



LEGAL FRAMEWORK FOR THE SOCIAL ECONOMY DEVELOPMENT IN BULGARIA

ПРАВНА РАМКА ЗА РАЗВИТИЕТО НА СОЦИАЛНАТА ИКОНОМИКА В БЪЛГАРИЯ

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Abstract: In recent years, there is a debate in the society about a strong social economy and social entrepreneurship with an emphasis on their important place and role in the economic and social life of the country as a carrier for a new approach to solving social problems of vulnerable groups. This interest in the topic is part of the public debate about the social situation of large groups of people whose interests remain outside the scope of political decisions and their basic needs remain unsatisfied through market or administrative mechanisms. This is also the debate about the responsibility and the role of the individual in solving his own problems and creating his own well-being. The development and implementation of the social economy and social entrepreneurship policies and the use of its mechanisms for change is a measure of the maturity of society in the direction of increased public responsibility for solving social problems.

The report focuses on the legal framework as one of the important aspects of creating the right conditions for social economy actors to operate by rules.

The report looks at the nature and role of social enterprises and the possibilities for their definition and distinction through the legal provisions. There is also a focus on the concomitant environment needed to exploit the opportunities and potential of social enterprises and to create an eco-system adequate for their current development.

Keywords: social policy, social economy, Law of social and solidarity economy enterprises.

Introduction

The creation of a legal framework for the social economy in Bulgaria is an outstanding achievement in the legislative practice of the country. The legal regulation of this type of economy makes a significant contribution both to the scientific enrichment of its theoretical, economic and social knowledge as well as to its practical application.

Bulgaria has traditions related to the values and practice of collective association for the realization of common causes. Often this is in the form of a cooperative movement or through civil associations of persons, active in solving certain problems. Whatever the root cause and the initial impetus for its existence – the socio-economic environment or the basic human values is, the social economy as a

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phenomenon has existed over the years in the social and economic life of the country, under one name or another, and basically retains solidarity and the achievement of common welfare for the individuals. Today it has an important and essential place in the economic, social, political and cultural life of the country, has an important purpose and a mission for more empathy and empowered action in the name of the common welfare.

1. Historical roots

The prototype of one of the subjects of the modern social economy is the cooperatives, which have more than one hundred and twenty years of history in Bulgaria. The cooperative movement in Bulgaria began immediately after the Liberation of the country in 1878 with the creation of the first agricultural and later craft cooperatives. It expresses the people's energy in the form of solidarity actions and mutual assistance in the name of the people's welfare. It is one of the oldest in the world and with rich traditions. It is going through different socio-economic and political conditions of development, but it has been successful to preserved and established over the years as a proven form of association and mutual assistance.

The change in the economic life of Bulgaria immediately after the Liberation created the conditions for the emergence and development of the first craft cooperatives, which are also the "rescue belt" for the craftsmanship, which functions in an environment of intense competition, especially with the imported goods in Bulgaria. At that time, cooperatives have important socio-economic functions while at the same time satisfying the cooperative members' needs of mutual assistance and realizing economic stability through market exchange of goods and services. They are conducive to innovation, both in terms of the emergence of new craft cooperatives such as shoemaking, leather, ironmongery, etc., as well as in the modernization of the crafts.

Until the establishment of the new regime and the new political and socio-economic environment in 1944, the cooperative movement received strong support from the governmental policy through the created regulatory framework² and public awareness of the important role of cooperatives and craft industries for the development of the state. The cooperatives are independent of the administration and are one of the participants in the market economy operating on the principle of self-management.

After the World War II and the establishment of a new type of social contract and new social and economic conditions of life, followed a change in the place and role of cooperatives in market mechanisms and policy. The establishment of a centralized planned economy implies the inclusion of cooperatives in it, which in practice implies a lack of self-government and the expropriation of the cooperative property. According to some authors (Marinova, 2018), the economic conditions, regulations and mechanisms are the same as for cooperatives and co-operative property, as well as for the state-owned enterprises, and strict regulation and control by the authorities on cooperatives leads to the depreciation of their social and democratic nature. Crafters are involved in manufacturing cooperatives, which are gradually becoming more and more developed as large industrial enterprises with more than 100 000 workers total. Cooperatives have their achievements and prove their viability through efficiency of production and economic results, as well as social benefits for the employed in them. In the conditions of the market economy, established in the transition years after 1989, the cooperatives underwent a new development, the efforts being directed at creating the prerequisites for the return of their cooperative assets, creating the environment for their functioning in the conditions of the market economy, including through the regulatory framework.

Today, nearly 2,000 cooperatives with more than 500,000 members total are operating in Bulgaria. Together with the regional cooperative unions and the cooperative trade companies they are organized in four national cooperative unions.

Civil organizations and associations have also made a significant contribution to the socio-economic development of the country. They are an important institutional partner in the realization of social activities and social causes for the achievement of socially useful results. After the changes in the early 1990s, traditionally in Bulgaria, as elsewhere in Central and Eastern Europe, they were financially sup-

² Law for the Cooperative Associations, 1907; Law for the organization and support of crafts; Law for the Assistance of injured during the wars crafters.

ported by the state, mainly through direct subsidies from the central budget. Gradually, with the realizing of the democratic changes in the society, other funding mechanisms are being developed in the form of grant schemes, the assignment of certain services, as well as legislative opportunities linked to donation or tax relief for taxpayers investing in non-profit organizations. A key factor in their sustainability is the need to develop some business activities, which are needed to achieve their social goals.

As well as cooperatives, non-profit organizations can be regarded as economic entities in the social sphere if they apply the criteria “ownership” and “objectives of the activity” (Lukanova, 2012). Typical of them is the realization of social goals; redistribution of profits for social purposes. By working to achieve social goals and activities, they use hybrid ownership structures.

This distinction from conventional business entities makes them subject to scientific knowledge with a view to their practical realization for the purposes of social development and welfare.

Today, cooperatives and civil society associations are considered as subjects of an economy that have different characteristics and focus from the traditional economy, part of which are conventional enterprises with the main purpose of maximizing profits.

Along with cooperatives and non-profit organizations, the social enterprises are subject of the social and solidarity economy. They function differently from all other forms of business. This form of entrepreneurship uses innovative approaches to the realization of socially oriented activities. The main characteristic and specificity of these enterprises is that they give preferential importance to the social and economic objectives – especially in the selection of staff and the distribution of positive financial results. These are hybrid businesses that combine skilfully the public contribution and the business initiative.

During the years of transition from a centralized, planned economy to a market economy, little attention has been paid to the role of the social economy actors in achieving meaningful, socially beneficial outcomes. This is due to the fact that cooperatives are part of the past in the public consciousness, related to the previous socio-economic and political system, on the one hand, and on the understanding that their potential to tackle the challenges is limited, mainly due to the lack of sustainability without state support, on the other hand.

Marinova (2018) emphasizes the impact of two factors, which have seriously affected the transformation of the cooperative sector and social forms during the communist era. One factor is the growing state interference and control, and the second institutional factor is related to external interference - the transfer of the Soviet cooperative model after the World War II.

For a long time there was no comprehensive normative or otherwise developed system of rules related to the principles of social and solidarity economy, as well as the conditions, organization and the order in which the social enterprises and other entities operate and interact with the state and the municipalities.

2. Legal framework for the entities of the social and solidarity economy

The need to create a legal framework for the subjects of the social and solidarity economy is inspired by a number of circumstances and developments in national and international context.

Their importance for dealing with pressing social, environmental and other issues of public interest is extremely high. The implementation of socio-political solutions related to social inclusion and employment, mainly to vulnerable populations is part of their work and mission. Their legal regulation and the setting of clear rules of functioning in a market economy lead to their better positioning in the market in terms of competitiveness and improves their potential for the sustainable implementation of concrete practical solutions.

The positive outcomes of the economic activities of the social economy actors produce social added value, correct social deficits and macroeconomic imbalances for groups of people whose vulnerability is conditioned by objective criteria.

In the Governmental Program of Bulgaria for the period 2017–2021 was identified target 41: “Improving the quality of life of populations through the development of social economy and through

transparent, socially responsible business practices” and measure 154, which formulates quantitative an indicator of nearly 2% contribution in the country’s GDP from the development of social entrepreneurship. Thus, it is underlined that the development potential of these enterprises has not been reached. By 2017, and with a system of self-determination that contains a high percentage of tolerance allowed, social enterprises in the country put into effect less than 1% of the GDP.

In the analysis of the economic environment, the following objective difficulties can be observed which hinder the development of the social and solidarity economy: limited administrative and management capacity, insufficient degree of institutionalization, lack of public awareness and confidence in the specifics of social enterprises, their business model and social goals, insufficient investment interest and confidence in their business and other aspects, which formed their competitiveness and sustainability. The integration of vulnerable groups of people into economic activity and the pursuit of social objectives through investments secured on the basis of the capital-profitability of enterprises create significant difficulties for their competitiveness under the general rules for entrepreneurial activity.

According to National Statistical Institute (NSI) survey on the principle of self-determination in 2014, 4800 social enterprises in the country have been identified (of which 2 194 non-profit enterprises and 2 526 non-financial enterprises). In terms of the legal form of the selfdetermined as social enterprises in Bulgaria, about 25% are commercial companies registered under the Commerce Act. The majority (about 2/3) of these selfdetermined social enterprises in Bulgaria were created under the Law for the Cooperatives, the Law for Non-Profit Legal Entities, and in some cases under the Law for the Obligations and Contracts.

The expected growth over the next three years, within terms of existence of an explicit legislative framework to promote the functioning of this economic model and improve its interconnections with institutions, investors, consumers, citizens and other stakeholders, is about 30% with different coefficient for growth between quantitative and qualitative indicators.

According to NSI data, the number of employed in the selfdetermined as social enterprises exceeds 36 000 or just over 1% of the total number of persons employed in 2017. It is clear that Bulgaria can make progress on the European data for employed in the social and solidarity economy – about 6.5%. A significant part of the employed / employees in the Bulgarian enterprises are representatives of vulnerable groups such as disabled persons, parents of children with disabilities, people with low education and low professional qualification, refugees etc.

The amendments to the Non-Profit Legal Entities Act in 2000 allowed non-governmental organizations to carry out economic activity, which was a prerequisite for the development of social entrepreneurship in the country.

Regarding the legal form of the social and solidarity economy organizations, it should be noted that most of the practices in Bulgaria fall into one of the four main categories: cooperatives, associations, NGOs (associations or foundations) and persons registered under the trade law. There are also networks of different forms and without a legal form (informal groups).

The existing fragmented legal framework is a challenge to the potential of enterprises in the social and solidarity economy as well as to their better development.

The existing accumulated theoretical knowledge and real functioning models of social enterprises in the country, naturally lead to the development and adoption of a legal framework for the subjects of the social and solidarity economy with specific rules and mechanisms of functioning.

On October 18-th 2018, the National Assembly of the Republic of Bulgaria adopted a Law on Enterprises of the Social and Solidarity Economy, as an expression of the political and social commitment of the state. This Law is the first of its kind in Bulgaria, regulating entirely new matter. Social economy policy is a relatively new policy among the spectrum of policies traditionally developed in the social field. Adoption of the Law is an extremely important and essential element of the overall ecosystem of the subjects of the social and solidarity economy. According to Todorova (2019) several important and essential issues find a solution, among which:

- the scope of the social and solidarity economy – three main groups of entities are identified as part of this economy – cooperatives, non-profit legal entities for public benefit and social enterprises;
- the lack of legal definitions – the law defines the social enterprise through the three basic dimensions - the economic, the social and the democratic;
- the mechanisms by which local and central government promotes the entities, as well as the type of incentive measures they use;
- the accurate regulation of the rules and procedures for the realization of the entrepreneurial activity of the persons, aimed to the realization of social activity or goals;
- an assessment of the contribution and social added value of social enterprises;
- improving the opportunities for competitiveness of social enterprises – their economic activity is hampered by competitive weaknesses, but leads to a limitation of their possibilities for realization of social return, due to ignorance and non-recognition of their distinctive peculiarity;
- better statistical recognition and reporting of social enterprises as well as information provision of the social and solidarity economy through the introduction of the Register of Social Enterprises.

The main objective of the Law is the development of the social and solidarity economy as an industry with special rules leading to better access to employment and training for a higher standard of living for vulnerable groups, support for their social inclusion and independent living; reducing of the social inequalities and achieving sustainable territorial development.

A significant contribution of the law is the regulation of the social enterprises in class A and class A+, based on social value added and return, as well as the impact that the enterprise has on the circle of stakeholders. No new legal form was created, but an approach was adopted, that allows a wide range of enterprises to register as social enterprises on the basis of criteria. There are several and they are related to four requirements: reporting social value added, inclusion the employees in decision-making process, reinvesting part of profits for social purposes and activities, and hiring vulnerable groups. The first two criteria are mandatory for both categories of social enterprises, while the last two imply a choice by the enterprise. This opportunity to register by choosing the last two criteria is based on the accumulated practical experience in the field of the social economy in the country and represents a distinction from the definition of a social enterprise in documents of the European Commission³.

Legislatively, companies with a higher social added value and impact in terms of financial result and labor integration of vulnerable groups can be registered as A + enterprises. Accordingly, incentives are foreseen to highlight their potential to cover market deficits.

For the first time, the mechanisms through which the central and local authorities support the development of the entities of the social and solidarity economy are regulated. An exclusive contribution is the creation of a digital on-line platform for interaction between stakeholders in the social and solidarity economy, which is legally regulated, which can also be called a digital cluster – can be seen as an exceptional innovation against the backdrop of the cluster policy in the field of social economy at European level.

The platform is a tool for increasing the market share of social enterprises and social and solidarity economy to GDP by improving competitiveness indicators, the level of managerial and labor skills of social entrepreneurs and vulnerable groups within the meaning of the Law. It is an instrument to promote the full inclusion of citizens and conventional economic operators as building blocks of a sustainable social model. It will limit the need for public investment in the social sector. It leads to improvement of the general requirements for effectiveness and efficiency in the management of social economy and corporate social responsibility policies.

This is an approach that could be defined as innovative and implying higher efficiency and effectiveness of public spending and support – **the market approach to support social enterprises and social and solidarity economy actors, namely by building a distinct ecosystem which to provide:**

³ Art 2 of the REGULATION (EU) No 1296/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 11 December 2013 on a European Union Programme for Employment and Social Innovation (“EaSI”) and amending Decision No 283/2010/EU establishing a European Progress Microfinance Facility for employment and social inclusion

1. Wider and more distinct access of the products and goods of the social enterprises to consumers through digital offering (collective shopping).

2. Specific and verifiable information for the realized social added value (Methodology for evaluation of the Social Added Value) and the involved to the social goal citizens, which is essential for the decision taken by the conventional sector representatives to provide capital or other investment or quasi-investment flows to social entrepreneurs (creating partnerships with low reputational risk for the investor and a clearly organized marketing campaign for image profitability). The platform will contribute for cheap and quick establishment of partnerships, consistent with the interests of the stakeholders. At this stage, there is no effective instrument for supporting of the interconnection between them and to facilitate the process of negotiation and contract. This increases the cost rise to the extent that it limits demand.

3. Social enterprises are a natural stepping-stone for vulnerable groups on the labour market, which, after acquiring specific and working skills, can easily integrate to the requirements of the conventional sector. Social entrepreneurs, either alone or together on the basis of partnerships with companies, looking for people for certain positions, are often in difficulty to find people in vulnerable situation, who are suitable for the specific activities.

The platform is focused namely on these people and aims to show everyone's real skills. The platform will also provide specific services to assess the work capacity of the individuals - the so-called functional specifics of the person. The inclusion of vulnerable people through a sustainable entrepreneurial approach has proven advantages over subsidized employment and has the potential to have a significant impact on the imbalances between supply and demand of labour force in the country.

4. The total cost for generating an innovative and well managed social business is scattered between governmental institutions, European funds and non-governmental organizations. The main part is focused on the acquisition of managerial and work skills, but the effect is limited.

The platform could consolidate the training modules and make them accessible and free of charge, which would generate high quality on equal terms. The idea is – the platform to be the place for online social entrepreneurship courses and training programs to acquire qualifications, priority European webinars, as well as lecture courses of some higher education institutions with experience in this field.

Conclusion

The legal regulation of the social and solidarity economy is not only a contribution to the legislative practice of the country, it is also a contribution to the national and European policy in this area. It also contributes to the scientific knowledge and research of the social economy and social entrepreneurship, giving further impetus to research studies. It is a contribution and a practical focus, enabling the development of social innovation and the innovative experimentation in this area.

New interconnections between traditional participants in social relations - economic operators and persons with socio-entrepreneurial focus are regulated by the Law. Preconditions are created by increasing the share in the economy of enterprises from the social and solidarity economy for development of a socially responsible consumer culture, which would also affect the overall entrepreneurial behaviour. New elements of inter-firm competition will be integrated, including those of the social and solidarity economy. The introduction of a social dimension in investment, consumer and entrepreneurial practices will enrich public capacities and resilience to macroeconomic crises; will make the social and economic model more sustainable with a tendency for a lasting symbiosis between them.

The law extends the legal possibilities (enshrined in existing social legislation), the target groups to be included in employment and be socially integrated in the society. Through the Law one of the important political goals of preserving the social peace in the name of general and individual well-being is achieved as well.

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