



Стопански  
факултет

# Социално- икономическа анализа

Книга 2/2020 (18)

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## SOCIAL ECONOMY IN BULGARIAN MUNICIPALITIES – SCOPE, OPPORTUNITIES AND CHALLENGES

**Abstract:** In the last decade, Bulgaria is facing new challenges related with the growing social fragmentation and social exclusion, which require new type of interventions combining economic and social models. Undoubtedly, social economy is a key feature of European social model and it creates opportunities for new jobs, boosts social innovations as a response to the growing public needs and stimulates social cohesion. Bulgarian municipalities have a twofold role in the social economy – on one side they act as operators in social economy through the establishment of municipal social enterprises. On the other side as local authorities, they can formulate local policies and create favorable conditions to boost social economy. The article is analyzing the scope, trends and opportunities of Bulgarian municipalities to strengthen the social economy at local level, and in this way to influence the creation of a favorable environment for social enterprises. In addition, it provides an overview of the existing models of municipal social enterprises and the expected impact on the local development.

**Keywords:** social economy; municipal social enterprises; policies and ecosystems for social economy.

### 1. Introduction

In the last decades, social economy is gathering an increasing recognition from the local authorities in Bulgaria as an opportunity to address huge social problems with decreasing public resources. In this process, local authorities have a dual role – on one hand they are perceived as a regulator and should create favorable environment for social economy development and on the other hand – they themselves can develop social enterprises. The article is analyzing the scope, trends and opportunities of Bulgarian local authorities to strengthen the social economy at local level, and in this way to influence the creation of a favorable environment for social enterprises.

### 2. Municipal social enterprises

One specific social enterprise model, which is applied in Bulgaria, is the so-called municipal social enterprise. The key role of municipal social enterprises is predetermined by various factors however, the leading reason is that they provide an affordable access to services for the population of small and remote communities and rural areas. Traditionally the level of public services in these areas is underdeveloped, there is a lack of enough social, educational and health services and there are growing trends of migration and low opportunities for employment and income.

Unfortunately, more than 70% of the territory of the country can be defined as rural area and one of the challenges is the low level of active economic entities and civil organizations that have the capacity to start social enterprises. The only viable structure in these areas that can develop social enterprises

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independently or in a partnership model is the municipality, which also can be viewed as a generator of enhancing the institutional capacity of local stakeholders and especially the civil society and to boost the social innovations at local level<sup>1</sup>.

The practice in Bulgaria shows that there are different legal forms and opportunities for establishing and developing social enterprises while the most common form is as a municipal enterprise established according to the Municipal Property Act (article 52 and 53)<sup>2</sup>. The legislative bases creates opportunities for the municipalities to conduct economic activities, to establish their own enterprises and participate in joint economic ventures. Municipal enterprises are specialized entities within the local government that are financed by municipal budget and implement activities for service provision and other local activities that are needed to satisfy the needs of the local population. Other organizational forms for development of social enterprises from Bulgarian municipalities are as follows:

- Civic entity according to article 357-364 of Law for obligations and contracts, where the partners are from the local government and economic sector – commercial or non-governmental organization<sup>3</sup>;
- Establishing a commercial entity according to the Trading Law – for an example establishing a company with limited responsibility where the municipality is a partner and participates with municipal property or financial contribution and the other partner – a commercial entity participates with financial resources;
- Participation of the municipality jointly with other entity in a non-governmental organization (association or foundation), which operates as a social enterprise. According to the Law on local authority and local administration, the municipalities can establish partnerships with other legal entities and can establish associations with the aim to accomplish objectives of joint interest and to subcontract services and public activities<sup>4</sup>.

As a result of a survey for the interest and readiness of the Bulgarian municipalities to establish municipal social enterprises the following conclusions can be drawn:

- In total 68 municipalities in Bulgaria out of 265 have established and manage 70 municipal social enterprises which represents 25,6% from all Bulgarian municipalities;
- The creation of municipal social enterprises is driven by the search for effective instruments to solve complex local problems such as provision of services at one hand and at the same time creating opportunities long-term social inclusion for disadvantaged and at risk people;
- Main source for the initial investment of the expenses for the establishment of a social enterprise is the European social fund through Operational programme „Human resource development“ aiming to support social entrepreneurship and social economy;

Looking into the sectorial diversity, the majority of municipal social enterprises operate in the maintenance and greenery sector, green economy for public areas and touristic sites, social services and help at home and in the garden. The sectorial classification of the municipal social enterprises is as follows:

- Maintenance and greenery sector – 36 enterprises;
- Home and garden services – 12 enterprises;
- Social kitchen and social services – 8 enterprises;
- Production of souvenirs and crafts – 5 enterprises;
- Cleaning and laundry services – 4 enterprises;
- Maintenance and promotion of cultural heritage – 3 enterprises;
- Sewing services – 2 enterprises.

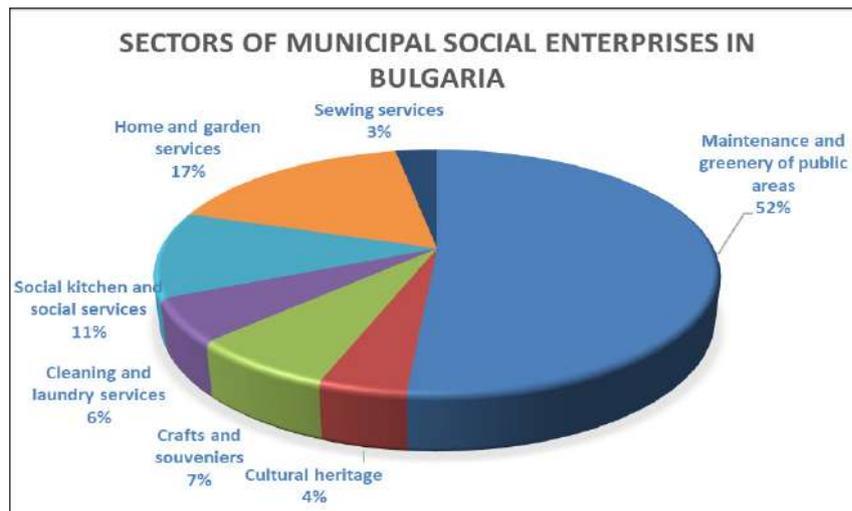
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<sup>1</sup> **Ичева, М.** Social economy as a factor for the improvement of social security in the rural areas, Scientific papers of scientific conference “Contemporary aspects of security“ of National Military University „Vasil Levski” 2018, volume 4, Veliko Tarnovo, Publishing complex of NMU, page 51 – 60, 2018ISSN 2367-7465.

<sup>2</sup> Municipal Property Act.

<sup>3</sup> Law on Obligations and Contracts.

<sup>4</sup> Local Self-Government and Local Administration Act.



**Graphics 1.** Sectors of municipal social enterprises in Bulgaria

Two Bulgarian municipalities – Burgas and Tryavna have established and are operating two social enterprises each. The case in Tryavna is related with a social enterprise for social services that has gathered the activities of two existing social enterprises for catering and home-based social services. This is a good example for structural optimization of the existing social services in the community and the improvement of their effectiveness for the clients that can now have an access to a complex home based service including food provision<sup>5</sup>. The second social enterprise in Tryavna municipality has been established in 2019 with a main activity – maintenance and green services for public and park areas with funding from the scheme for social enterprise development within Operational programme „Human resource development“<sup>6</sup>.

The first municipal social enterprise in Burgas has been created with the idea to produce touristic souvenirs with the spirit and character of the sea called „Sea signs“. The enterprise is successfully bending economic values from diversified tourist products on the market with social values to create jobs for disadvantaged groups – people with disabilities and single mothers and at risk parents<sup>7</sup>. The enterprise is providing job placement for eight disadvantaged people while helping them to regain their self-esteem and at the same time is targeting an existing niche at the souvenir market and has developed an own souvenir brand. The newest and operational municipal social enterprise in Burgas is established in the maintenance and greenery sector and is called “Green assistants” with a main activity to clean and maintain parks and green public areas, improving the city green system and ecology.

The main conclusion from the analyses of the municipal social economy is that the preferred and most popular legal form for a municipal social enterprise is a specialized municipal unit in relation to section VI from the Municipal Property Act, for implementation of local services and activities financed within the municipal budget (Municipal enterprise established according to article 52 and 53 from Municipal property act). At the same time, the main social aim of the operational social enterprises is job creation for disadvantaged groups at the labor market or provision of services for social inclusion of the population<sup>8</sup>.

Another important conclusion from the conducted survey of the municipal social enterprises is that almost 90% of the operational social enterprises are acting in rural municipalities (62 out of 70 municipal social enterprises are located in rural areas). The rest eight municipal social enterprises are located in big

<sup>5</sup> [www.eufunds.bg/archive2018/images/eu\\_funds/files/CI/Partnership Agreement Bulgaria Oct 2015 EN.pdf](http://www.eufunds.bg/archive2018/images/eu_funds/files/CI/Partnership Agreement Bulgaria Oct 2015 EN.pdf)

<sup>6</sup> Regulations for organization and activity of a municipal social enterprise for maintenance and greenery of public areas in Tryavna municipality.

<sup>7</sup> Internet site of Municipal social enterprise „Sea signs“, <https://morski-znaci.com>

<sup>8</sup> **Ilcheva, M.** „Social economy and social entrepreneurship – notions and fragmentary approbations“. Veli-ko Tarnovo: Faber, 2019.

and medium size municipalities (Burgas, Plovdiv, Kurdjali, Gorna Oryahovitsa, Asenovgrad, Dupnitsa and Dimitrovgrad).

Although there is a variety of legal and organizational forms and operational models of social enterprises in Bulgaria, it is hard to measure the effect of the work of municipal social enterprises and consequently the society cannot be convinced in the overall social impact of social economy.

### 3. Municipal policies in support of social economy

In 2018 Bulgaria has made a huge step towards the improvement of legal environment for social economy with the adoption of a Law on enterprises from social and solidarity economy. This major legislative initiative should be seen as a political sign for the recognition of the role of social economy sector in the country. This was an expected result from the recent trend of development of the social economy in Bulgaria and the growing visibility of the sector and its consolidation with the policies of the European Union.

The aim of the law is to regulate the public relations related with the social and solidarity economy, the types of social enterprises and the measures for their support as well as the conditions and the requirements for the activities of social enterprises. In the last years while there was no clear legal environment for social enterprises, there was a policy gap in the relationship between social economy and public organizations especially in the area of policies and instruments at local level in support of social economy development<sup>9</sup>. As this is the first Bulgarian law on social economy it provides the bases for a public policy which stimulates the development of sector and establishes clear rules for a registry of social enterprises and a methodology for measuring the social added value.

Concerning local authorities, the law regulates their autonomy in terms of defining the ways in which the municipalities can provide support to operators from social and solidarity economy and with the approval and decision of the Municipal council. According to art.13 from the law, local authorities can provide support to entities from social and solidarity economy in their operations with the following:

- Foster the human resource development within social and solidarity sector through securing access to the electronic platform;
- Elaborating mechanisms and programs to support social entrepreneurship in relation to developing regional aspects of social and solidarity economy through inclusion of municipal integrated plans and strategies for local development;
- Participation in activities of social economy sector through various forms of partnership<sup>10</sup>.

The municipalities could relate the elaborated measures and forms for support with key policies at local level and in this way to create favorable environment for social economy development and adequate support infrastructure for social enterprises. In general, these policies can be defined in the following fields:

- Local policies for socially responsible public procurement and access to markets;
- Programs for improving access to financial resources;
- Policies for providing business support and human resource development for social enterprises;
- Policies for stimulating partnerships for increasing the feasibility of social economy sector.

The financial programme for social innovations of Sofia municipality can be featured as a good practice for a municipal program to provide access to financial resources for social economy. This financial instrument has been initially piloted in 2018 with a total budget of 100 000 leva allocated for social innovation projects. The first projects were implemented in 2019 as part of Sofia Programme for social innovations with the objective to improve the quality of life, social inclusion of vulnerable groups while stimulating social innovations with the active participation of civil society. The programme is providing funding from the municipal budget for social innovation projects up to 5 000 leva and the projects should be implemented within eight months<sup>11</sup>.

<sup>9</sup> **Todorova, T.** Challenges in implementation of the legislation for enterprises in the social and solidarity economy. *Scientific conference* of National Military University “Vasil Levski“. V. Tarnovo: Publishing complex of NMU, 2019, p. 1510–1519.

<sup>10</sup> Law on enterprises from social and solidarity economy.

<sup>11</sup> Social Innovation Programme of Sofia Municipality, <https://www.sofia.bg/program-social-innovation>

The social innovation programme provides financing towards projects for design, creation and implementation of new for Sofia municipality ideas and processes that address the needs of disadvantaged groups and contribute to the local social policy. The programme defines as new ideas models and practices that are applied for a first time at Sofia municipality. Applicable candidates for funding are non-governmental organizations and community centers, which are registered at the territory of Sofia municipality.

Similar mechanisms for financing create new opportunities for the development of innovative services and expansion of the markets for the social enterprises and to some extent they can be accepted as a subsidizing mechanism for the lower productivity of the disadvantaged people which are employed by the social enterprises<sup>12</sup>.

A good example for a successful local policy for business support and human resource development in the social enterprises is “Accelerator Startup Sofia”. This initiative is implemented as a major objective and leading priority in the strategy “Europe 2020” and Innovation strategy for smart specialization of Sofia. It operates as a joint platform amongst the Municipal guarantee fund for small and medium enterprises, Sofia municipal privatization and investment agency and programme “Europe” of Sofia municipality<sup>13</sup>.

The pilot edition of the initiative is implemented in two integrated modules for a period up to four months – access to financing as a grant programme with a total budget of 100 000 leva and a mentoring (business consulting) programme. “Accelerator Startup Sofia” provides support to business projects that lead to demonstration, elaboration and/or improvement of innovative product (goods or services) or process which classify with the main thematic investment priorities for Sofia. The programme provides support for the establishment and expansion of social enterprises that contributes to the employment and motivation of disadvantaged groups and creates favorable conditions for their professional integration within social economy. What is unique for the programme is that it provides mentoring, communication and institutional support for innovative, startup social enterprises combined with educational and tailored activities and access to networks and contacts, shared co-working space and environment.

Although the existence of some good practices of policies and measures for support of social economy at local level there is a pressing need for more adequate and accessible mechanisms for financing of social enterprises, business support infrastructure and measures for market access. However, we should point out the increased level of understanding and public support on behalf of local authorities as well as the growing process of mobilization of the local stakeholders to establish a vibrant ecosystem for the development of favorable public environment for social economy.

#### **4. Opportunities and trends for the development of municipal social economy**

In the last decade, Bulgaria is facing more and more challenges related with the growing social exclusion that require new type of interventions combining economic and social models. At the same time there is no doubt that, the social economy is a key feature of the European social model. It has a vital role for the achievement of the priorities and objectives of strategy “Europe 2020” while creating new jobs, applying social innovations as a response to the public needs, contributes to social cohesion and stimulates active citizenship<sup>14</sup>.

In the context of the new challenges related with the growing social fragmentation of the Bulgarian municipalities social economy is obtaining more attention as a mechanism for a more balanced development of the regions, therefore contributing to provision of accessible social and public services, local enterprises for employment and social inclusion of the most disadvantaged groups in the society. In addition to that, social economy can contribute to activation of the vertical and horizontal links for cooperation and partnership amongst Bulgarian municipalities, social service providers and civil society organizations<sup>15</sup>.

<sup>12</sup> Improving Access to Funding, GECES Working Group Paper, [http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item\\_id=9024](http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=9024) WG1

<sup>13</sup> Strategy for smart specialization of Sofia, approved with decision № 13 from 28.01.2016 of Sofia Municipal Council.

<sup>14</sup> White book on social economy; Let’s take the initiative“, European Social Economy, 2015.

<sup>15</sup> Statement of the European Committee of Regions, „The EU response to the demographic challenge“, 2017/C 017/08.

The future trends for the development of social economy in the Bulgarian municipalities can be defined in three directions. The first one is related with the so-called political trend that is focused on the European policies that give a direction for the legislative and policy measures and create the common agenda for the development of the local authorities in Bulgaria. What is unconditional is that the key European and national structures will continue to stimulate supporting ecosystems and in this way to boost the synergy between different local policies and programmes in support of social economy sector. Furthermore that in the incoming programmatic period European commission is strongly recommending the application of the integrated territorial investment approach and in the Programme for development of rural areas a leading priority will be the stimulation of the social cohesion and poverty reduction.

The second direction for future development of social economy is related with the socio-economic trends at regional and local level in Bulgaria. Taking into consideration the tendency that the demographic changes will have a bigger impact on the remote regions, the situation in Bulgaria is becoming more dramatic with lots of regions without the necessary public services, no access to social services and diminishing population<sup>16</sup>. One should not underestimate the fact that the demographic changes lead to a serious economic, social and fiscal pressure on the local authorities in order to be able to provide accessible public services, especially in the social assistance and social services and the supporting environment and adequate infrastructure for social economy.

The third trend, which predetermines the future development of the social enterprises at Bulgarian municipalities, is related with the opportunity to assure access to financial resources. What is indisputable is the fact that the establishment of municipal social enterprises is directly dependent on the existence of special funding mainly within the European structural and investment funds. Such financial resources were available through European Social Fund and within the Operation programme “Human Resource Development” which will be also available at the new programmatic period 2021 – 2027 that will continue to finance activities for social inclusion of disadvantaged people at the labor market, (including intermediary services, professional trainings and key competences, labor mobility programmes, sheltered employment and others.)<sup>17</sup>. In order to reduce the poverty and social exclusion the Operational programme will continue to focus on measures for improving the access to social services of various socially excluded groups and people that are at risk of social exclusion.

While focusing on rural municipalities what is important for their future social and economic development is to continue to apply the popular “Community led local development” approach, which provides opportunities to implement local projects for employment generation and social inclusion<sup>18</sup>. In this way, the local community can mobilize the existing locally based growth potential that will contribute to improvement of quality of life for the population in the rural areas.

## 5. Conclusion

We can conclude that social entrepreneurship in Bulgaria is a crossing point of many important public policies in the field of poverty reduction, social inclusion, integration of ethnic minorities and development of rural areas and in this way, the social enterprises have a space to demonstrate their impact and to raise public interest in the sector. That is why it is important to define the role of Bulgarian local authorities in strengthening the supporting ecosystem for social enterprises and at the same time to operate municipal social enterprises. A significant potential for a further advancement of the sector are the European policies and the interconnected with them funds and financial instruments as this undoubtedly leads to raising interest amongst the local authorities in Bulgaria to establish social enterprises as an operational vehicle to support public and community-based social services.

However, we should not underestimate the challenges related with the insufficient capacity at local level to elaborate policies and measures for support of social economy especially in the underdeveloped areas where there is a pressing need for social entrepreneurs that can face the growing social needs. At the same time due to the deepening tendency for diminishing public resources and the need to increase

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<sup>16</sup> National Concept for spatial development 2013 – 2025, [www.strategy.bg](http://www.strategy.bg), [www.strategy.bg](http://www.strategy.bg)

<sup>17</sup> Operationa Programme „Human resource development“ 2014 – 2020.

<sup>18</sup> Community led local development – term used by European Commission to describe bottom – up approach where people form a local partnership that designs and implements an integrated development strategy.

their efficiency the experts and practitioners expect a major change in the way of funding streams for social sector. This change is related with a process of optimization of the social service network, cooperation and partnership for a joint service provision within a group of municipalities.

Finally yet importantly, we can challenge the statement that social entrepreneurship and social enterprises as part of social economy can be viewed as an unused business model which has its specific features and characteristics and due to that, it needs tailored policies that can guarantee the creation of a favorable and supportive environment.

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