dividends and other purposes related to the activity of the cooperative;</p> <p><b>Specialised enterprises for people with disabilities:</b> The corporate tax is entirely deductible for enterprises where: 20% of the total staff are blind and low-visibility people, or 30% of the total staff are hearing impaired or 50% of the total staff with other disabilities;</p> <ul style="list-style-type: none"> <li>&gt; If the above condition is not fully met, corporate tax is passed proportionally to the number of people with disabilities to the total number of staff;</li> <li>&gt; The remitted tax should be used to integrate people with disabilities or to maintain and open jobs for people with disabilities within the next 2 years.</li> <li>&gt; People with disabilities must be members of nationally representative organisations for people with disabilities.</li> </ul> <p>No reduced VAT rates. However, there are exempted deliveries, related to: healthcare, social care and insurance, education, sports or physical education, culture, supplies of non-economic nature. In these cases the VAT rate is 0 due to the types of goods and services produced, without differences with conventional enterprises engaged in the same sectors.</p> <p><b>Cooperatives</b> are exempted from registration taxes when setting up the SE;</p> <p><b>All the entities</b> are exempted from annual tax for the mandatory registration in particular registers.</p>	<p>Yes, but not specifically for social enterprises</p> <p><b>A) Benefits granted to natural persons:</b></p> <ul style="list-style-type: none"> <li>&gt; Donations in favour of Children's Fund can reduce the tax base by up to 50%.</li> <li>&gt; Donation in favour of cultural institutions and organisations can reduce the tax base by up to 15%.</li> <li>&gt; Up to 5% of the tax base can be reduced by the amount of the charity paid during the year in favour of health or medical institutions, specialised institutions for provision of social services, the Social Assistance Agency and the Social Assistance Fund. The relief is also valid for a donation in favour of specialised institutions for children, as well as institutions for raising and educating children deprived of parental care, nurseries, kindergartens, schools, higher schools or academies. Tax incentives will also apply if donated to budget enterprises, specialised enterprises or cooperatives of people with disabilities, to the denominations in the country and to the Agency for People with Disabilities; to the Bulgarian Red Cross; cultural institutes and community centres. Tax relief will also apply to a donation in favour of communes for the treatment of drug addicts, and also for the benefit of the United Nations Children's Fund (UNICEF)</li> </ul> <p>The total tax relief for donations may not exceed 65% of the annual tax base amount.</p> <p><b>B) Benefits granted to enterprises/companies:</b></p> <p>In order to receive recognition for tax purposes, the cost of donations must meet the following conditions:</p> <ol style="list-style-type: none"> <li>1. Measure up to 10% of the accounting profit and in favour of: health and medical institutions; institutions for providing social services; homes for children, homes for the raising and education of children deprived of parental care and homes for medical and social care for children; nurseries, kindergartens, schools, higher schools or academies; budget enterprises; religious denominations registered in the country; people with disabilities, as well as technical assistance facilities for them, as well as specialised associations of people with disabilities and in favour of the Agency for People with Disabilities; persons who have suffered various disasters or their families; The Bulgarian Red Cross; socially disadvantaged; children with disabilities or without parents; cultural institutes or for the purposes of cultural, educational or scientific exchange under an international treaty to which Bulgaria is a party; NGOs registered in the Central Register of Non-Profit Legal Entities for Public Benefit Activities; pupils and students in schools in an EU / EEA Member State, their training scholarships and grants; Energy Efficiency and Renewable Energy Fund; drug addicts or communes for treatment of drug addicts; UNICEF.</li> <li>2. Up to 50% of the accounting profit and in favour of: Centre for the Treatment of Children; Centre for Assisted Reproduction.</li> <li>3. Up to 15% of the accounting profit and in favour of: Bulgarian schools, including higher education schools, for donation of new computers or other information technology.</li> </ol> <p>A limit applies to the total cost of donations recognised for tax purposes and may not exceed 65% of the accounting profit.</p>





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## MAPPING

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This section presents a rough quantitative estimation of social enterprises as identified using the EU operational definition in the Bulgarian context. It also provides a review of the main fields of activity of social enterprises.



The measuring of social enterprises is based on the types of legal entities which correspond to the EU operational definition identified in the previous sections. According to the assessment, the number of *chitalishta* that fully correspond to the definition is at least 1,000 (the others also display characteristics of social enterprises, but in a lesser extent and are not included); the number of associations and foundations performing as social enterprises (excluding *chitalishta*) increases between 2012 and 2016; the number of specialised enterprises and cooperatives of people with disabilities remains relatively stable. The total number of social enterprises in Bulgaria is assessed at 3,674.

**The quantitative estimation of social enterprises that correspond to the EU operational definition should be interpreted cautiously.** The attempt to make such an assessment faces serious problems due to the slow, hesitant process toward institutionalisation and a normative definition of social enterprises in Bulgaria.

Additionally, gaps in the available data of all different types contribute to this challenge, including a deficit of publicly available statistical information—even if some collected information could be aggregated (i.e. the annual financial reports of NPOs do declare if they perform business activities). The fragmented data on the different legal forms provides for a difficult exercise in mapping social enterprises. Thus the difficult task of assessing the size and specific characteristics of the social enterprise universe and its evolution over time in accordance with the EU definition needs to be made with clear and cautious reservations.

**Nevertheless, some newly available progress could help form a rough estimate of social enterprises as identified by applying the EU operational definition to the Bulgarian context.** Around 2010, the lack of statistical information already clearly posed serious problems for the sector's development. Therefore, the abovementioned Working Group on Social Economy established at the MLSP included representatives of the National Statistical Institute (NSI) to discuss the need to collect statistical information among the relevant stakeholders and to try to fill the gap. A further step for the development of an information system came about in 2012, when the MLSP and the NSI, with a financial support of the European Commission, carried out a special statistical survey aiming at "Establishment of a national database of social enterprises in Bulgaria."<sup>9</sup>

**This statistical survey provided some basis for mapping social enterprise in line with the EU operational definition.** The exhaustive sample covers all enterprises (besides the financial ones) in the country that have been active in the respective year. The main sources of information come through their annual activity reports. They are

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(9) Under contract with the European Commission, DG "Enterprise and Industry", grant activity with several beneficiaries SI2.650082.

divided into two broad categories: a) non-financial enterprises, including cooperatives and conventional enterprises; b) associations and foundations, including *chitalishta*. A legal entity is recognised as a social enterprise if it performs business activities dominated by social aims and either invests over 50% of profits for achieving social objectives or employs over 30% of its staff from vulnerable groups. In this way the survey identifies social enterprises in correspondence with some main dimensions of the EU definition. **However, the NSI survey relies on information provided by the entities that self-identify as social enterprises, and does not provide any information on the governance dimension.** Still, the degree of existence or absence of this feature could be assessed on the basis of the legal frameworks (discussed above) for the different types of social enterprises—if the framework contains a legally defined mechanism for inclusive governance, it is possible to accept that the governance of these entities is inclusive.

**The insufficient statistical information about social enterprises and the limitations of the survey result in rough estimates that require verification and supplementary information from other statistical sources.** These include:

**Additional data provided by the NSI:**

- > Data series on the revenues from business activities of associations and foundations based on their annual financial reports of NGOs. However, some relevant information (e.g., the number of such NGOs, their turnover, age and gender structure, etc.) cannot be extracted from the publicly available NSI.
- > Statistical data on *chitalishta* are available, but they concern only the dynamics of numbers and members during the years.

**Official registers of different legal types of potential social enterprises. The registers provide mainly numbers and locations of the units concerned:**

- > Register of the Specialised Enterprises of People with Disabilities at the Agency for people with disabilities.
- > Public Register of the *chitalishta* at the Ministry of Culture.

**Research on different legal types linked with social enterprises:**

- > MLSP unrepresentative sample survey on the non-financial enterprises (companies and cooperatives), identified by the NSI survey presents important characteristics of these economic units.
- > Open Society Foundation (OSF) survey on active NGOs discusses different dimensions of the NGOs activities. The survey is not representative based on a sample of NGOs with which OSF has worked.
- > Bulgarian Centre for Not-for-Profit Law (BCNL) Sustainability Index of NGOs

implemented annually on a comparative methodology and providing data on important NGOs indicators.

- > Ciriec study (2016) on recent evolutions of the social economy in the European Union. Based on the cited NSI survey, the report provides data on social enterprises in 2015 in Bulgaria among other EU countries.

### **Web sites of different cooperative unions and foundations, engaged with some kind of data sets (BCNL, cooperative unions, etc.).**

Drawing on the above-mentioned sources some estimates on social enterprises in Bulgaria are presented below.

## 3.1. Measuring social enterprises

Measuring social enterprises bases itself on those identified in the previous sections types of legal entities which correspond to the EU operational definition. These include:

- > Non-profit legal entities engaged in a business activity with social aims (associations and foundations);
- > *Chitalishta* - if they perform business activities;
- > The specialised enterprises for work integration of people with disabilities;
- > Cooperatives of people with disabilities (other cooperatives are excluded as there are no constraints on profit distribution).

### A) Associations and foundations performing as social enterprises

Table 3 presents the number of associations and foundations (including *chitalishta*) according to the NSI survey. Since the legal framework of these forms: a) allows their creation only if they have a dominant social purpose; b) prohibits distribution of profit; and c) assuming that all these entities follow the legal requirements, it is possible to conclude that the data based on the NSI study present to a certain extent the number of associations and foundations that fulfil the EU operational definition of social enterprise.

**Table 3. Associations and foundations performing as social enterprises**

Year	N. of social enterprises incl. <i>chitalishta</i>	N. of employees	Revenue from entrepreneurial activities (in thousands EUR)	Costs for entrepreneurial activities (in thousands EUR)	Revenue from non-economic activities (in thousands EUR)	Costs for non-economic activities (in thousands EUR)
2012	2,155	7,289	10,530	8,710	86,041	82,238
2013	1,566	5,985	11,308	7,908	91,866	94,583
2015*	3,840	n.a.	n.a.	n.a.	n.a.	n.a.

Source: NSI; \*data for 2015 cited from Cirić (2016: 75).

As already mentioned, *chitalishta* are included in the table above as they are simultaneously associations according to the Bulgarian law. Thus the next task is to differentiate between numbers of *chitalishta* and other associations and foundations and to correct the data presented.

### A.1. *Chitalishta* performing as social enterprises

Currently the Public Register of these Cultural Centres at the Ministry of Culture contains 3,668 *chitalishta*.

In some way *chitalishta* established under the Law could present an example on how *de facto* social enterprises work in Bulgaria. As already mentioned the *chitalishta* have centuries-old traditions in Bulgaria and perform a series of social, educational and cultural activities at the local level. Registration in the Ministry of Culture Register connects to subsidies, which as a rule remain low. Typically, the state also pays for a small staff. The cultural centres enjoy real estate provided by the state and can rent parts of it. As a result, although no high regional concentration exists as in some other considered forms, the location becomes extremely important for providing funds, leading to high concentration of financially strong or weak *chitalishta*. Many activities carried out by the *chitalishta* face difficulties to operate on the market due to the already mentioned lack of solvent consumer demand. As a result, they depend heavily on subsidies, grants, public funding for specific services and projects for certain activities.

**Table 4. Number of *chitalishta* and their members**

Year	2005	2007	2012	2017
Number of <i>chitalishta</i>	2,838	2,895	3,075	3,321
Number of members	163,630	168,288	238,204	272,797

Source: NSI.<sup>10</sup>

It is possible to assume that the differences of the scope and intensity of the activities of *chitalishta* to a large extent determine the degree of accordance with the EU definition. Therefore, the total number of *chitalishta* presented by official statistics needs to be precised. In this context, it can be assumed that all *chitalishta* include the social dimension and the governance dimension included in the EU definition. The entrepreneurial dimension, however, is better developed and more visible only if *chitalishta* perform diverse activities and provide larger scale and spectrum of services. For instance, about 50% of the *chitalishta* provide computer and Internet services and this percentage probably increases even further as around a quarter of those *chitalishta* continue to expand the spectrum of services provided. Since the entrepreneurial dimension of this type of *chitalishta* is well developed, they could be considered social enterprises in full accordance with the EU definition. Regarding geographic distribution, all urban *chitalishta* and about a quarter of the *chitalishta* in the villages meet this requirement. In all, the total number of *chitalishta* which fully corresponds to the European definition can be estimated at about 30% of all *chitalishta* (at least 1,000).

## **A.2. Associations and foundations performing as social enterprises (excluding *chitalishta*)**

In Bulgaria, one perceives a clear growing trend in the numbers of associations and foundations throughout the years (see table 5 below). In 2015, 1,436 associations and 306 foundations registered as new and at the end of the year the total number reached 41,500. In 2017, 47,000 associations and foundations reportedly registered.

Table 5 illustrates the evolution in the number of active associations and foundations in years 2012, 2014, 2015 and 2016.

(10) <http://www.nsi.bg/bg/content/3705/%D1%87%D0%B8%D1%82%D0%B0%D0%BB%D0%B8%D1%89%D0%B0-%D0%BF%D0%BE-%D1%81%D1%82%D0%B0%D1%82%D0%B8%D1%81%D1%82%D0%B8%D1%87%D0%B5%D1%81%D0%BA%D0%B8-%D0%B7%D0%BE%D0%BD%D0%B8-%D1%81%D1%82%D0%B0%D1%82%D0%B8%D1%81%D1%82%D0%B8%D1%87%D0%B5%D1%81%D0%BA%D0%B8-%D1%80%D0%B0%D0%B9%D0%BE%D0%BD%D0%B8-%D0%BE%D0%B1%D0%BB%D0%B0%D1%81%D1%82%D0%B8-%D0%B8-%D0%BE%D0%B1%D1%89%D0%B8%D0%BD%D0%B8>

**Table 5. Number of active associations and foundations**

Year	2012	2014	2015	2016
Number of active associations and foundations	9,699	10,151	10,331	10,371

Source: NSI.<sup>11</sup>

In order to assess the number of NPOs that qualify as social enterprises in accordance with the EU operational definition, one must consider only those that are active. As mentioned above, this measures at about 10,000. This number has to be corrected with the number of *chitalishta* that could be defined as social enterprises (1,000). Thus, about 9,000 associations and foundations carry out activities other than *chitalishta*. Assuming that the share of NPOs conducting business measures similarly to the share of *chitalishta* doing business (27% from the total number of *chitalishta*), the number of NPOs working as social enterprises could measure around 2,430. This represents about 5–6% of the total number of registered NPOs in the country.

## B) Other types of social enterprises: specialised enterprises and cooperatives of people with disabilities

The NSI survey does not distinguish those entities that in the previous sections of this analysis have been excluded from the category of social enterprises, for example municipal enterprises. Hence, the provided data is much less reliable in this case since the correspondence with the EU operational definition is not ensured either by the legal framework of these entities or by the definitions in the survey.

Therefore, the report consults another source of information: the Register of Specialised Enterprises and Cooperatives of People with Disabilities. The Register provides information for these two types (legal forms) of economic entities identified as social enterprises (section 2.1.2.).

Table 6 provides information on the numbers of these types of social enterprises, the numbers of employees in them and their turnover.

(11) [https://infostat.nsi.bg/infostat/pages/reports/result.jsf?x\\_2=243](https://infostat.nsi.bg/infostat/pages/reports/result.jsf?x_2=243)

**Table 6. Specialised enterprises and cooperatives of people with disabilities**

Year	Number of social enterprises	Number of employees	Annual turnover (in thousand EUR)	Contribution of social enterprises to Gross Value Added (in thousand EUR)
2012	245	3,744	171,021	34,417
2013	230	2,930	274,832	30,559
2015	244	n.a.	n.a.	n.a.

Source: The Register of Specialised Enterprises and Cooperatives of People with Disabilities and author's calculations.

### C) Assessment of the total number of social enterprises in Bulgaria

Summarising the available data, one can estimate that in Bulgaria around 3,700 economic entities could act as social enterprises, according to the EU operational definition. Table 7 illustrates their composition by legal form.

**Table 7. Social enterprises in Bulgaria**

Legal form operating as social enterprises	Associations and foundations	<i>Chitalishta</i>	Specialised enterprises for people with disabilities	Cooperatives of people with disabilities	TOTAL	Number of employee
Number	2,430	1,000	200	44	3,674	26,000

Source: Author's calculations.

These social enterprises account for less than 1% from all the enterprises in the country and employ around 1.6% of all the employed.

## 3.2. Social enterprise characteristics

This section considers the available data on social enterprises in reference with fields of activity, labour characteristics, regional differences and governance models.

### 3.2.1. Fields of activity

Available data concerning fields of engagement of social enterprises, although not representative, come from different research. Characteristically, most social



enterprises continuously change and try to renovate their business activities, hindering the accumulation of reliable data.

**According to some sources, associations and foundations, including *chitalishta*, usually provide social, educational, training and health services<sup>12</sup>** (see case study 2 in appendix 3).

According to official statistical data, the revenues from NPO economic activities reflect an apparent growing trend: revenues reportedly nearly doubled between 2005 and 2016 (with some fluctuations). Still, the business activities of NPOs remain quite seldom significant. "The economic activity of NPOs cannot provide for the non-profit activity, only the social service providers have a successful business activity that accrues income" (BCNL 2014: 5).

**Other types of social enterprises operate in many different fields of activities.**

For instance, the case study on KCM Ltd. in appendix 3 demonstrates a specialised company of people with disabilities which engages in the following: maintaining parks and lawns; boiling ethereal-oil crops (lavender); snowploughing; cleaning offices; washing working clothes, bed linen and bedspreads, ironing and dry cleaning; sewing working clothes and different filters for metallurgy and the chemical industry; installing and maintaining coffee and other hot drinks machines; growing indoor plants and planting material. Additionally, ASSIST demonstrates a foundation that promotes assistive technologies through public awareness campaigns and capacity building activities for people with disabilities and their families. Other social enterprises produce different types of goods and services, e.g., soaps, food, catering-services for on-demand events (see case studies in appendix 3).

### 3.2.2. Labour characteristics

According to a study conducted by the MLSP in 2015, a significant part of social enterprises in Bulgaria usually employ people from different vulnerable groups—such as people with disabilities and young people who have left family-type housing institutions intended for those deprived of parental care.<sup>13</sup> The specialised enterprises and cooperatives of people with disabilities (that basically function as WISEs) provide employment for these groups.

According to the NSI data (2013), specialised enterprises and cooperatives of people with disabilities employ a total of 38,546 workers; 5,985 find employment with associations and foundations and approximately 3,000 with *chitalishta*. The figures reflect the

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(12) Source: Open Society Foundation 2017. As mentioned above, the survey of Open Society Foundation is on active NPOs and the sample is not representative.

(13) Source: MLSP study 2015. The survey covers specialised enterprises and cooperatives of people with disabilities. The sample is unrepresentative.

relatively low employment potential of social enterprises linked to associations and foundations, and the predominant orientation to WISEs.

**Most social enterprises (more than 90%) remain small—the number of the employed in one enterprise usually measures less than 9 people.** From the social enterprises included in the exploratory case studies only one employs over 100 people. Table 8 and table 9 present a summary picture of the employment in social enterprises mainly in terms of their size according to the number employed.

**Table 8. Social enterprises established as associations and foundations (2013)**

Size of employment (number of employees)	Number of associations and foundations carrying out economic activities as share of all enterprises (%)	Number of employees as share of all the persons employed (%)
Up to 9	91.63	34.37
10-49	7.7	39.01
50+	0.77	26.62

Source: NSI.

**Table 9. Other social enterprises—mainly specialised enterprises and cooperatives of people with disabilities (2013)**

Size of employment (number of employees)	Number of enterprises as share of all the enterprises (%)	Number of employees as share of all the persons employed (%)
Up to 9	77.61	14.5
10-49	15.98	21.07
50-249	5.47	34.78
250+	0.93	29.66

Source: NSI.

According to the survey conducted by MLSP in 2015, the total number of women employed in social enterprises registered as cooperatives and specialised enterprises reaches around 42.91%. Women employed from socially excluded groups reaches 46.55%. Therefore, the gender imbalance ranks relatively low in the country. As regards NPOs, one often observes a feminisation of the sector, usually explained by low pay. According to a survey conducted by the OSF in 2017, women outnumbered men in

about 50% of the associations and foundations, numbers of men and women ranked equally in 34%, and men outnumbered women in the remaining 16%.

In all types of enterprises, the average age groups (24–65 years) prevail, including among the employed representatives from socially excluded groups (93.10%). Young people and senior citizens over 65 years have a slighter representation. The MLSP survey provides more specific data: By age, the most represented group is 25–44 years old (54.39%); second is the group 45–65 years (22.79%); the third place is occupied by the youth—up to 24 years old (21.6%). The smallest is the relative share of people over the age of 65 (1.22%).

Although data on the quality of jobs in social enterprises remains lacking, it likely ranks similarly to other economic sectors in Bulgaria. **Despite the variety of economic activities that social enterprises perform, almost all of them have one common characteristic: low quality of jobs.** In particular, jobs are characterised by low labour productivity and low wages. Besides low pay, jobs in social enterprises often pair with part-time work, precarious working conditions and often project-based funding mechanisms.

The MLSP survey finds that the lowest salary in 2015 in social enterprises measures at 250 BGN (approximately 128 EUR), while minimum wage in the country ranges 360–380 BGN or 184–194 EUR. The average reaches 638 BGN (326 EUR) while according to NSI data, the average wage for the country in 2015 ranged between 856–905 BGN (438–463 EUR).

Another characteristic of job quality is the level of security. According to the OSF survey, the vast majority of the workers employed in NPOs work on “civil contracts,” meaning that they are involved in the execution of given tasks on a project basis.

Additionally, all consulted case studies mention the low pay (see appendix 3) along with the fear that the current situation—with the increasing labour demand from other sectors that will crowd out workers from social enterprises—will further reduce the opportunities to hire people in the social enterprises.

No official figure captures the number of volunteers in Bulgaria although on different occasions Red Cross states that it has mobilised around 100,000 volunteers. In any case, the number of volunteers in Bulgaria measures quite low when comparing with EU average. At the same time, the need for a law on volunteering, including a clear definition of the term volunteer, is often discussed. In this connection, the working conditions, especially in the NPOs, affect the assessment of the number of volunteers as many people that work on project basis are considered as volunteers in between projects. Nevertheless, the exploratory case studies clearly depict that on different occasions NPOs, including *chitalishta*, rely heavily on volunteers.

### 3.2.3. Regional differences

**Striking regional differences exist and continue to grow.** All data confirm the concentration of associations and foundations (excluding *chitalista*) in the capital (mainly) and in some large cities like Plovdiv, Varna, Bourgas, etc. Additionally, they tend to concentrate in the regional centre.

Cooperatives and *chitalishta* remain more dispersed. However, their successful business capacities depend on the locality; the successful ones also follow the trend of regional concentration.

### 3.2.4. Governance models

Three distinct governance models illustrate the social enterprises' activities:

- > Inclusive governance usually characterises small enterprises that rely on cooperation. This model could be traced in NPOs, *chitalishta* and cooperatives composed by people with a similar educational level and background; they are often interchangeable and with an unclear division of labour.
- > Hierarchical governance model, common in bigger enterprises, espouses a clear division of labour, including between managerial, technical and support staff.
- > Mixed governance model, with an insider group working inclusively and an outsider group for which hierarchical relations dominate.

As far as stakeholders are concerned, mainly financing institutions (including public bodies) tend to influence decision-making mechanisms, thus reducing the decision-making power of members.


# 4

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## ECOSYSTEM

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The ecosystem of social enterprises in Bulgaria takes shape through the interplay of different actors: national policy makers, social partners, local authorities, research and educational institutions, representatives of different types of organisations like NPOs and cooperatives, donors and financial bodies. Among the many actors, national institutions, local authorities and a small number of NGOs have the greatest influence on policies and legal frameworks. This section contains also a review of policy schemes and support measures for social enterprises. As the review shows, measures to support social enterprises seem rather modest so new opportunities should be explored and expanded.



## 4.1. Key actors

Table 10 below summarises the various categories of actors that form the ecosystem of social enterprise in Bulgaria.

**Table 10. Overview of the key actors involved in the social enterprise ecosystem in Bulgaria<sup>14</sup>**

Type of institution/Organisation	Actor
<b>Policy makers – High level governmental institutions</b>	<ul style="list-style-type: none"> <li>&gt; Ministry of Labour and Social Policy (MLSP)</li> <li>&gt; Ministry of Finance (MF)</li> <li>&gt; Ministry of Economy and Energy (MEE)</li> <li>&gt; Ministry of Education (ME)</li> <li>&gt; Ministry of Healthcare</li> <li>&gt; Regional Ministry</li> <li>&gt; Ministry of Youth and Sports</li> </ul>
<b>Policy makers – Second-level governmental institutions</b>	<ul style="list-style-type: none"> <li>&gt; Agency for Social Assistance</li> <li>&gt; Agency for People with Disabilities</li> <li>&gt; Agency for Employment</li> </ul>
<b>Regional and local level institutions</b>	<ul style="list-style-type: none"> <li>&gt; Regional and Local authorities/ municipalities</li> </ul>
<b>Social partners</b>	<ul style="list-style-type: none"> <li>&gt; Trade-unions, National Economic and Social Council</li> <li>&gt; Employers' organisations</li> </ul>
<b>Networks</b>	<ul style="list-style-type: none"> <li>&gt; Central Cooperative Union (CCU)</li> <li>&gt; National Federation of Employers of Disabled People</li> <li>&gt; National Union of Worker Producers Cooperatives</li> <li>&gt; NGOs working with different vulnerable groups</li> </ul>
<b>Organisations</b>	<ul style="list-style-type: none"> <li>&gt; Bulgarian Centre for Not-for-Profit Law (BCNL)</li> <li>&gt; Centre for Entrepreneurship and Executive Development (CEED)</li> <li>&gt; Bulgarian Charities Aid Foundation (BCAF)</li> <li>&gt; Millennium Foundation</li> <li>&gt; Institute for Social Entrepreneurship</li> </ul>

(14) Forum "Social enterprises in Bulgaria", <https://sites.google.com/a/piamater.org/theinstitute/>

Type of institution/Organisation	Actor
<b>Main donors and financial programmes</b>	<ul style="list-style-type: none"> <li>&gt; EU funds (Human Resources Development OP, Innovation and Competitiveness OP, ESF, etc.); Social Assistance Agency; municipal budgets; The Bulgarian Charities Aid Foundation (BCAF); Millennium Foundation; BCNL, Pia Mater Foundation; The Bulgarian Association of Regional Development Agencies (BARDA), etc.</li> <li>&gt; Scheme BG051PO0015.1.01 “Social Entrepreneurship - Promotion and Support of Social Enterprises; BG051PO001-5.1.02 – “New Opportunities”, etc.</li> </ul>
<b>Research and educational institutions</b>	<ul style="list-style-type: none"> <li>&gt; Bulgarian Academy of Science (BAS)</li> <li>&gt; Veliko Tarnovo university (major Entrepreneurship in the social sphere)</li> <li>&gt; Sofia University: Economic Department and Social Policy courses (SU)</li> <li>&gt; University for National and World Economy (UNWE)</li> <li>&gt; Free University, Sofia</li> <li>&gt; OSF</li> </ul>

**The MLSP is a leading actor in designing and enforcing the general legal framework of social economy and social enterprises.** The MLSP also encourages the subjects of the social and solidarity economy and gives them support. The MLSP:

1. Assists in dialogue with the public authorities, including by promoting joint initiatives in the field of the social and solidarity economy with different state bodies;
2. Supports the involvement of citizens in the activities of the social and solidarity economy sectors, and helps realise social goals by creating an electronic platform through which they can present their activities to stakeholders for the purpose of future partnerships and joint activities;
3. Provides methodological assistance in seeking specialised financing for their activity;
4. Conducts national training programmes that develop the management capacity of social enterprises;
5. Establishes and maintains a National Register of Social Enterprises in the country;
6. Establishes, registers and maintains a distinctive certification mark for social enterprises, their goods and/or services, providing them for free use by the social enterprises registered in the National Register of Social Enterprises in the country.

All the other ministries engage within their competencies. For example, the Ministries of Economy and Finances participate in designing and enforcing public procurement legislation and fiscal and financial frameworks; the Ministry of Education is responsible for the development of education and research in the field, etc. **The governmental agencies play an important role in defining and controlling recognition of vulnerable groups, therefore providing access to the status of social enterprise, including by providing registers.** In some ways, they act as gatekeepers that can open the door for social enterprises.

Regional and local authorities are responsible for the local implementation of different public programmes and the facilitation of social enterprise development. Additionally, some local authorities, like the Sofia municipality, have participated in different EU projects aimed at social enterprise and social economy development. Still the long-term impact of such project-based activities remains unclear.

Social partners<sup>15</sup> take part in different working groups and influence the elaboration and development of the regulatory framework and its implementation. The National Social and Economic Council<sup>16</sup> adopted a position on social economy and social enterprises and thus tried to stimulate their development.

Different NPOs and their networks also play a very active role in the development of social enterprises.

In summary, political will exists to develop an enabling ecosystem for social enterprises in the country. Social partners, donors, universities, research institutes and NGO networks invest many and increasing efforts in this direction.

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(15) Employers organisations, trade unions and the government.

(16) This is a consultative body (national analogue of European Economic and Social Committee - EESC), composed of social partners, namely: employers organisations, trade unions and representatives of various other interests. Its mission is to facilitate the communication between the society and the national government.



## 4.2. Policy schemes and support measures for social enterprises

### 4.2.1. Support measures addressed to all enterprises that fulfil specific criteria (that may also benefit social enterprises)

**A complex and dynamic set of measures aims at supporting enterprises in Bulgaria, the most widespread of which address Small and Medium-sized Enterprises (SME).** The most important of these measures include: the Small Business Support Programme of the European Bank for Reconstruction and Development (consultancy, financial management, efficiency and marketing) and the support measures provided by the Agency for Promotion of SMEs (information services; encouraging entrepreneurship and other skills through trainings and seminars; stimulating market-oriented applied research for industry and creating conditions for attracting private capital to finance innovation; stimulating market cooperation and cluster development).

**Other measures include the active labour market programmes** that provide remuneration and/or payment of insurance contributions for hiring unemployed people (registered at the labour offices) for a fixed period. Section 4.6 additionally outlines further specific financial support measures.

### 4.2.2. Support measures addressed to social economy/non-profit organisations (that may also benefit social enterprises)

The interest of policy makers in Bulgaria towards the social economy in the period 2010 (with the establishment of the Working Group on Social Economy at MLSP) until now (with the adoption of the Act) has mainly focused on coordinating activities through enforcing the National Social Economy Concept. It also emphasised the elaboration and implementation of the bi-annual Social Economy Action Plans (2014-2015, 2016-2017, 2018-2019) focused on awareness raising and stimulating the statistical representation of the sector.

According to existing documents, support to the social enterprises and more in general to the social economy sector in Bulgaria comes from various financial sources, such as:

- > Grant schemes for the establishment and development of social enterprises and social platforms;
- > State subsidies admissible under the so-called Block Exemption Regulations for State Aid.<sup>17</sup>

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(17) [http://ec.europa.eu/competition/state\\_aid/legislation/block.html](http://ec.europa.eu/competition/state_aid/legislation/block.html)

Additionally, **different programmes for NPOs, especially EU programmes usually linked to EU funds support NPOs and social economy development.** For example, under the Human Resources Development OP 2014-2020 the social and solidarity economy occupies a separate Investment Priority 4: "Promotion of social entrepreneurship and professional integration in social enterprises and promotion of the social and solidarity economy in order to facilitate the access to employment" under Priority Axis 2: "Poverty Reduction and Promotion of Social Inclusion". A total of 7.7 million EUR gets allocated for the scheme "Development of social entrepreneurship."

### 4.2.3. Support measures specifically addressed to social enterprises

**The newly adopted Act envisages development and promotion of the social enterprises as a specific economic sector:** Nearly 2% of the country's Gross Domestic Product (GDP) should be achieved by 2021 through the activity of enterprises in the social and solidarity economy.

In order to achieve these objectives, the Act creates prerequisites for common initiatives and different forms of cooperation between local governments and social enterprises. For this aim the Act also provides that local government bodies can assist the organisations of the social and solidarity economy in their activities by:

- a. Encouraging the development of human resources in the social and solidarity economy;
- b. Developing mechanisms to support social entrepreneurship;
- c. Participating in the activities of the social and solidarity economy through various forms of cooperation with social enterprises.

According to the Act, incentive measures in support of social enterprises will apply only to those listed in the National Register of Social Enterprises. The incentives are divided into different categories depending on the subjects, their capacity and the degree of public engagement and particularly target class A+ social enterprises:

Class A+ social enterprises can receive support by:

1. Establishing building rights in their favour on real estate—private municipal property, without a tender or competition after a decision of the municipal council, approved by the majority, under an order determined by the Municipal Property Act;
2. Establishing the right to use real estate and property in their favour—private municipal property, without a tender or competition, after a decision of the municipal council, following the ordinance under art. 8, para. 2 of the Municipal Property Act, for 10 years or when deleted from the Register;

3. Financial support for training to increase the professional qualification of employees. In order to implement this incentive measure, the MLSP proposes to the Council of Ministers to allocate funds for financial support to training for the acquisition of vocational qualification of vulnerable persons employed by social enterprises Class A+, when the economic activity takes place entirely in the administrative boundaries of municipalities, which for the previous year experienced a level of unemployment equal to or higher than the average for the country.

In conclusion, **the basic characteristics of the new Act on social enterprises lean towards employment of individuals from vulnerable groups, and favour financial support for these enterprises by organising access to financial sources and better (privileged) access to public resources.**

The Act additionally provides an opportunity for social enterprises to apply on a project basis to the Social Protection Fund through a change in the Social Assistance Act. It envisages better links between potential investors and social enterprises by providing for adjustments in the Corporate Income Tax Act (i.e., by providing relief for investments that have a significant social impact). Additionally it aims at targeting the attention of funding organisations to social enterprises. According to an *ex ante* assessment of the impact of the measures provided by the draft law, these measures are expected to stimulate a growth rate of social enterprises by 30%.

### 4.3. Public procurement framework

Social enterprises in Bulgaria benefit from the opportunities provided by Directive 2014/24 / EU of the European Parliament and of the Council of 26 February 2014 on public procurement.

Bulgaria transposed the EU Public Procurement Directive into national legislation mainly through two acts that provide the main components of the legal framework: The Act on Public Procurement and the Act on the Integration of People with Disabilities. The main instruments embedded in the acts that allow authorities to achieve social goals include:

- > “Reserved contracts” for economic operators that promote the social and professional integration of persons with disabilities and disadvantaged persons.
- > “Social clauses” as a guideline of the procurement process (e.g. how to promote fundamental rights, gender equality, employment opportunities for people further away from the labour market, decent work, in public contracts for works, services and goods).

Key actors like the MLSP and the Ministry of Finance helped formulate and implement the legal framework for public procurement.

The Act on Public Procurement<sup>18</sup> provides that the production of some selected goods and services could be reserved specially for social enterprises—specialised enterprises or cooperatives of people with disabilities—or economic entities who primarily aim to integrate people with disabilities socially and professionally.

Under this Act, which includes the subject of the contract in the list under the Law on the Integration of People with Disabilities, the contracting authorities must publicly announce the procurement's special intentions for implementation by specialised enterprises or cooperatives of people with disabilities.

The selection criteria set by the contracting authorities do not apply to candidates and participants acting as specialised enterprises or cooperatives of people with disabilities, nor to associations involving only such persons. Such applicants must declare their enrolment in the Register of Specialised Enterprises and Cooperatives of People with Disabilities maintained by the Disability Agency or in an equivalent state register. Thus specialised enterprises and cooperatives of people with disabilities enjoy more favourable treatment.

Additionally, the MLSP proposes the list of goods and services whose production is especially reserved for social economy entities and the Council of Ministers approves the list. The responsible institutions usually follow this normative regulation, although some social enterprises report cases of violations.

## 4.4. Networks and mutual support mechanisms

**Various social economy entities already practice networking in Bulgaria.** This report distinguishes two types of such networks:

- > Nationally representative organisations, such as the different Unions of the Disabled, the National Association of Employers of People with Disabilities, etc.;
- > *Ad hoc* networking linked to different activities, projects, etc., like a network of parents' cooperatives, a network of mothers of children with disabilities and others.

**Different initiatives strive to stimulate the development of social enterprises as well.** Some of them include:

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(18) Entered into force as of 15.04.2016, promulgated in State Gazette No. 13 of 16 February 2016, last Supplement SG 34 of 3 May 2016.

- > The International Fair in Plovdiv (in 2018 in Sofia) held annually hosts a European fair for social enterprises and cooperatives;
- > The BCNL holds an annual contest for “best business plan” of NGOs, in order to encourage them to undertake economic activities in support of their primary social, environmental or other aims and to promote the cause of social entrepreneurship. The initiative is funded by Foundation America for Bulgaria and UniCredit Bulbank;
- > The Pia Mater Foundation, one of the main social enterprises in the capital Sofia, has set up the online portal “Institute for Social Entrepreneurship”<sup>19</sup> which provides information on social entrepreneurship and good practice examples from across the country;
- > The Bulgarian Charities Aid Foundation (BCAF) has launched the information platform “Social enterprises in Bulgaria: When the Business has a Social Mission”<sup>20</sup> which provides up-to-date information on contests, funding opportunities and other resources for social enterprises. The platform represents both start-up and existing social enterprises, connects them in a network, and supports the development of their capacity and their growth. The platform is part of a project implemented by BCAF in partnership with Social Enterprise UK and the MLSP;
- > Other information platforms for social enterprises in Bulgaria have been established within the framework of projects funded by OP Human Resources Development, e.g. the regional platform “Social Economy” established to support social enterprises in Northern Bulgaria<sup>21</sup> and the “Virtual Resource Centre for the Social Economy”<sup>22</sup> maintained by the Millennium Foundation;
- > The Forum “Social Enterprise in Bulgaria” comprises an informal network of people and organisations working in the field of social entrepreneurship. The Forum helps exchange information and policy-making, names and helps to solve problems for social entrepreneurs at the national level. The work of the Forum is coordinated by the BeCause Foundation (until recently “Charity Aid in Bulgaria”);
- > The Programme “Rinker’s Challenge” organises annual entrepreneurship competitions from 2014 by supporting early-stage ideas with a training programme, in-house funding and mentoring support for existing or newly created teams. The teams themselves choose the legal form in which to implement their ideas;

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(19) <https://sites.google.com/a/piamater.org/theinstitute/>. According to this platform, social entrepreneurship is a different way of doing business that mixes business acumen with a social mission: the perfect combination and balance of social and economic goals.

(20) <http://www.socialenterprise.bg/en/>

(21) <http://www.millennium.bg/platforma>

(22) <http://millennium.bg/VirtualResourceCentre>

- > The BCNL launched a Social Entrepreneurship Programme with the support of private donors and corporate donors. The programme's design NPOs that want to develop a business idea to support their non-profit goals, including social ones. Within a year, an average of about 20 participants undergo training in legal requirements for business and business planning, and then receive expert support in developing their own business plan. Involved NGOs have the opportunity to apply with their business plan in an annual competition where three of the best ideas receive awards. The Centre for Not-for-Profit Law tracks the development of winners in the competition over the next two years, as the organisation provides additional consultations and support when needed. Funding mainly surfaces in the form of awards, but most winners use it either as start up support or to cover costs related to improving and upgrading the idea's manifestation.

## 4.5. Research, education and skills development

**Research and surveys on social enterprises in Bulgaria started around the beginning of the 21<sup>st</sup> century and accelerated with the country's entry into the EU.** The main fields of research get defined by donor interests, which change with time. At first, research often devoted itself to the transfer of knowledge about social economy and social enterprises, including: institutionalisation and financing of the social economy; describing social enterprises' characteristics, performance, regulations and effects in other EU member states; as well as social enterprise policy trends, documents and initiatives at the EU level. The main purpose aimed to model the experience of other more advanced EU countries.

Gradually, following the development of social enterprises, research started to address issues in the Bulgarian context. **Studies focussed on the tendencies and the problems of emerging prototypes of social enterprises, the need of legal framework, sources of financing, etc.** In 2012, the Ministry of Labour and Social Policy together with the NSI created a database platform for social enterprises in Bulgaria.

**The government's plans for the development of the social economy and enterprises also influenced research development.** The plans include measures to create favourable conditions for education, training and research to support social enterprises. The plan for 2018 also includes measures to assess the social and economic impact of social enterprises on employment and social inclusion of disadvantaged people.

The main areas in research summarise as follows:

- > Creating a clear and long-term vision for the social economy and social enterprises;
- > Effectiveness of applied policies and the legal framework for the promotion of social enterprises;
- > The roles of civil society, its initiatives to stimulate the social economy and local economies and the creation of social capital in the country;
- > Seeking more active use of funding opportunities from European structural and investment funds and other EU programmes to launch new social initiatives.

As for education, **several universities do include social economy in their coursework**—more often within social policy and social work lectures, but also as specialised courses focused on social economy. Meanwhile the number of universities including such courses continues growing, together with the rising interests of researchers.

- > A course on social entrepreneurship takes place at the Faculty of Economics of Sofia University “St. Clement Ochridski”. The optional course for bachelors and masters opens its doors to all students interested in social entrepreneurship. During the school year, nearly 80 participants attended lectures on social entrepreneurship: students at the Faculty of Economics, free listeners from other faculties and universities, and PhD students.
- > The Master’s Programme "Social Entrepreneurship" at the Department of Philosophy and Sociology takes place at the New Bulgarian University (NBU - Sofia). The programme lasts for three semesters. The training includes lectures on new forms of solidarity, civil society, non-governmental organisations, social problems, social economy, social capital, status and functions of social entrepreneurship, social innovation, etc.
- > The Economic Faculty of St. Cyril and St. Methodius University of Veliko Tarnovo offer an educational programme: "Social Entrepreneurship" for Masters.
- > Thracian University in Stara Zagora conducts research and training on social economy.
- > Institute for the Study of Societies and Knowledge, Sofia (the former Institute of Sociology) conducts research and teaches PhD students in the field.

#### **Various NPOs offer distinct types of trainings as well:**

- > A joint summer training programme on social entrepreneurship first launched with NGOs Reach for Change Bulgaria and Together in Time. The programme focuses on graduates interested in social entrepreneurship and aims to further develop the knowledge, skills and capacity of participants to realise their ideas for successful businesses with a social cause.

## 64 | Ecosystem

- > In 2018 and 2019 the programme "Entrepreneurship for Non-Profit Organisations" transpired, whereby the best business plans received a prize of around 20,000 EUR.
- > The BCNL offers training under the Entrepreneurship Programme for Non-Profit Organisations for 2018/2019. Anyone involved in the Programme will receive individualised expert support to develop their entrepreneurial activity. The programme receives support through the America for Bulgaria Foundation and in partnership with TELUS International Europe.
- > The Erasmus for Young Entrepreneurs Programme provides consulting support to start-up young entrepreneurs who would like to exchange experience with colleagues in their field in European Union countries. From the beginning of 2017, BeCause acts as the Bulgarian partner in the SEED plus project, implemented by a consortium of nine organisations.
- > Reach for Change Bulgaria organises an "Academy of Social Entrepreneurs", held in Sofia.



## 4.6. Financing

### 4.6.1. Demand for finance

While little reliable information exists on this topic, many fragmented data suggest a great demand for financing both existing and newly-established social enterprises in Bulgaria. **Different sources outline the lack of finance and markets as the main barrier for starting-up and scaling-up social enterprise.** For instance, most stakeholders consulted for this study (21 respondents) expressed the demand for financial resources as the most commonly mentioned factor in the field. Both the incentives for start-up and development of social enterprises seem inadequate to address the needs expressed. This relates to: limited monetary resources, unavailable financing and insufficient financial instruments, lack of possible tax breaks, lack of private solvent demand for goods and services offered by social enterprises, inability to rely on bank loans; etc. The same problems emerge in the case studies presented in appendix 3.

Within the existing knowledge concerning social enterprise performance, one can hardly distinguish between the demand for financing to cover operational costs and the demand for finance to make investments. The conducted case studies confirm that **the lack of funds to cover operational costs reduces profitability (and hence reinvestments).** The opposite holds true as well: **the limited investment opportunities make it difficult to increase revenues and expand social enterprises.** However, in some cases, investments may be made through targeted financial support programmes. Such are the cases for instance, when *chitalishta*, use grants awarded by a foreign foundation in order to purchase facilities (computers, sewing machines etc.); KCM Ltd. benefited from the "Safe working conditions" fund, etc. Thus, the need for funding to cover operational costs may prove more urgent, as it is often more difficult to acquire. As made clear from the conducted case studies, funds for investments usually rely on specific projects and grants, while social enterprises mainly rely on interconnected organisations for operational costs if necessary (the industrial group for KCM LTD; the Foundation for Social Change for Hope soap and Hope restaurant).

Similar difficulties arise when considering whether investments should prioritise start-up or scale-up processes. **In general, starting up a social enterprise in Bulgaria seems easier than scaling up.** As illustrated by the "Hope soap" case study in appendix 3, social enterprises get established only if certain financial preconditions already exist. The challenges of sustainability and possible activity expansion then arise: the case study at hand faced difficulties to sell products, so the social enterprise transformed into a campaign only during big holidays, such as Christmas and Easter, in times of high demand. Once established, a common issue that social enterprises face is surviving, not expanding.

## 4.6.2. Supply of finance

**Harmonisation of national legislation with the European legislation creates important opportunities for financing social services:**

1. Regulation (EU) No 1296/2013 of the European Parliament and of the Council of 11 December 2013 on the European Union Programme for Employment and Social Innovation (EaSI) and amending Decision No 283/2010/the European Microfinance Facility for Employment and Social Inclusion;
2. Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European Social Entrepreneurship Funds;

**The main sources of financing for social enterprises at the national level include the support provided to cooperatives and specialised enterprises of and for people with disabilities** by the Agency for People with Disabilities and calls for tenders announced by national authorities. At the local level, subsidies from the municipalities' budgets attempt to cover these needs. At the EU level, various regional funds and the ESF provide the main artery of support.

Due to special attention paid to the sustainability of the country's banking system, **traditional banks very cautiously provide credits, especially for clients like social enterprises which do not commonly receive consideration as "reliable" investments**. One of the few exceptions surfaced with Piraeus Bank Bulgaria, which in cooperation with the Municipal Guarantee Fund to Sofia Municipality provided loans to SMEs, including social enterprises. This explains why a large part of financing for social enterprises still comes from foundations and savings, friends and family. Analyses note that most of the limited state funding available goes to social enterprises set up by municipalities and cooperatives for people with disabilities, mainly to cover costs and support activities. This might partially stem from the fact that the state still largely provides social services through the local branches of the Agency for Social Assistance. Only very rare cases illustrate innovative forms of funding such as bottom up (crowdfunding).

As mentioned, some available financial support for SMEs can extend to social enterprises. **The main guidelines for financing and lending to SMEs are laid down in the SME Act, which encourages their creation and development** by creating opportunities for: 1) financial support for their activities; 2) a guarantee of part of the credit risk on loans provided to small and medium-sized enterprises; 3) development and implementation of programmes for small and medium enterprises.

The following specific tools also provide relevant support:<sup>23</sup>

- > Voucher scheme for access to the Bulgarian Stock Exchange (Grant Funding Programme).
- > The National Guarantee Fund (established in 2008 as part of the Bulgarian Development Bank Group). The Fund issues guarantees that complement the collateral required by commercial banks for lending to the Bulgarian business. NGF facilitates access to finance for small and medium-sized enterprises and helps to reduce interest rates on loans. With the support of the Fund, lending is available to start-ups and non-credit history businesses.
- > The SMEs Initiative. This instrument was created on the basis of an agreement between the European Investment Fund (EIF) and the Bulgarian Government for additional lending to Bulgarian SMEs.
- > The European Social Fund is another major tool for stimulating employment and social inclusion in Bulgaria. The ESF provides mainly grants.
- > The European Progress Microfinance Facility aims to increase the amount of finance available for microcredit to start or further develop small businesses (loans of less than 25,000 EUR). The EU Programme for Employment and Social Innovation (EaSI) can facilitate access to finance for microenterprises as well as social enterprises. However, no financial intermediaries are currently active in Bulgaria.<sup>24</sup>

**Micro-financing also presents one of the key opportunities for the development of social enterprise in Bulgaria.** Micro-finance institutions can provide start-up support to social enterprises, for example, loans up to 25,000 BGN (around 12,800 EUR). Social enterprises can blossom under the innovation strand of the ESF. A micro-finance institution called Jobs, as part of the Bulgarian Bank for Development, provides low-interest loans to firms, though no special scheme addresses social enterprises in Bulgaria per se.

Notably, **EU funding under the OPs Human Resources Development<sup>25</sup> and Competitiveness<sup>26</sup> for the period 2007–2013 and 2014–2020 contribute significantly to the development of social enterprises in Bulgaria.<sup>27</sup>** Under Priority 5 on social inclusion and promotion of social economy of Human Resources Development OP, financial support has reached (among others) NPOs, specialised enterprises and cooperatives of people with disabilities, social and health service

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(23) Specific financial support measures provided through EU funds are described in section 4.6.

(24) Financial intermediaries under Progress Microfinance and EaSI, <http://ec.europa.eu/social/main.jsp?catId=983&langId=en>

(25) OP Human Resources Development, <http://ophrd.government.bg/>

(26) OP Competitiveness, <http://www.opcompetitiveness.bg/>

(27) <http://www.eufound.europa.eu/eiro/2011/07/articles/bg1107021i.htm>

providers, municipalities, etc. In general, the scope of this OP ranges more broadly than OP Competitiveness. Under the Human Resources Development OP 2014–2020, financial instruments have developed to support the start-up of independent business and entrepreneurship by providing access to financial resources: (1) Microcredit for Risk Sharing (Business Loan), and (2) Microcredit Guarantee (Guarantees). Total amounts of the financial instruments measure as follows: Microcredit—52.8 million BGN or 27 million EUR (including 23 million BGN or 11.8 million EUR for social enterprises); Loan guarantees—17.2 million BGN (8.8 million EUR).

OP “Innovation and Competitiveness” under a scheme for technological modernisation (2014–2020) covers different organisations, provided that they register as commercial entities. Under the Programme, 22 beneficiaries representing cooperatives of people with disabilities received support under a scheme for technological modernisation for a total of 5 million BGN (2.56 million EUR) in 2007–2013. The OP Innovation and Competitiveness aims to enact a similar scheme during the new programming period (2014–2020), which will cover cooperatives of people with disabilities along with other applicants.

Opportunities for financing social economy entities in Bulgaria also exist under the Horizon Programme,<sup>28</sup> the programme COSME<sup>29</sup> and the Employment and Social Innovation (EaSI).<sup>30</sup>

Programmes under the EEA and Norway Grants also extend support. The Disability Agency also backs projects of specialised enterprises and cooperatives of people with disabilities.

As stated in section 4.4 **some NGOs also support social enterprises development.** While funding often takes the form of rewards, most winners use it either as start-up support or to cover costs related to improving and upgrading the realisation of their ideas.

**In summary, although some supply of finance does exist, the demand remains much higher.** One peculiarity of Bulgarian social enterprises manifests in the relatively high reliance on public support. As stated previously, the latter faces limits. The gap between unmet needs of different vulnerable groups and the lack of capital to cover these needs due to low purchasing power of potential clients also contributes to social enterprises’ insufficient financing.

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(28) <http://ec.europa.eu/programmes/horizon2020/>

(29) [https://ec.europa.eu/growth/smes/cosme\\_en](https://ec.europa.eu/growth/smes/cosme_en)

(30) <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1093>


# 5

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## PERSPECTIVES

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This section discusses the opportunities for the future development of social enterprises in the country. Bulgaria needs significant improvements in the economy and the social sphere. Intensive emigration of young people, high levels of poverty, low quality of jobs, employment and life, insufficient volume and quality of social services, education, health, etc. give a clear signal that changes in economic and social policies are needed. The accelerated development of social enterprises is one of the important opportunities for making positive changes. The necessity to use this opportunity also determines the prospects for the development of social enterprises in Bulgaria. The new Act on Enterprises of the Social and Solidarity Economy is a step in this direction. However, many other steps are needed for the accelerated and effective development of social enterprises.



## 5.1. Overview of the social enterprise debate at the national level

The development of social enterprises provides a relevant perspective to the socio-economic situation in Bulgaria and stimulates lively debate. The main participants in the debate include public institutions and the potential owners/founders of social enterprises—many of which are potential beneficiaries themselves, especially in the case of cooperatives, specialised enterprises of people with disabilities and the *chitalishta*. Yet overall, the participation of beneficiaries and workers in the national debate falls relatively weak. **The relatively low participation may explain the predominantly narrow interpretation of what constitutes a social enterprise in the country.**

**The debate between stakeholders often focuses on the potential economic interest of private entrepreneurs to create “social businesses” or existing firms to assume the statute of social enterprises.** The main question then revolves around what economic interest does exist in creating social enterprises, and how can they bring benefits to the main stakeholders? Debate currently focuses, then, on obtaining a satisfactory profit as a possible mechanism to both abide by the logic of ordinary business and espouse social practices. Consulted stakeholders (actual and potential social entrepreneurs) confirmed in general that Bulgarian social enterprise tends to focus on money; they feel convinced that those who manage to earn “good money” will therefore be successful. Mixed public opinion surrounds this issue out of fear that economic goals may dominate over social ones.

**The welfare system’s reform also sparks debate on social enterprises, as they feel called to respond to and support innovations and democratisation of the welfare system.** Bulgaria is witnessing a process of deinstitutionalisation, where social enterprises often replace state institutions with new and modern forms. Furthermore, social enterprises aim to address new needs that the former welfare system could not satisfy. Thus social enterprise simultaneously plays a supportive role as an innovative institutional tool for modernising the welfare system. However, some critics point out that social enterprises serve as an excuse whereby public agencies justify their withdrawal.

**Consulted stakeholders often pointed to weak support systems, and contended that they could greatly benefit from more government funding, targeted assistance through dedicated financial instruments, as well as support from municipalities, the media and the sector itself.** An imbalanced focus on the economic aspects of social enterprise casts shadow on the importance of certain social aspects like raising employment and income in the country. Understandably,

interviewed stakeholders felt strongly that public debate at the national level needs to intensify and amplify—they express a need for more public discussions about people who work for “the common good.” This additionally ties into interviewees’ desires of a deeper public understanding of the concept of social enterprises.

Some critics incite debate over social enterprises that mimic conventional enterprises. They insist on the **importance of better distinguishing the specific nature of social enterprises and designing management tools more consistent to their nature**. Some believe that the new law on social enterprises will contribute to resolving this dispute to some extent. Specific issues under consideration in the new law include: facilitating access to credit, opportunities for tax relief, and opportunities for social enterprises to be funded through the state budget or municipal budgets, or possible advantages for social enterprises when they participate in public-private partnerships.

Other stakeholders—specifically, the potential users of the goods and services of social enterprises—mostly come from socially vulnerable groups. Although they have acute needs from social enterprise, they participate relatively less in the debate and present a weak influence on policies for the development of social enterprises.

**The national debate pays little attention to social enterprises that address the needs of the entire local community rather than specifically vulnerable people.** Before the enforcement of the new law, social enterprises (except for *chitalishta*) mainly targeted specific groups (i.e. disabled) but not other disadvantaged categories (i.e. convicts and former convicts, refugees, drug addicts, homeless people). These groups remain excluded from the system designed to support cooperatives and specialised enterprises.

## 5.2. Constraining factors and opportunities

The development of social enterprises in Bulgaria is subject to a large number of constraining factors. **The most visible and most often mentioned constraining factors include: poor understanding of the specific nature, role and potential of social enterprise; weak governmental acknowledgment, support and funding; insufficient targeted assistance through dedicated financial instruments; lack of adequate support from the municipalities; and insufficient scale of public procurement.** Therefore, potential exists in harnessing a plurality of challenges, because the focus has so far reached very narrowly (mainly to people with disabilities) and mainly paid to work integration.

Until 2018, the lack of legal recognition of social enterprises in the country also presented an obstacle for social enterprise development.

Another barrier to the development of social enterprises lies in the **fragmented evidence and data to demonstrate their social and economic impact and values**.

The interviewed stakeholders confirm that accessible finance and markets create significant barriers to both starting and scaling up social enterprises in Bulgaria. This inevitably poses difficulties in employing suitably skilled staff and leads to a lack of internal skills (e.g. management, etc.) on how to start up a social enterprise. Some also suggest a low propensity to innovate as a barrier to scaling up social enterprises.

Another apparent constraining factor of social enterprise development arises in the **government and municipal preference to develop and fund their own structures to address rising social needs**. This strategy seems stimulated by a lack of resources; it allows stronger control over the spending of already scarce resources, especially under a highly “informal” economy. Bulgaria has not yet designed a system that fully values the competitive advantage of social enterprises in capturing and addressing unmet needs. Public contracting indeed remains underexploited as public authorities continue to deliver the majority of welfare services. Additionally, limits on state social spending negatively affects the demand for social enterprise services. The small share of enterprises providing social services could experience intensive development if public agencies contracted and paid social enterprises to deliver these services.

Some stakeholders also suggest that **social dialogue in Bulgaria should be improved as it presents difficulties and has negatively impacted social enterprises such as cooperatives**. Components of the normative framework also need improvements. For instance, even though quotas (required by the Labour Code) outline the number of work places for disabled people, sanctions for violations and penalties for non-abiding employers remain insignificant; the same applies for workplace adaptation to the needs of people with disabilities, which often do not meet the required standard.

**Another opportunity for overcoming the constraining factors and to improve the development of social services providers consists of improving the overall context in which they operate** (overall economic and social situation). Such a change will significantly increase the solvent demand for social services, including the capacity of national and municipal budgets to contract out to social enterprises.

As concerns the working conditions for people with disabilities, the interviewed stakeholders suggest introducing stricter sanctions and penalties for non-abiding employers that violate these conditions. Some of the interviewed stakeholders shed light on the need to improve this debate at the national level: overcoming the current lack of statistical recognition of people with disabilities and vulnerable groups in general.



Other opportunities discussed by different stakeholders include:

- > The already established active, socially oriented organisations motivated to start a business.
- > The improvement of the regulatory environment and incentives by the elaboration of a special law for enterprises of the social and solidary economy adopted by the National Assembly in 2018.
- > The support for the development of social enterprises through the Structural Funds, mainly from the Human Resources Development OP 2014–2020 and partially from Innovation and Competitiveness OP 2014–2020. Although public support targeting social enterprises in Bulgaria remains limited, its progress would be almost impossible without the support coming from the EU programmes and grants.
- > The growing public interest in the development of social enterprises, parallel to the large scale of unsatisfied needs (for example, integration and social inclusion of abandoned children, Roma people, convicts and former convicts, refugees, drug addicts, homeless people and needs of local communities).

### 5.3. Trends and future challenges

The Bulgarian economy has already overcome a long-term decline in economic growth rates and has achieved a stable annual GDP growth. Such growth rates have created better opportunities for development and for social enterprises. Currently, the main challenge facing the country rests in improving the distribution of rising GDP so as to reduce poverty and income inequality. The future of social enterprises will depend on how this challenge gets addressed. Particularly, government and local authorities may be able to provide better supportive tools to social enterprises. Since high needs for social services will certainly increase in the future, one could expect a trend towards expanding the social enterprise sector. The legislative changes concerning the identification and categorisation of disability may also positively influence the dynamics of social enterprises, particularly those for work integration of people with disabilities.

When **discussing possible developmental trends, stakeholders took a dualistic stance: some interpreted a pessimistic scenario while others interpreted a positive one.**

**The negative scenario usually includes no changes in the current state and dynamics of social enterprises; cosmetic interventions in the sphere;** stagnation based on: 1) unfair competition by favouring particular groups; 2) lack of monitoring mechanisms and establishment of "fake" social enterprises to enter the sector and exploit it (for example, the unlawful practice of registering companies as specialised

enterprises for people with disabilities, which may be used by so-called public contracts); 3) “piecemeal” development (on a project principle). According to this pessimistic scenario the empowerment organisations will continue to develop in a parallel sub-sector and find more support abroad than in Bulgaria, while the state will continue to support a sector more attuned to social services than entrepreneurship. They predict that certain organisations providing employment will receive support, though without considering the quality of life of employees or their ability to impact decision-making. The social enterprises will be hardly recognisable and underdeveloped. The large organisations that formally respond to social enterprise requirements would absorb the intended resources in planned campaigns that serve corporate interests primarily by delivering activities formally geared toward meeting the needs of the target groups.

On the other hand, **the optimistic scenario focuses on the development of a good legal and regulatory environment; increasing the role of social enterprises in solving social problems; improving their visibility through clear mechanisms for measuring social impact and added social value; promoting the sector, especially in the less-developed and rural areas of Bulgaria where social enterprise can play a key role in developing new services, generating employment and increasing social inclusion**, thus curbing negative demographic trends. The participants considered the following actions important to achieve this: developing clear long-term and medium-term government policies, and creating feasible financing or support measures. Supposedly, if the state aid (in a variety of forms: direct funding, tax relief, favouring public-private partnership, etc.) significantly increases, social enterprises will likely experience significant expansion. However, special efforts will necessarily consider the quality of jobs in social enterprises as well as their inclusive governance aspect.

To a certain extent, even now decent opportunities exist for establishing social enterprises in the country, showing signs of increase. **Associations and foundations (*chitalishta* included), the different types of cooperatives and specialised enterprises for people with disabilities provide the soil on which social enterprises could grow in Bulgaria. To what extent they will really grow and bloom depends on various factors, including the legally enforced definition and the further development of an adequate ecosystem.**



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APPENDICES

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## Appendix 1. The EU operational definition of social enterprise

The following table represents an attempt to operationalise the definition of “social enterprises” based on the Social Business Initiative (SBI) promoted by the European Commission.<sup>31</sup>

Main dimension	General definition	Relevant Indicators ( <i>not exhaustive list</i> ) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
<b>Entrepreneurial/ economic dimension</b>	Social enterprises (SEs) are engaged in the carrying out of stable and continuous economic activities, and hence show the <b>typical characteristics that are shared by all enterprises</b> .	<ul style="list-style-type: none"> <li>&gt; Whether the organisation is or is not incorporated (it is included in specific registers).</li> <li>&gt; Whether the organisation is or is not autonomous (it is controlled or not by public authorities or other for-profit/non-profits) and the degree of such autonomy (total or partial).</li> <li>&gt; Whether members/owners contribute with risk capital (how much) and whether the enterprise relies on paid workers.</li> <li>&gt; Whether there is an established procedure in case of SE bankruptcy.</li> <li>&gt; Incidence of income generated by private demand, public contracting, and grants (incidence over total sources of income).</li> <li>&gt; Whether and to what extent SEs contribute to delivering new products and/or services that are not delivered by any other provider.</li> <li>&gt; Whether and to what extent SEs contribute to developing new processes for producing or delivering products and/or services.</li> </ul>	SEs must be market-oriented (incidence of trading should be ideally above 25%).	<ul style="list-style-type: none"> <li>&gt; We suggest that attention is paid to the development dynamic of SEs (i.e. SEs at an embryonic stage of development may rely only on volunteers and mainly on grants).</li> </ul>

(31) In accordance with Articles 48, 81 and 82 of the Treaty, as interpreted by the Court of Justice of the European Communities, “**an enterprise should be considered to be any entity, regardless of its legal form, engaged in economic activities, including in particular entities engaged in a craft activity and other activities on an individual or family basis, partnerships or associations regularly engaged in economic activities.**”

Main dimension	General definition	Relevant Indicators ( <i>not exhaustive list</i> ) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
<b>Social dimension (social aim)</b>	<p>The social dimension is defined by the aim and/or products delivered.</p> <p>Aim: SEs pursue the explicit social aim of serving the community or a specific group of people that shares a specific need. “Social” shall be intended in a broad sense so as to include the provision of cultural, health, educational and environmental services. By promoting the general-interest, SEs overcome the traditional owner-orientation that typically distinguishes traditional cooperatives.</p> <p>Product: when not specifically aimed at facilitating social and work integration of disadvantaged people, SEs must deliver goods/services that have a social connotation.</p>	<ul style="list-style-type: none"> <li>&gt; Whether the explicit social aim is defined at statutory/legal level or voluntarily by the SE’s members.</li> <li>&gt; Whether the product/ activity carried out by the SE is aimed at promoting the substantial recognition of rights enshrined in the national legislation/ constitutions.</li> <li>&gt; Whether SEs’ action has induced changes in legislation.</li> <li>&gt; Whether the product delivered - while not contributing to fulfilling fundamental rights - contributes to improving societal wellbeing.</li> </ul>	<p>Primacy of social aim must be clearly established by national legislations, by the statutes of SEs or other relevant documents.</p>	<ul style="list-style-type: none"> <li>&gt; The goods/services to be supplied may include social and community services, services for the poor, environmental services up to public utilities depending on the specific needs emerging at the local level.</li> <li>&gt; In EU-15 countries (and especially in Italy, France and the UK) SEs have been traditionally engaged in the provision of welfare services; in new Member States, SEs have proved to play a key role in the provision of a much wider set of general-interest services (e.g. educational services up to water supply).</li> <li>&gt; What is conceived to be of meritorial/general-interest nature depends on contextual specificities. Each national expert should provide a definition of what “public benefit” means in her/his country.</li> </ul>

Main dimension	General definition	Relevant Indicators ( <i>not exhaustive list</i> ) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
<b>Inclusive governance-ownership dimension (social means)</b>	<p>To identify needs and involve the stakeholders concerned in designing adequate solutions, SEs require specific ownership structures and governance models that are meant to enhance at various extents the participation of stakeholders affected by the enterprise. SEs explicitly limit the distribution of profits and have an asset lock. The non-profit distribution constraint is meant to ensure that the general-interest is safeguarded. The non-profit distribution constraint can be operationalised in different ways.</p>	<ul style="list-style-type: none"> <li>&gt; Whether SEs are open to the participation and/or involvement of new stakeholders.</li> <li>&gt; Whether SEs are required by law or do adopt (in practice) decision-making processes that allow for a well-balanced representation of the various interests at play (if yes, through formal membership or informal channels -give voice to users and workers in special committees?).</li> <li>&gt; Whether a multi-stakeholder ownership structure is imposed by law (e.g. France).</li> <li>&gt; Whether SEs are required to adopt social accounting procedures by law or they do it in practice without being obliged to.</li> <li>&gt; Degree of social embeddedness (awareness of the local population of the key societal role played by the SE versus isolation of the SE).</li> <li>&gt; Whether the non-profit distribution constraint is applied to owners or to stakeholders other than owners (workers and users): whether it is short-term (profits cannot/are not distributed or they are capped) or long-term (asset lock); or both short and long term.</li> <li>&gt; Whether the cap is regulated externally (by law or defined by a regulator) or it is defined by the SE by-laws.</li> <li>&gt; Whether limitations to workers' and/or managers' remunerations are also imposed (avoid indirect distribution of profits).</li> </ul>	<p>SEs must ensure that the interests of relevant stakeholders are duly represented in the decision-making processes implemented.</p>	<ul style="list-style-type: none"> <li>&gt; Ownership rights and control power can be assigned to one single category of stakeholders (users, workers or donors) or to more than one category at a time – hence giving ground to a multi-stakeholder ownership asset.</li> <li>&gt; SE can be the result of collective dynamics or be created by a charismatic leader (in principle a sole owner is admitted by some national legislations provided that the participation of stakeholders is enhanced through inclusive governance) or public agency.</li> <li>&gt; Different combinations concerning limitations to profit distribution envisaged (e.g. most successful solution: capped dividends supported by total asset lock – Italian social coops, CIC, SCICs).</li> </ul>

## Appendix 2. Data availability report

Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	N° of organisations	N° of workers	Turnover	Degree of reliability (1 to 4) and explanation
<b>Associations, foundations, cooperatives, limited liability companies, specialised enterprises for people with disabilities (financial sector excluded)</b>	<a href="#">National database of Ministry of Labour and Social Policy (MLSP) for Social Enterprises in Bulgaria</a> Statistical register	MLSP & NSI Public institutions	2012 No updates	✓	✓	✓	4 - Official reliable data. Data is not presented by legal types, but by two broad categories: a) total for non-profit enterprises (incl. associations, foundations and <i>chitalishta</i> ; and b) total for non-financial enterprises, that is cooperatives, companies and specialized enterprises for people with disabilities. Organisations are included in the two general categories on the basis of self-identification as SEs, depending on the following criteria: if over 50% of the profit is regularly invested in activities with social aim and/or if more than 30% of the hired personnel is from socially vulnerable groups.
<b>Associations &amp; foundations</b>	<a href="#">Aggregate Income and Expenses Report of Associations and Foundations</a> Statistical register	NSI Public institution	2012; 2013 Yearly	N.A.	N.A.	N.A.	4 - Official data, including important indicators but many basic ones are missing. The register includes data on: a) expenses (both aggregate and separately for: activity costs; expenditure on regulated activity; administrative costs; financial costs; exceptional costs; loss and positive result); and b) incomes (both aggregate and separately for: operating income; revenue from regulated activity; revenue from conditional donations; revenues from unconditional donations; membership fee; other incomes; financial income; extra revenue; profit from economic activity; negative result). Although the register provides total number of active NPOs and not the SEs, data are useful as they include information on NPOs' business activities.



Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	N° of organisations	N° of workers	Turnover	Degree of reliability (1 to 4) and explanation
<b>Associations &amp; foundations</b>	<a href="#">Research report on the "Active NGOs in Bulgaria in 2017"</a> Research project	The Open Society Foundation Other: NPO	2017 No updates	✓	✓	N.A.	3 - Data is reliable, but partial because it relates to a particular group of SEs, which is the NPOs (active in the period of observation) that Open Society Institute has worked with. Data provides information on the activity of NPOs performing in public interest and providing goods and services and is therefore useful for the identification of SEs within NPOs.
<b>Associations &amp; foundations</b>	<a href="#">Sustainability Index of NGOs</a> Research project	Not-for-Profit Law (BCNL) Other: NPO	2016 Yearly	✓	✓	N.A.	3 - Sustainability index aimed at evaluating how friendly the overall environment for development of NPOs is. The index covers 7 main areas: legal environment, organisational capacity, financial sustainability, advocacy, service delivery, infrastructure and public prestige. Data is based on experts' discussion and review and analyses of studies of the sector, statistical data, public opinion polls, etc. Although data is not focused on SEs, it covers associations, foundations and <i>chitalishta</i> . Information on service delivery by NPOs is also provided.
<b>Chitalishta</b>	<a href="#">Chitalishta</a> Statistical register	NSI Public institution	2005-2007-2012-2017 Yearly	✓	N.A.	N.A.	4 - Official data, including only 2 indicators (number of units and number of members).
<b>Chitalishta</b>	<a href="#">Public Register of the Chitalishta</a> Administrative register	Ministry of Culture Government	2018 Continuously	✓	✓	N.A.	4 - Official data. Pursuant to the Act on Public <i>Chitalishta</i> (Art. 4b, item 4), every <i>chitalishte</i> is obliged within 14 days after its court registration to submit an application for registering in the Public Register of <i>Chitalishta</i> at Ministry of Culture, The Register provides main information on each <i>chitalishte</i> (chairperson and secretary, members & staff, address, activities, etc.).

## 82 | Appendices

Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	N° of organisations	N° of workers	Turnover	Degree of reliability (1 to 4) and explanation
<b>Cooperatives of and specialised enterprises for people with disabilities</b>	<a href="#">Register of specialized enterprises and cooperatives of people with disabilities</a> Administrative register	MLSP, Agency for people with disabilities Government agency	2005-2018 Continuously	✓	✓	N.A.	4 - Official data of the registered at the Agency; data available per legal form.
<b>Companies, cooperatives and specialised enterprises for people with disabilities</b>	<a href="#">Survey on non-financial social enterprises</a> Survey covering specific samples	MLSP, Directorate "Strategic Planning and Demographic Policy", Department "Living Standards, Labour Income and Social Economy" Government	2015 No updates	N.A.	✓	N.A.	3 - The survey is focused on companies, cooperatives and specialized enterprises for people with disabilities identified as SEs by NSI (which means, on the basis of self-identification, see national statistics database above). Associations, foundations and <i>chitalishta</i> are not covered. The sample is not representative The survey provides data on the share of the different legal types of the studied SEs, covered by the sample. Data are presented by region and type of activity (producer or supplier). The information covers also numbers of employees and workers belonging to socially excluded groups by age groups and gender, financial results, level of salaries, area of activity, sources of funding & implementation of social innovations.

Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	N° of organisations	N° of workers	Turnover	Degree of reliability (1 to 4) and explanation
<b>Different types of social economy organisations</b>	<a href="#">Recent evolutions of the Social Economy in the European Union</a> Research project based on NSO data	CIRIEC Research institute	2015 No updates	✓	✓	N.A.	<p>3 - Secondary analysis (desk research). The study provides data on numbers of organisations, jobs and members. Data per legal type are not available, but organized into 3 general categories:</p> <p>a) Cooperatives and other similar accepted forms. This includes non-financial enterprises, that is companies, specialised enterprises and cooperatives of and for people with disabilities, worker producers cooperatives and other similar cooperatives, registered in the Commercial Registry and classifying themselves as “social” enterprises &amp; credit unions &amp; cooperative banks;</p> <p>b) Mutual societies and other similar accepted forms defined as mutual savings &amp; loan enterprises; and</p> <p>c) Associations, foundations and other similar accepted forms, defined as non-profit legal entities, including associations, foundations and community centres carrying out activities in all community fields that produce and sell goods and services as additional economic activity.</p>

## Appendix 3. Exploratory case studies

### Exploratory case 1

#### "Economic Activities" KCM Ltd.

##### → Mode of creation

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The "Economic Activities" KCM Ltd., Plovdiv, emerged as a subsidiary of a non-ferrous metal production company. The enterprise has the status of a limited liability company and is registered as an agricultural producer since 2003. It has a status of a specialised enterprise for persons with reduced working capacity and supports their labour integration. This enterprise presents the first specialised company in the country for people with disabilities, created by a commercial group (KCM Group). The organisation was set up to address three main aims of the non-ferrous metal production company:

1. First, some employees of the company experience occupational accidents or find it difficult over time to continue to perform their work in the main enterprises of the industrial group. Due to the nature of the production, these employees need to be temporarily or permanently brought out of the heavy metallurgical activities and labour. The company wants to keep them as employees by providing lighter work that suits their condition.
2. Second, because of the polluting activity of the enterprise, the state authorities obligated the creation and maintenance of an ecological belt.
3. Third, the enterprises in the industrial group have growing needs for ancillary activities such as office cleaning, office clothes, food provision, etc.

Addressing these drivers in an interrelated way, supplementary activities were first set aside, and later a new company—"Economic activities" KCM Ltd.—registered as of 2005 as a specialised enterprise for people with disabilities (over 50% of workers). This private company has separated legally but remains within the industrial group.

##### → Workers, employment and beneficiaries

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Currently the number of employees reaches 105 people, with 3 vacancies. Among the employed, the number of people with disabilities reaches 45, with 34 of them experiencing permanent and severe disabilities (over 50% of disability).

All employees work on labour contracts. A collective labour contract was signed between the enterprise management and the two official trade unions in Bulgaria as early as 2010. According to it, the minimum salary in the enterprise ranges around 150 EUR per month (the official minimum salary for the country at that time

measuring 120 EUR). Workers benefit from free transportation and some workers receive an additional 20 EUR per month for medicines. The collective labour contract gets renewed every two years.

### → **Governance model**

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The collective labour contract includes clauses promoting the participation of employee representatives in the decision-making processes concerning labour conditions, remunerations, qualification and re-qualification, salaries, services to employees in the enterprise, etc. The management, in agreement with syndicates at the enterprise, takes the everyday business decisions. The governing bodies of the company report the activities within the enterprise and in front of the industrial group.

### → **Business model**

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'Economic activities' KCM Ltd. performs the following services: maintaining parks and lawns; boiling ethereal-oil crops (lavender); snowploughing; cleaning offices; laundering working clothes, bed linen and bedspreads, ironing and dry cleaning; sewing working clothes and different filters for metallurgy and the chemical industry; installation and technical service of coffee and other hot drinks machines. It executes market orders both for the companies inside the business group and for external customers. The enterprise possesses three greenhouses for growing indoor plants and planting material, offering them for garden design of administrative buildings and spaces between the production buildings. It continuously renovates and enlarges its business activities.

### → **Main barriers**

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'Economic Activities' KCM Ltd. faces two main barriers:

- a. The company has the opportunity to expand its operations, which implies employing more people. In order to maintain its status of social enterprise for integration and employment of people with disabilities, it faces state regulations to appoint people registered under such conditions. This pool of registered unemployed people with disabilities has limits, as they need to be capable to carry out the company's activities. In addition, people with some kinds of disabilities cannot be employed because the production by the KCM industrial group is harmful and exacerbates certain types of illnesses (e.g. mental illnesses). As the state requirements for the recruiting and share of employees with disabilities do not depend on the type of industry (light or heavy), the number of employees in the company has decreased, presenting the difficulty of finding staff (according to the manager).
- b. The de minimis Regulation allows aid less than 200,000 EUR over 3 rolling years. The problem lies in belonging to an industrial group, so associated enterprises receive the same treatment and the subsidies are calculated for the whole industrial group. Thus different enterprises from the group need to alternate when applying to

benefit from the "Safe working conditions" fund. What is more, the 50% insurances provided by the Agency for people with disabilities come through state aid, which is considered a disadvantage for large companies compared to small businesses.

### → **Key partners**

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The main partner is the KCM industrial group that helps with terrains and buildings, provides market orders from the other enterprises in the industrial group, and helps in the elaboration of renovation projects.

### → **Financial mechanisms**

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Main sources of the company's revenue include: 95% from market activity and 5% from public subsidies (that is 50% of the insurances contributions are paid by the Agency for people with disabilities). According to the manager, the company does not generate profits.

The business activity of the whole KCM industrial group is often cited as an example of a successful corporate social responsibility policy. The European Bank for Reconstruction and Development has highly appreciated the well-developed social responsibility of the company that has set up 'Economic Activities' KCM Ltd. and, on the basis of this criterion, has allocated 95 million EUR of investment credit to the parent company.

## **Exploratory case 2**

### ***Chitalishte* "Stoyanka Sokolova 1999", Sofia**

#### → **Mode of creation**

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*Chitalishte*<sup>32</sup> 'Stoyanka Sokolova 1999', Sofia, presents the first educational and cultural centre of its kind in the neighbourhood "Faculty" of Sofia, predominantly inhabited by Roma (about 40,000 inhabitants). It registered for public benefit.

Enthusiastic Roma people involved in cultural activities first founded the *chitalishte* in 1999 under the name *Nevo Drom* ("New Road"), later renamed *Stoyanka Sokolova*, in memory of a Roma activist. Over the years, the *chitalishte* has diversified its focus and is engaged in numerous activities, above all social, educational and cultural.

#### → **Workers, employment and beneficiaries**

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The beneficiaries include the local community, mainly Roma people, but Bulgarians living in the locality as well, above all people with weak social ties. The number of

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(32) The term '*chitalishta*' used in the report refers to community cultural centres in plural. Since the case study concerns only one such unit, here the form '*chitalishte*' is used.

beneficiaries continue to grow as many new people arrive to the neighborhood. The number of beneficiaries reaches around 60 children and other 200 people.

Currently 10 employees work for the *chitalishte*: 6 on labour contracts for 6 to 8 hours a day and other 4 on civil contracts. These persons count as beneficiaries as well, as they otherwise faced long-term unemployment.

Around 30 volunteers participate annually. Some scouts come from the EU and other countries; some Bulgarians pitch in as well for activities like teaching in the kindergarten, and people from the locality provide voluntary labour for repairs, cleaning, etc.

### → **Membership and governance model**

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The *chitalishte* has 150 members mainly from the local community. They participate in different activities and form the general assembly, the supreme body of the organisation. The general assembly gathers at least once a year or more often if necessary. The general assembly adopts the yearly reports and makes the most pressing decisions concerning the *chitalishte*. Additionally, the general assembly elects the board of trustees, the control commission and the chairperson for a three-year period. The chairman and secretary of the *chitalishte* carry out operational management. Both organise and control the everyday activities and propose decisions, reporting to the board of trustees. Depending on the activities they involve different members of the *chitalishte* in this process.

### → **Business model**

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The *chitalishte* operates a building with 12 rooms, including vocational training halls. It includes a library, a sports hall, a photo lab, as well as a salon and stage for dance and music programmes, as well as for film screenings. Some specific activities include:

- > Providing opportunities for acquiring qualification and further retraining of Roma people (tailoring, hairdressing, landscaping, construction and computer literacy courses and training in 22 specialties, as licensed by the National Agency for Education and Training at the Council of Ministers). Those who have successfully completed the professional course receive an officially recognised certification that enables them to apply for a job. So far, their number has surpassed 100.
- > Training of a dance group and musical ensemble in order to promote traditional Roma culture.
- > Creating supportive attitudes for social integration and adaptation of Roma youth.
- > Establishing partnerships and cooperating with other bodies in similar fields of activity to synergise with current *chitalishte* programmes.
- > Organising series of motivational meetings and discussions with local authorities, informal leaders and community representatives to present activities as an

effective way to mobilise community resources and overcome major social and behavioural issues such as unemployment, poverty, dropping out of school, access to education and healthcare.

### → **Main barriers**

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According to the chairman and the secretary, the organisation faces the following barriers:

- a. Lack of financing
- b. Insufficient consumer demand due to the financial situation of local people
- c. High tax dues on the building (which is private public property)
- d. Lack of synergy between different ministries
- e. Difficulty following different laws and regulations concerning the *chitalishta's* activities
- f. Difficulty employing teachers in the locality—“when they understand that the job is in this locality, they require even higher pay”.

### → **Key partners**

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The *chitalishte* is included in the network of community centres in Roma neighbourhoods, with activities directed towards the implementation of the Framework Programme for Equal Integration of Roma in Bulgarian Society.

### → **Financial mechanisms**

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Main sources of revenues emerge from public funding (90%), donations (9%) and membership fees (1%). *Chitalishte* “Stoyanka Sokolova” receives small subsidies by the Ministry of Culture and local authorities for some employees and some administrative costs. In different years it has implemented projects, financed by foreign donors, Caritas Sofia, Sofia municipality, Red Cross, etc. The activities span a wide range depending on the specific project, such as training for hairdressers, funded by a German foundation.

Currently, the *chitalishte* runs a kindergarten. Caritas, Sofia finances the activity by employing a teacher and repairing premises. On the basis of a contract with an Austrian NGO, a social kitchen that employs refugees provides food for the kindergarten children

Notwithstanding a series of constraining factors and barriers, both the chair and secretary share optimism about the community centre development. In comparison with previous years, the activities continue diversifying, more people benefit from employment, and they hold a long-term agreement with the municipal authorities that contributes to sustainability.



## Exploratory case 3

### "HOPE Soap" and "Hope Restaurant"

This case study presents an example of a NPO trying to develop business. The Foundation for Social Change and Inclusion actively searches for different options to provide employment for disadvantaged young people through production activities.

#### → **Mode of creation**

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The main project of the Foundation for Social Change and Inclusion is the House of Opportunity Programme, that creates a network of family-type houses for young people who leave specialised institutions for children deprived of parental care. Each house in the programme offers young people 2 years of residential care and support. The main driver for developing business activities is to provide employment for these youth by building up skills and professional development capacity.

Following this, social workshop "HOPE Soap" emerged at the Foundation for Social Change and Inclusion in 2012. This small enterprise became legally established at the Foundation, thus the legal form qualifies as a NPO with economic activities.

The idea arises as a result of a joint project between the Foundation and the SIFE International Student Organisation (Birmingham node), based on the will to give the necessary knowledge and confidence to people in need so that they can cope with life and become independent from governmental and NGOs. The Hope Soap initiative takes place in one of the aforementioned houses. The transfer of the technological process of soap production along with the knowledge on developing a small business and marketing contributed to its development.

However, with the time it seems that "HOPE Soap" faces challenges as a sustainable enterprise. While their activities continue, they only operate as a campaign during large holidays like Christmas and Easter.

Fortunately, the same Foundation developed another social enterprise simultaneously, HOPE Restaurant, thanks to a grant received in 2015 from Rotary Club Sofia International. Thus in 2016 the Foundation launched a new social enterprise with the HOPE Restaurant Project. Unlike the social workshop "HOPE Soap", the "HOPE Restaurant" became legally established as a single-member limited liability company. The Foundation acts as the sole owner and works to connect the two Hope social enterprises.

#### → **Workers, employment and beneficiaries**

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The micro social enterprise "HOPE Soap" (1 coordinator and 3 workers), provides employment for young people who have left the above-mentioned institutions. After adequate training the youth produce and sell handmade soaps, contributing to their

subsistence. The main goal, providing employment and income for young people raised in orphanages, helps them build skills for an independent life.

"HOPE Restaurant" similarly employs young people up to the age of 18 who have left social service institutions. These youth receive basic training to carry out the relevant duties (e.g. servicing, preparing billets, cashier skills, etc.). Since the creation of the social enterprise, 9 young people received employment for a certain period of time. Currently, two young people from the target group have permanent labour contracts.

Thanks to the opportunity, young people develop many different skills to cope with life outside the institution. Some of the more social skills relate to teamwork, work schedules, responsibilities, job preparation, and matching work responsibilities with the rest of the team. Meanwhile, the youth learn "on the move" basic competences in the restaurant industry, working with customers, working in the kitchen, the basic principles in the culinary industry, labelling, serving caterings, etc. Leaving the HOPE Restaurant, young people feel more capable, stronger and more confident in coping with life challenges and job responsibilities.

#### → **Governance model**

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The young people employed both in "HOPE Soap" and "HOPE Restaurant" engage in some everyday decision-making processes especially linked to their responsibilities and tasks. Additionally, they express their opinions to the business managers regarding service improvement.

Still, the fact that these youth cannot occupy key positions due to their low qualifications presents an in-company challenge according to the representatives of the Foundation.

#### → **Business model**

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In the "HOPE Soap" social enterprise, soaps are made from a base ready to be melted. The company adds scents and colours and pours them into special moulds. After cooling, soaps get packaged and are ready for commercial distribution for corporate events, weddings, etc. In 2012 the income from sales reached 900 EUR. In 2017 the income already reached 5,000 EUR. A preliminary marketing plan proves essential for the process. Main activities of "HOPE restaurant" include food preparation and catering for events. By dining at the restaurant, customers support the "Home Opportunity" programme, a network of monitored homes for young people raised in homes for children, which therefore involves customers in solving a social problem of great importance.

#### → **Main barriers**

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Main barriers revolve around insufficient financing. According to the Foundation's representatives, this results from a joint lack of funding and tax burdens. After all, these

social enterprises operate as "business as usual" companies with weak competitiveness, and market recognition remains difficult in the absence of an advertising budget.

#### → **Key partners**

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The Foundation for Social Change and Inclusion works in partnership with different public and private, national and international bodies. Among the key partners are funding organisations (like the Trussell Trust, UK, BCause Foundation, Rotary Club Sofia International, Charity Foundation of the International Women's Club – Sofia, EEA Grants, US armed forces, etc.); municipalities of Sofia and Gabrovo; different businesses that have provided corporate donations; many NPOs and networks.

#### → **Financial mechanisms**

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In order to solve the financial challenges and secure a sustainable business, the Foundation for Social Change and Inclusion, as an owner of the two social enterprises, continues to provide financial support. Maintaining them requires a constant regular resource, which can hardly be obtained only through the market and innovative tools. Thus the main sources of revenue range at 30% from market sales and 70% funding from the Foundation.

## **Exploratory case 4**

### **ASSIST – Assistive Technologies Foundation**

#### → **Mode of creation**

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ASSIST – Assistive Technologies Foundation presents a NPO founded in 2014. The main drivers for establishing this Foundation lie in the founders' acquired knowledge on new technologies to aid the social and work-place integration of people with specific disabilities; the lack of sufficient public information on these new technologies; and the growing needs to use such technologies in the country. "Our main goal is to raise the awareness about the power of high-tech AAC (augmentative and alternative communication) for people with disabilities in Bulgaria." The Foundation hopes to establish the first centre for eye-controlled assistive technologies in the country. The centre could give the opportunity to thousands of children and adults with severe physical disabilities to have access to eye-tracking and gaze interaction assistive technologies, helping develop their potential. Empowering participants through high tech will allow people with preserved mental capabilities but serious physical disabilities to better find their place in the economy and society.

### → **Workers, employment and beneficiaries**

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The Foundation relies mainly on voluntary labour, using paid work on labour and civil contracts for different projects when available. Five people usually participate, one of which experiences disabilities. The number of volunteers continues changing and currently 7 participate. The activities have reached around 100 beneficiaries, including children and adults with disabilities. A few of them already have the necessary assistive technologies and receive training to work with them.

### → **Governance model**

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A managing board implements important decisions after discussions with all those engaged in the activities. These inclusive decision-making mechanisms are made possible by the lack of hierarchy, the equal participation in the activities of the various stakeholders, the small team, the similar level of skills and competences of different team-members, the fact that much work remains voluntary.

### → **Business model**

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The activities link to promoting assistive technologies in Bulgaria, seminars, trainings of specialists, consultations for people with disabilities, their families and specialists working with them. Currently, the expansion of training and consultancy activities has weakened due to the already-successful implementation of several projects, and the public awareness campaigns promoted by the Foundation have led to increased training needs and equipment for complementary and alternative communication.

### → **Main barriers**

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The Foundation confronts several barriers that mainly concern different dimensions of finance:

- a. Although the number of people (both children and adults) who need such new technologies continues growing, solvent demand from individuals lacks and the majority cannot afford it even when very necessary.
- b. Social services in the country already provide some goods facilitating the conditions of people with disabilities. However, these generally include wheelchairs, computers, special computer chairs and the like. The need to provide better-suited goods to individual needs and new technological development has not yet affected the public social services. They lack support from the social funds for auxiliary tools for complementary and alternative communication.
- c. The cost of VAT is “killing the activities” and no mechanisms can avoid it.
- d. The lack of core funding prevents employment for consultants despite their availability and qualifications. A young psychology graduate, although interested,

cannot receive payment, especially when parents call in consultations and it hardly seems appropriate to ask for 30 BG (15 EUR) per call.

- e. The activities require long-term investments, while no option can currently provide such resources.
- f. Lack of coordination. When activities engage with different target groups (children and adults) and different spheres (healthcare, education, social services, etcetera) the lack of coordination between different state institutions seems to pose a big problem. While some strategies exist in writing, confusion abounds as to people's actual roles.
- g. Lack of adequate qualification and practical experience among specialists working with people with disabilities, as well as lack of practical experience in working with low and high technology means for complementary and alternative communication. The knowledge remains mainly at a theoretical level.
- h. Lack of public information. Because of this, concerned citizens (especially parents of children with disabilities) mainly search on Google and through social media.
- i. Attempts to impose a singular model for social enterprises where people with disabilities receive supported employment. Organisations such as ASSIST, which prepare people to work in standard enterprises on hourly basis, do not receive sufficient support.
- j. General fatigue. When active attempts to develop for several years result in little progress, enthusiasm dwindles and participants discuss the foundation's closure.

#### → **Key partners**

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Key partners of the Foundation include local and national level institutions (like different ministries and agencies, UNICEF, etc.) as well as other NPOs and their networks.

#### → **Financial mechanisms**

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The shares of the different main sources of revenues measure as follows: grants (50%), market activities (30%), voluntary labour (16%), public procurement (3%), donations (1%). These revenues serve to mainly disseminate campaigns.

## Appendix 4. Reference list

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## Appendix 5. List of stakeholders engaged at national level

The set of 21 Country Reports updated in 2018 and 2019 included a “stakeholders engagement strategy” to ensure that key input from national stakeholders was incorporated. Four categories of stakeholders were set up: academic (ACA), policymaker (POL), practitioner (PRAC) and supporter (SUP). The stakeholders’ engagement strategy followed a structured approach consisting of a questionnaire, one or two stakeholders’ meeting (depending on the country) and one core follow-up group. Such structure enabled a sustained, diverse and committed participation of stakeholders throughout the mapping update process. The full names, organisations and positions of key stakeholders who accepted to have their names published are included in the table below.

Full name	Organisation	Role	Stakeholder category
<b>Pavleta Alexieva</b>	Legal consultant	BCNL	PRAC/SUP
<b>Elica Barakova</b>	Director	Foundation “BeCause”	SUP
<b>Valentin Blagoev</b>	Chairman	Chitalshte “Stoyanka Sokolova”	PRAC
<b>Teodora Demireva</b>	Chief of Department “Social Economy”	Ministry of Labour and Social Policy	POL
<b>Maria Fartunova</b>	Director “High Education”	Ministry of Education	POL
<b>Ilia Garaliev</b>	Expert at Department “Social Economy”	Ministry of Labour and Social Policy	POL
<b>Maurice Grinberg</b>	Chairperson	ASSIST – Supporting Technologies	PRAC
<b>Stefka Iarlovaska</b>	Manager	Malyovitsa Ltd.	PRAC
<b>Maria Ilcheva</b>	Consultant projects	National Association of Municipalities in Bulgaria	POL
<b>Bozhidar Ivkov</b>	Associate Professor	Institute for the Study of Societies and Knowledge, Bulgarian Academy of Sciences	ACA
<b>Tsvetelina Marinova</b>	Chief Assistant	New Bulgarian University	ACA
<b>Maria Marikina</b>	Associate Professor	University for National and World Economy	ACA
<b>Bilyana Mladenova</b>	Event Management and Communications	Foundation for Social Change and Inclusion	PRAC/SUP

Full name	Organisation	Role	Stakeholder category
Douhomir Minev	Professor; Chairperson	Institute for the Study of Societies and Knowledge, Bulgarian Academy of Sciences; European Anti-Poverty Network Bulgaria	ACA/SUP
Alexandar Nikolov	Associate Professor	Sofia University	ACA
Katya Nikolova	Secretary	<i>Chitalishta "Stoyanka Sokolova"</i>	PRAC
Tihomira Palova	Chief Expert GD "Economic promotion policies for"	Ministry of Economy and Energy	POL
Ivanka Piskova	Manager	"Economic Activities" KCM Ltd.	PRAC
Nachko Radev	Professor	Medical University of Pleven	ACA
Nadia Shabani	Programme Director	BCNL	PRAC/SUP
Marina Stefanova	Consultant "Entrepreneurship"	Foundation "Kauzi"	SUP
Maya Vassileva	Expert	National Association of Municipalities in Bulgaria	POL
Albena Vutsova	Professor	Sofia University	ACA
Elisabeth Yoneva	Chief Assistant	University for National and World Economy	ACA
Darina Zaimova	Professor, Vice-Rector	Thracian University, Stara Zagora	ACA

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