

Chapter 2

Business Model of Social Entrepreneurship: Bulgarian Experience



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Abstract For two decades, the European institutions have recognized the ability of social entrepreneurship to correct social and economic imbalances and achieve objectives of common interest. The European Parliament has defined it as the basis of the European social market model. The EU's interest in social entrepreneurship stems from its link with several autonomous development policies: social inclusion, employment policy, the social economy and civil society. According to the European Economic and Social Committee in 2012, social entrepreneurship plays an important role in the EU: • 2 million social enterprises/10% of all European enterprises, • produces 10% of Member States' GDP, • an employer is 11 million or 6% of the employed, • accelerated creation of social enterprises—1 out of 4 new companies are social enterprises. Contribution of social enterprises to key EU objectives in the social field: active inclusion of people out of the labour market; quality services of general interest; social innovation in the context of social change. Social entrepreneurship is a driver for regional development. It occupies market niches in which the state fails to offer enough services and the market fails to make enough profits. Social entrepreneurship encourages the dissemination of good practices at local level by: reinvesting profits in geographic areas where they are created; mobilizing local actors and local resources; creating an entrepreneurial culture; linking activities to local needs/services in a community/; keeping activities at risk of disappearing because they are not profitable/crafts/; creating social capital. Over the last 10 years, social entrepreneurship in Bulgaria has undergone a strong development. Different forms of social entrepreneurship are implemented in practice, and we can already talk about experience in different sectors. This report aims to present the applied business models of social entrepreneurship in agriculture and small businesses in urban environment. The advantages and disadvantages of used business

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models are presented and analysed. The report presents the effects and impact of these models on the respective communities and for the development of the region.

Keywords Social entrepreneurship · Business models · Social enterprises · Bulgaria

2.1 Social Entrepreneurship: Definition and Boundaries

Despite the widespread popularity of the term social entrepreneurship, there are still ambiguities about its nature, characteristics and scope. This often leads to confusion, and a wide variety of activities, whether deserved or not, are defined as social entrepreneurship. In addition, social entrepreneurship as a phenomenon does not find a clear and theoretically grounded definition (Barendsen and Gardner 2004) taking into account its specific characteristics. Moreover, the scientific area of social entrepreneurship is still not clearly defined and is at a very early stage of development compared to the wider entrepreneurial science field. There are numerous research studies, focused on social entrepreneurship, but they are poorly interrelated, which prevents consensus and the accumulation of systematic knowledge.

Social entrepreneurship is a form of entrepreneurial activity, and for this reason, it is necessary to take into account its relation to entrepreneurship when revealing its nature (Dees 1998). According to Dees (1998), the concept of entrepreneurship can be applied in the social sector. The initial legitimacy of social entrepreneurship is a result of the vast public interest in inspirational stories of entrepreneurs who have achieved tremendous success in treating complex social problems. We can find such examples not just in developed countries, but also in developing world. Even we can assume that where the most severe social needs are observed, the soil and environment for the emergence and development of social entrepreneurs are most favourable. In this regard, the concept of entrepreneurship, which is used mostly within business organizations, now is increasingly being applied in seeking solutions to a number of social problems and deficiencies (Thake and Zadek 1997).

The social entrepreneur is a key element in the social entrepreneurship process. The public and academic interest towards social entrepreneurs is based on their mission to make the world better place for living and their courage to take the responsibility to fight with problems often considered as unsolvable (Zahra et al. 2008). According to Bornstein (2004), the social entrepreneur is a pioneer, totally obsessed with his vision of change. Driven by a social cause, he finds a creative and innovative solution to a significant social problem and implements it in compliance with the established ethical norms. These are a wide variety of social problems, such as poverty, illness, disability, illiteracy, environmental destruction, human rights abuses and corruption. Thompson (2002) emphasizes the social commitment and the emotional workload of social entrepreneur. He stands out by meeting social needs for which the state social system and markets offer no solution. Due to a limited access to capital, social entrepreneurs mobilize human, financial and political resources.

Leadbeater (1997) highlights the management skills of social entrepreneurs who besides their entrepreneurial behaviour create and manage an organization through which they bring social change.

One of the most commonly cited definitions is that of Dees (1998), according to which the *social entrepreneur is an agent of change in the social sector*. Social entrepreneurs build and develop new business models that are entirely dedicated to delivering a social value through solving significant social and environmental problems. They implement social mission without focusing on their own interests or the profit potential of their organization. Bornstein and Davis (2010) further defines social entrepreneurship “as a process by which citizens build or transform institutions to advance solutions to social problems”.

The founder of Ashoka considers the social entrepreneurship as a provider of innovative solutions to society’s most pressing social, cultural and environmental challenges. The most important aim is production of systems-level change, not just improvement of the problem. In Europe, social entrepreneurship most often takes place within the third sector, and the attention has been mainly devoted to the concept of “social enterprise” (Defourny and Nyssens 2010). The term social enterprise is embedded in the field of social economy and includes any company aiming at serving society. According to European Economic and Social Council (EESC), the concept of social enterprise is broader and includes social entrepreneurship. The opinion of EESC (2014) stated that definitions of social enterprises in different countries and geographic areas differ substantially. For this reason, instead of a definition, the EESC proposes a description of social entrepreneurship, based on the identification of common and often quoted characteristics. The aim is to reduce the ambiguity about the nature of social entrepreneurship and thus to promote it as a legitimate and promising area of academic research and driver for socially oriented market economy.

In this regard, its distinctive features have been identified, such as the existence of social objectives and the creation of social benefits in the interest of society, the reinvestment of profits predominantly in the social mission, the use of a variety of legal forms and business models, application of social innovations, transparent and cooperative decision-making and management.

Most common characteristics of social entrepreneurship can be summarized as follows:

- It is mission focused, not profit-driven, that reflects its values;
- Address social problems or needs not met by private markets or government;
- Combine profit-oriented activities and social purposes to achieve financial sustainability, through entrepreneurial and market based approaches;
- Focusing on generating and maximizing positive social returns and achieving large scale social change;
- Profit is reinvested rather than being distributed among the stakeholders and founders;
- Decision-making power is not based on capital ownership, but on the participatory and collaborative principles.

Comparing the essence and characteristics of social entrepreneurship with those of business sector entrepreneurship, it can be concluded that mission-related impact becomes the core of social entrepreneurship, not wealth creation (Dees 1998). Also an important aspect of the social entrepreneurship is its innovative nature, which gives it the power to transform the social sector. Last but not least, social entrepreneurship requires simultaneous implementation of social activities delivering social benefits and, on the other hand, economic activities that generate income and profitability. In this way, social enterprises are able to achieve financial stability and relatively independent of public and private grants and subsidies (Bacq and Janssen 2011).

Further unique features of the social entrepreneur can be highlighted its emotional engagement and sensitivity to social problems, ability to attract public subsidies and to mobilize voluntary resources, ethical behaviour, and social impact and change attainment.

2.2 European Approach to Social Entrepreneurship

European approach to social entrepreneurship is found as quite different from the leading approaches in other regions especially USA. The main characteristics that define the European case in understanding and applying social entrepreneurial measures and instruments could be found in three main pillars.

First, European Commission defines own understanding on social enterprises and social economy in order to put in order different EU-members' practices in that field. As the social entrepreneurship is not a new approach in EU inside the social economy understanding, its legal concepts is linked to the beginning of 1990s (Defourny and Nyssens 2010). The different speed of development of the social enterprises, different law requirements and, respectively, different schemes for financing them among EU Member' States allow the EC to set a definition of social enterprise in 2011 used for establishment of EU Social initiative. It is based on adopted Resolution on Social Economy in 2009. The main definitions on the EU-level are as follows:

- a. **Social economy** is based on a social paradigm which is in line with the fundamental principles of the European social and welfare model, and it combines profit with solidarity, aim at creating high-quality jobs, strengthening social, economic and regional cohesion, generating social capital, promoting active citizenship, solidarity and economics, in which people are set on the first place. (EC 2009, 2017)
- b. **Social enterprise** is main actor in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities (EC 2011).

Social enterprises are ventures in the business of creating significant social value, and do so in an entrepreneurial, market-oriented way, that is, through generating own revenues to sustain themselves (EC 2013a, b).

The recognized forms of social (economy) enterprises are: associations, foundations and mutual societies (EC 2009) The main characteristics of business activities of social enterprises are given the next (EC 2015): (1) enterprises with social or societal objectives, (2) enterprises which reinvest their profits to achieve social objectives and (3) enterprises with democratic or participatory principles of operating or focusing on social justice.

In 2016, the EC focused on start-ups and innovations as a result of social enterprise activities and started the Start-up and Scale-up Initiative (EC 2016) as a financial instrument for boosting the social economy and social enterprises and encourage social start-ups to scale up.

Thus, it can be summarized that social entrepreneurship is used to describe the behaviours and attitudes of individuals involved in creating new ventures for social purposes, including the willingness to take risks and find creative ways of using underused assets (EC 2013a, b).

Second, the history of EU social enterprise establishment is given by Defourny and Nyssens (2010):

- c. In 1991, Italian social cooperatives are used for inspiring model's concept of social enterprises incl. enterprises focused on social, health and educational services ("A-type" social cooperatives), and enterprises providing integration for disadvantaged people ("B-type" social cooperatives).
- d. The Portuguese "social solidarity cooperative" was created in 1997 to foster the integration of vulnerable groups, such as children, people with disabilities and socially disadvantaged families and communities.
- e. In 1999 was put on legal form Spanish "social initiative cooperative" and Greek "limited liability social cooperative" targeting social inclusion groups and aiming integration of social excluded persons.
- f. French law widens the definition of social enterprises in 2002 as it defines the "collective interest cooperative society" to bring together employees, users, volunteers, local and regional authorities and any other partners wishing to work together on a given local development project.
- g. In most of the countries, the social enterprise definition was adopted in 2010s as there a few EU Member States without such definition (Austria, Cyprus, Czech, Denmark, Estonia, Luxemburg, Swiss).

The main differences are summarized as follows (EC 2015).

- a. At least 10% of the revenues of a social enterprise should come from market sources (Czech) or must generate at least 25% of its income from entrepreneurial activity or trade (UK and Croatia) up to 70% of the income will be from entrepreneurial activities (Italy).

- b. The interpretation of what constitutes a social aim varies from a narrow focus on work integration (Finland, Lithuania, Poland, Slovakia and Sweden) to broader societal and environmental goals (UK, Greece).

Third, as the European Commission adopted The Social Business Initiative (SBI) in 2011 (EC 2011), the main financial schemes cover:

- c. Financial access for up to EUR 500,000 investments via public and private investors at national and regional level, as part of the EU Programme for Employment and Social Innovation (EASI).
- d. Financial support through pilot equity investments under the European Fund for Strategic Investments (EFSI). Equity instrument are linked to incubators/accelerators and co-investments with social Business Angels.
- e. Access to co-funds projects focussing on boosting the development of the demand and supply side of social finance markets in Europe (21 pilot projects were selected under a call for proposals in 2013 and further 20 projects were selected under a call for proposals in 2016).

2.3 Social Enterprise Concept

Understanding the social (economy) entrepreneurship and social enterprises, we should define the specific business model of them.

As the main goals of the social enterprises are towards the social economy introduction to different excluded persons and groups as well as social enterprises boost the scale-up of innovative start-ups (resp. via financing resources of social business angels), the social enterprises business model is quite different from the traditional for-profit business model.

Carvalho (2016) summarized the researches on added value of social enterprises:

- the creation of social and shared value (see Austin and Seitanidi 2012);
- co-creative networking (see Chatterjee 2013; Zott et al. 2011);
- multiple value creation that refers to ecological, social, economic (or financial) and psychological value (see Carvalho and Jonker 2015).

According to summary of new social business models, they are focused on establishment of added values (e.g., economic, social, ecological and psychological) offered to the different social stakeholders (Carvalho and Jonker 2015).

The specific place of social enterprises among the non-profit organizations and for-profit enterprises is explained by Gandhi and Raina (2018). The compromise between society needs and business goals encompasses the business and commercial techniques along with not-for-profit managerial approaches and business and social goals fulfilment (Fig. 2.1).

So, according to Fig. 2.1, the boundaries between non-profit social organizations (resp. social economy enterprises) and profit-oriented business become more flexible with inclusion of society into the for-profit enterprises. As EC (2016) accepted, the

Fig. 2.1 Different types of business from not-profit to for-profit

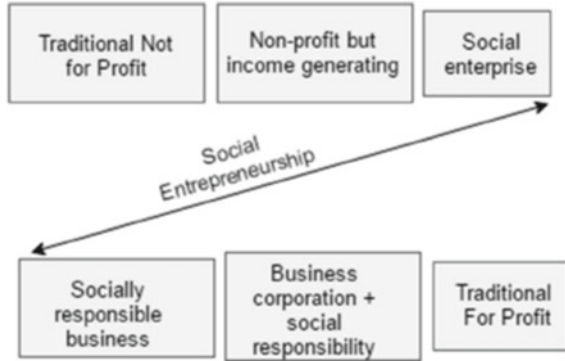
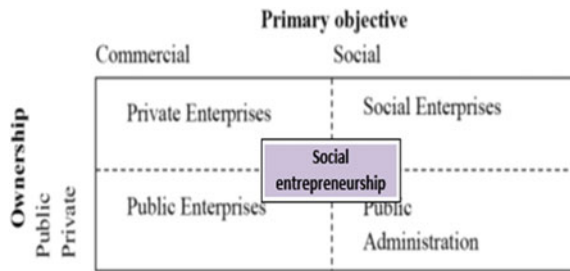


Fig. 2.2 Types of enterprises and social entrepreneurship



innovations and their scales-up are the crossing point between social enterprises and for-profit enterprises—the key element of the social entrepreneurship.

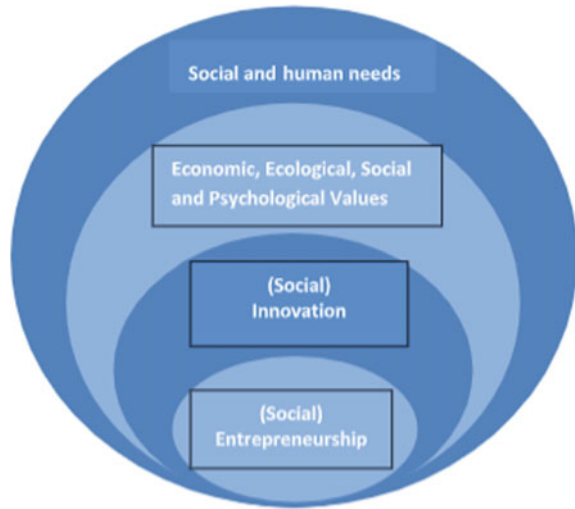
Additionally, the explanation of the place of social entrepreneurship business model could be done on the graph of the business types (Fig. 2.2).

The importance of social entrepreneurial business model increases as the contemporary economy is focused on understanding the market rather than understanding business social needs and projects. Accordingly, the social entrepreneurship has a dual goal—at the microeconomic level to pursue projects that address specific social needs, and at the macroeconomic level to advance the market economy.

Thus, the main issues describing the market-oriented business could be quite different for the social entrepreneurial business:

- **Market:** a social entrepreneur marketing environment usually implies that the costs are not fully covered by the revenue of the social enterprise.
- **Market failure:** a social entrepreneur emerges when there is a social market failure of the traditional market business. For example, the social enterprises are oriented to social and societal needs that are not covered by the for-profit business.
- **Profit:** as the profit is not driver for development of social entrepreneurs, they could focus on diversity of social quality measurements.
- **Business strategy:** social entrepreneurship is focused on cooperative approach rather than on the individual value creation approach.

Fig. 2.3 Social entrepreneurship model. Carvalho (2016)



- **Mission:** The essential purpose of social entrepreneurship is creating social value for the greater public good.

The social entrepreneurship establishment model is also quite different from the traditional for-profit market business model (Carvalho 2016). It starts with identification of specific social or human needs, then creating a product (good, service, idea) primarily based on (social) innovation that satisfies better the users and society. On the next level, the added values except economic are revealed (e.g., ecological, social and psychological) and finally, introduction to the market is needed to sustain the social entrepreneur activities (Fig. 2.3).

2.4 Juridical Framework for SE in Bulgaria

Until 2018, there is no unified law in Bulgarian legislation regulating the activity of social enterprises. There are multiple laws affecting individual aspects of the business, the legal form or taxation. Bulgarian national legislation offers a comprehensive legal basis¹ for the development of activities that have a relation to the characteristics of social economy:

- (1) **Commercial Law**²—SG 48, 18.06.1991, effective from 01.07.1991, last suppl. SG. No. 33 of 19 April 2019—related to social enterprises engaged in trade in the part for determining a Trader within the meaning of the law,

¹ National Concept of Social Economy. Ministry of Labor and Social Policy, Sofia 2011.

² <https://lex.bg/laws/ldoc/-14917630>—available 07.2019.

- defining the types of traders and types of companies, state and municipal enterprises, their registration, way of functioning and closure of its activities;
- (2) **Cooperatives Act**³—Effective from 1999, SG 113, 28.12.1999, last amend.—SG 42, 22.055.2018—related to social cooperatives and cooperatives performing social activities in the part determining a cooperative within the meaning of the law, their registration, way of functioning and closure of its activities;
 - (3) **Non-Profit Legal Entities Act**⁴—Effective from 01.01.2001, SG 81, 06.10.2000, last suppl.—SG 98, 27.11.2018—related to social enterprises operating as non-profit organizations in the part determining a Non-Profit Legal Entity within the meaning of the law, their registration, way of functioning and closure of its activities; Non-Profit Legal Entity is the most common form of registration of social enterprises in Bulgaria;
 - (4) **Law on Integration of People with Disabilities**⁵—Effective from 01.01.2005, SG 81, 17.09.2004, last amend. and suppl. SG 60, 20.07.2018, annulled SG 105, 18.12.2018—related primarily to Section III. Employment of People with Disabilities, in particular registration, establishment, operation and financing of specialized enterprises and cooperatives of people with disabilities;
 - (5) **Employment Promotion Act**⁶—Effective from 01.01.2002, SG 112, 29.12.2001, last amend. SG 24, 22.03.2019—This law governs public relations in (1) promoting and preserving employment; (2) vocational guidance and adult education and (3) mediation of information and recruitment. In exercising of rights and obligations under this law, direct or indirect discrimination, privileges or limitations based on nationality, background, ethnicity, personal status, sex, sexual orientation, race, colour, age, political and religious beliefs, membership in trade unions and other public organizations and movements, family, social and material situation and the presence of mental and physical disabilities. A direct relation to social enterprises has chapter six. Employment promotion—Section VI. Promoting entrepreneurship, as well as Section VIII. Programs and measures providing equal opportunities through socioeconomic integration of disadvantaged groups on the labour market;
 - (6) **Social Assistance Act**⁷—Effective from 1998, SG 56, 19.05.1998, last amend. and suppl. SG 35, 30.04.2019—sets out the rules for the allocating/granting of social aid and the provision of social services;
 - (7) **Small and Medium Enterprises Act**⁸—Effective from 1999, SG 84, 24.09.1999, last amend. SG 30, 03.04.2018—This law regulates the public relations related to implementation of the state policy for encouragement

³ <https://www.lex.bg/laws/ldoc/2134696966>—available 07.2019.

⁴ <https://www.lex.bg/laws/ldoc/2134942720>—available 07.2019.

⁵ <https://lex.bg/bg/laws/ldoc/2135491478>—available 07.2019.

⁶ <https://lex.bg/laws/ldoc/-12262909>—available 07.2019.

⁷ <https://lex.bg/laws/ldoc/2134405633>—available 07.2019.

⁸ <https://www.lex.bg/laws/ldoc/2134682112>—available 07.2019.

of creation and development of small and medium enterprises as well as measures and programs for encouragement of development of small- and medium-sized enterprises—in particular, the provisions of this law also apply to small and medium-sized social enterprises;

- (8) **Crafts Act**⁹—Effective from 28.05.2001, SG 42, 27.04.2001, last amend. SG 17, 26.02.2019—many social enterprises operate in the production of various souvenirs, works of art and handmade household goods and accordingly fall under the provisions of the Craft Act;
- (9) In 2011, a **National Concept for Social Economy**¹⁰ was adopted. It outlines the vision, objectives, principles, conditions and the framework for the development of social economy and in particular of the social entrepreneurship in Bulgaria;
- (10) From 2014 by decision of the Council of Ministers, a **two-year Action Plan For Social Economy** is accepted, respectively, for 2014/15; 2016/17 and 2018/19 periods
 - For 2014/15 period, the **Action Plan For Social Economy**¹¹ sets five priorities, respectively, (1) raising stakeholder awareness on the nature and functioning of the social economy with three objectives—improving the visibility of social entrepreneurship; creating partnerships and disseminating good practices in the sphere of the social economy, and developing an active supportive environment for the development of the social economy subjects; (2) creating supporting structures for the social economy and social enterprises with one objective—providing institutional support for the social economy; (3) information provision of the social economy with one objective—supporting the information environment for the development of social economy; (4) creating favourable conditions for education, training and research in support of the social economy with two objectives—Development and implementation of educational and training programs in the field of social economy and assessment of the economic and social impact of the social economy subjects on employment, inclusion and achievement of social and territorial cohesion; (5) creating a favourable environment stimulating the development of the social economy with one objective—facilitating access to public procurement
 - For the period 2016/17, the priorities and objectives set by the **Action Plan For Social Economy**¹² remain the same as for 2014/15 period, except for the objective of fifth priority—for this period, it is aimed at optimizing the

⁹ <https://lex.bg/laws/ldoc/2135184905>—available 07.2019.

¹⁰ National Concept for Social Economy was adopted. Ministry of Labor and Social Policy, Sofia 2011.

¹¹ Action Plan for Social Economy, 2014/15 http://seconomy.mlsp.government.bg/upload/docs/2014-02//RESENIE_NA_MS_N_43.pdf.

¹² Action Plan For Social Economy, 2016/17 <http://seconomy.mlsp.government.bg/upload/docs/2016-03//16RH146.pdf>.

national regulatory and strategic framework for the development of the social economy

- For the period 2018/19, the priorities and objectives set by the **Action Plan For Social Economy**¹³ remain the same as for 2016/17 period.

- (11) In 2018 in Bulgaria has been promulgated a **Law for Enterprises of the Social and Solidarity Economy**,¹⁴ Prom. SG, no. 91 from 2.11.2018, in force from 2.05.2019, amend. SG 17 of 26.02.2019, in force from 2.05.2019, amend and supplements, SG num. 24 of 22.03.2019, in force since 22.03.2019 and **Regulation No 115 of 13 May 2019**¹⁵ for the Application of the Law on Enterprises of the Social and Solidarity Economy. The law regulates the social relations to social and solidarity economy, the types of subjects and the measures for their promotion, as well as the terms and conditions for the activity of the social enterprises. It aims to promote the development of the social and solidarity economy as an economic sector. It gives the definition that social and solidarity economy is a form of entrepreneurship aimed at one or more social activities and/or social objectives pursued by enterprises, including through the production of different goods or the provision of services in cooperation with state or local authorities or independently. It sets the principles of the social and solidarity economy as (1) advantage of social-economic goals; (2) association for public and/or collective benefit; (3) publicity and transparency; (4) independence from state authorities; (5) participation of members, employees in making managerial decisions.

2.5 Measurement of Social Enterprises in Bulgaria

Bulgaria has been introducing the European experience and practice in the sphere of social economy over the last 15 years. However, there was no exclusive definition of the term social enterprise until the end of 2018, and therefore, there were not established criteria for the identification of the social enterprises. The strategic documents regulating the development and support of social economy and social entrepreneurship use different interpretations for the terms social enterprise and social entrepreneurship. Although their meanings are very similar on conceptual level, in practice, the different definitions lead to different mapping of social sector. As a result, the statistical assessment of the social sector is hampered, and at present, there is no precise statistical data that allows the tracing and analyses of the size and development of the social economy in Bulgaria. **There are no official estimates of the scale of social enterprise in Bulgaria.**

¹³ Action Plan For Social Economy, 2018/19 <http://www.seconomy.mlsp.government.bg/page.php?c=38&d=125>.

¹⁴ <http://dv.parliament.bg/DVWeb/showMaterialDV.jsp?idMat=131143>—available 07.2019.

¹⁵ <http://dv.parliament.bg/DVWeb/showMaterialDV.jsp?idMat=137575>—available 07.2019.

Table 2.1 Statistical estimation of social enterprise number in Bulgaria

Type of organization	Total number	Estimated number of social enterprises
Non-profit legal entities	35,000	Unknown—it is needed assessment of fulfilling the criteria for social enterprises based on a case-by-case basis
Commercial companies setup by NPLEs	85	85
Workers production cooperatives (specialized cooperatives of people with disabilities are excluded)	221	221
Specialized enterprises and cooperatives for people with disabilities	125	125

Source EC (2014), A map of social enterprises and their ecosystems in Europe: Country Report: Bulgaria, ICF Consulting Services, Limited Watling House, London

Specifically, social enterprises in Bulgaria adopt a variety of legal forms. The EC country report from 2014 (EC 2014) identifies three most common ones that meet the criteria of the European operational definition of social enterprise. These are non-profit legal entities (NPLEs) such as associations and foundations, workers production' cooperatives (including cooperatives of people with disabilities) and specialized enterprises for people with disabilities (using legal forms of commercial companies). According to the report, over 35,000 NPLEs and 346 cooperatives and specialized enterprises are operating in the country (see Table 2.1).

NPLE is the most suitable legal and organizational form for social entrepreneurship development, but despite their large number, just a small fraction of them could be defined as social enterprises. This is because most of them rely predominantly on external financing and do not generate income from market sources. The data for 2012 shows that only 85 NPLEs could be determined as social enterprises with certainty, because they have set up their own commercial enterprise and carry out business activities for income generation and self-sustaining.

Bulgarian National Statistical Institute (NSI) officially started to collect statistical data for Bulgarian social enterprises in 2012. In order to resolve the above-mentioned identification problem, NSI introduced guiding criteria on the basis of which the respondents were able to determine whether they are a social enterprise. According to the statistical survey carried out in 2013, organizations must self-declare themselves as social enterprise if meeting one of the following criteria:

- They regularly invest more than 50% of the profit in the achievement of social aims, such as: assistance to socially vulnerable groups and/or individuals in isolation; environmental protection with impact on society; social innovation activities; other activities, provision and/or production of goods and services with a social purpose; and/or
- Over 30% of their staff comprises vulnerable people.

The NSI survey for 2013 shows that the number of social enterprises is 3612. About 3/5-th of all organizations (2046 number) are registered as trading companies and cooperatives, 1381 of them being profitable. 2/5-th (1566 number) of the self-identified social enterprises are registered as NPLeS, with only 197 of them being profitable.

The most reliable is the statistical data regarding specialized enterprises for people with disabilities, as they are registered at a special register of the Agency for People with Disabilities. As of August 2015, 281 specialized enterprises and cooperatives of people with disabilities were present in the Register of the Disabled Persons, employing 3,364 people with disabilities. All of them are SMEs in size.

The data shows that the different types of cooperatives for work integration of people with disabilities are still predominant forms for social entrepreneurship in Bulgaria. Cooperatives are the oldest and traditional form of social enterprises. In the same time, social enterprises are increasingly being set up by associations and foundations in recent years.

The Economic and Social Council (ESC 2013) reports that the main field of activity of Bulgarian social enterprises is provision of social and educational services, including employment of people with disabilities, provision of assistance in finding a suitable position and going back to work, encouragement of self-employment and entrepreneurship, provision of social and health care services, education and life-long learning, etc. Production and trade are less developed. Specialized enterprises and cooperatives are engaged in provision of commercial services such as utilities, transport, web advertising and design, publishing and advertising. Manufacturing companies make clothes, food (bread, honey), carpentry, herbal cosmetics, souvenirs, decorations, greeting cards, ventilation and air-conditioning filter installations, filters for clean premises, HEPA-filters, etc.

Obviously the activities of Bulgarian social enterprises are usually in areas not particularly attractive to the business, which implies lower profits, slower returns on investments and difficult sustainability.

The main target groups served by social enterprises in Bulgaria are elderly people, young people and children, people with disabilities, long-term unemployed people and marginalized groups in society such as ethnic minorities.

According to the data presented, it seems that the social sector in Bulgaria is well developed, but only in quantitative terms. In addition, the social enterprises have achieved significant results in terms of creating employment and provision of social services to vulnerable groups of society. However, it is unclear what part of the produced social value is the result from sustainable initiatives and organizations which are more compliant to the concept of social entrepreneurship. Also, the available information does not make it possible to determine the effectiveness of the social sector or the extent to which the invested financial funds contributed to achieved social impact.

According to social stakeholder and experts' opinions, the majority of NPLeS rely on external funding through donations or funds attracted from foreign foundations and European programmes. They do not have their own revenues as a result of well-organized and innovative business activities. This outlines an unfavourable picture.

Many of the organizations could not survive without or with limited external support and funding.

Still occasional and rare are the cases of social enterprises that manage to develop innovative business models, offer products and services that have a good market acceptance and thus achieve financial independence.

As a positive trend over the past few years can be highlighted the growing number of implemented socially and community-oriented initiatives. Usually, they are organized and realized by proactive young people, who possess the main features of the social entrepreneur. Usually, they are young, well-educated, often occupying managerial position and have significant professional experience. Driven by strong motivation, they apply original approaches, attract followers and volunteer resources in order to implement bold causes. Good example is the organization of sports tournaments that cover their expenses through donations and voluntary work and generate revenues through participants' fees. The whole earnings are directed to patients needing expensive medical care.

Such kind of initiatives often manages to attract the attention of the society, to generate strong public response and even to change public attitudes and perceptions. However, these examples often remain out of the statistics because they are not always implemented in the form of any formal organization. With proper support, they can become the main source of powerful social entrepreneurs and enterprises able to develop social entrepreneurship in difficult and severe environment.

2.6 Common Business Forms of Social Enterprises in Bulgaria

Social enterprises in Bulgaria¹⁶ exist as commercial companies, cooperatives and non-profit legal entities. All of them have socially significant results for vulnerable groups. The most popular form is NGOs.

There are three **main applied models**¹⁷ of social enterprises in Bulgaria:

- (1) Model for creating employment and developing the workforce—the economic logic of the business initiative is based on the possibility of creating jobs for disadvantaged people. The model is associated with so-called “Protected employment” where the social enterprise is an employer of people with disabilities.

¹⁶ <http://www.socialnet-bg.com/index.php/bg/social-ent-bottom>—project “Establishing a network of social enterprises for implementing innovative marketing strategies”, implemented by the Association of Southwest Municipalities in partnership with South Western Coalition, United Kingdom, and financed under the Operational Program “Human Resources Development”—available 07.2019.

¹⁷ <http://www.socialnet-bg.com/index.php/bg/social-ent-bottom>—project “Establishing a network of social enterprises for implementing innovative marketing strategies”, implemented by the Association of Southwest Municipalities in partnership with South Western Coalition, United Kingdom, and financed under the Operational Program “Human Resources Development”—available 07.2019.

- (2) An entrepreneurial model where the social enterprise is a mediator between disadvantaged people and the market. In this model in the form of occupational therapy, people with disabilities participate in the production of products for which the social enterprise provides distribution.
- (3) Direct service model—This model is most directly related to social service providers. Here, the social enterprise provides social services against payment to external clients, and at the same time, it is a provider of social services for its members, as the payment is being made with a contract with the municipality or the state. It is important to note that under this model, a social enterprise develops the same services but targets different consumers and customers.

According to the registered social enterprises in Bulgaria, they operate mainly in the **following areas**¹⁸:

- (1) **Production and trade**—Most social enterprises operate in production and trade activities, mostly cosmetics, souvenirs, household goods, clothing, food, etc. After realizing their production on the market, the generated earnings are reinvested in the economic activity.
- (2) **Social services**—Under the Social Assistance Act, “social services” are activities that support and expand the ability of individuals to live independent life. They take place in specialized institutions or in the community. Social services are based on purposeful social work in support of individuals to carry out day-to-day activities, as well as their social inclusion and guaranteeing independent living.
- (3) **Educational services**—Legislation in Bulgaria does not impose special rules on educational services provided by social enterprises but entitles non-profit organizations and commercial companies or cooperatives to register as schools and vocational training centres and to issue valid diplomas for education or acquired professional qualification. Social enterprises providing education services may hire persons from socially vulnerable groups as trainers or organize training for such persons. Fees for these trainings are the profits from this activity.
- (4) **Health services**—In the provision of health services and consultations mainly non-profit organizations are involved. Most commonly, these services include blood pressure or blood glucose measurement, medical assistance, rehabilitation services, prophylactic examinations, psychiatric and sex advising, free AIDS testing, and more. They are usually provided together with social services.

Agriculture, eco- and rural tourism—One of the promising areas in which social enterprises can develop is agriculture and rural tourism. Similar businesses exist in many EU countries. Taking into consideration the natural and cultural assets of Bulgaria, the development of such activity is also a possibility. In addition to the

¹⁸ <https://socialenterprise.bg/resources-1/faq.html>—available 07.2019.

production and sale of environmentally friendly agricultural products, social enterprises can also work in the field of rural tourism, production and trade of traditional objects, etc. 7. Bulgarian examples of social entrepreneurship.

Some of the best examples of social enterprises in Bulgaria could be summarized in the next points:

- (1) **Social shops,¹⁹ Varna, Bulgaria**—In 2013, the first Social Shop in Varna, located in the Palace of Culture and Sports started offering products made by people with disabilities from Workers Production Cooperative Rodina, as well as handmade souvenirs by blind people. Products that are available in the social store are hand-crafted by socially vulnerable groups. The initiative is part of the project “Social Shop—Live Heritage”, which was implemented by “My City” Association with the financial support of the Municipality of Varna. Another Social Shop, financially supported by the Workshop for Civic Initiatives Foundation under project “Institutional Strengthening of the Public Donors Fund for Varna” is operating at 7 Dragoman Str. in which handmade souvenirs—ornaments, postcards and other articles made by disabled people are displayed, as well as unique jewellery made of people with mental difficulties, cards with interesting elements created by children deprived of parental care, many other jewellery, magnets and souvenirs made by the hands of people with special needs. This initiative, called the Dreamwork Workshop, will allow the social service centres in the city, as well as many people from socially vulnerable groups, to show their abilities through their craft products. The funds received in the donation box placed in the store will be used to purchase materials and support training in labour and art therapies in social service centres.
- (2) **“Green” Laundry²⁰—social enterprise for adults with mental problems, Sofia, Bulgaria** (Global Initiative in Psychiatry (GIP) Foundation)—The Laundry is a social enterprise founded in 2009 with the support of the MATRA—KAP programme. Since then, more than 20 people with mental problems have acquired work skills through the training program and work in the laundry. GIP also actively pays attention of employers to the myths associated with people with mental health problems. Work-based training helps people with severe mental illnesses develop work skills, learn how to adapt to work and keep their jobs.
- (3) **The Social Teahouse²¹—jobs for young people who grew up in institutions, Varna, Bulgaria**—The Social Teahouse is a social enterprise set up in 2014

¹⁹ <https://www.dfbulgaria.org/2019/socialen-magazin-varna/> and <http://www.moreto.net/novini.php?n=222742>—available 07.2019.

²⁰ www.gip-global.org and http://open-mind-project.eu/wp-content/uploads/2018/03/Open-Mind_E-book_BG.pdf—E-book “50 Inspiring Examples of Social Entrepreneurship and Women Entrepreneurs” prepared in the framework of Project No: 2016-1-BG01-KA203-023,754—available 07.2019.

²¹ <http://thesocialteahouse.bg/en/> and http://open-mind-project.eu/wp-content/uploads/2018/03/Open-Mind_E-book_BG.pdf—E-book “50 Inspiring Examples of Social Entrepreneurship and Women Entrepreneurs” prepared in the framework of Project No: 2016-1-BG01-KA203-023,754—available 07.2019.

in Varna, which provides opportunities for disadvantaged young people who have grown up in institutions to practice social skills, start a job and build an independent life. The Teahouse proposes a three-year mentoring program based on three main stages:

- Mentoring program that helps young people develop social and communication skills, knowledge of their civil rights and duties, emotional intelligence.
- Practical training in the Teahouse where they acquire professional competences in customer service.
- First job, which helps young people have a chance to work and improve their quality of life.

The given examples explain the social business model that supports the development of economic initiatives undertaken by disadvantaged (socially and economically) families. Access to financial resources for such families is restricted as they are not eligible for loans/credits from financial institutions. The target group of the model mainly includes families who:

- do not have sufficient assets to guarantee a steady income;
- take the risk of doing their own business;
- want to become independent producers by acquiring ownership over resources for business activities;
- they may offer their own financial contribution for the acquisition of tangible assets;
- participate with their own labour input and make independent management decisions.

The main goal of the explained social business model is families to become independent economic units by turning accumulated assets into income-generating capital. This is achieved by enabling them to develop a sustainable business by owning tangible assets and acquiring skills to use them effectively. In long run, this increases their chances of access to the instruments offered by financial institutions and to EU business support and development programs. The model is made up of two main components—development of human potential and access to tangible assets. The first component develops skills for efficient use of resources, while the second helps families to accumulate assets. The two components are applied simultaneously.

To ensure development of human potential by introducing the social business model, it is necessary to organize and to support specialized expert assistance in three fields:

- (1) specialized consultations/advising;
- (2) specialized training;
- (3) access to information.

Specialized advising (learning by doing) is the most active field used in the model. Through it, technological knowledge is formed and skills by solving specific practical problems. The specialized trainings are conducted in the form of thematically

focused courses and seminars. This pursues longer-term goals related to acquaintance with new manufactures and technologies, methods and means of payment business development and management. Access to up-to-date information is provided through the distribution of specialized technological, economic, legal and legal publications. They are used to promote self-the broad extension of knowledge.

Access to tangible assets is provided through financial schemes. The funds are provided under condition to be returned/repaid and with own financial contribution to assisted families. There are several advantages to this approach.

- Firstly, the conditions under which families work approach the real market conditions in the country.
- Second, the risk is shared between the donor organization and the model participants. There are two main schemes: a scheme for fixed assets that is reused in the production process (land, machinery, buildings); and disposable short-term assets scheme (fertilizers, preparations, supplies). For scheme participants, periodic on-site consultations provide opportunities for continuous monitoring of their activities.

The main role in the model is played by the financial scheme for the acquisition of tangible fixed assets. It is realized with the following parameters:

- (1) funds initially provided by the families for their own contribution;
- (2) annual appreciation;
- (3) repayment period not exceeding 5 years;
- (4) the purchased fixed assets are used as a guarantee for reimbursement.

A condition for providing access to funds for the purchase of non-tangible assets requires the prior participation in the fixed assets scheme. The main features of the financial scheme for accessing current assets are: a minimum participation of at least 30%; annual appreciation; and repayment term—one production cycle, but not more than 1 year.

The scheme will only start if: (1) the family can guarantee the funds provided through its own tangible assets, or if it participates in the financial scheme for the purchase of tangible assets. In the second case, the maximum amount of aid provided is the value of the already paid share of tangible assets. The requirement for own financial contribution contributes to the proper choice of families and ensures the stability of financial schemes. Securing one's own participation indicates a willingness to take risks in the production activity. Accrual of annual appreciation is aimed at preserving financial resources from inflationary processes, approaching the requirements of the credit market and possibly partial or full maintenance of the model. It is desirable to bring the price closer to the market interest rate or at least to the percentage of similar business support programs implemented in a normal market environment.

The model integrates two types of support—training and financial, aimed at achieving a comprehensive and sustainable improvement in the business practices of assisted families. This requires the use of three types of organizational forms with specific functions and tasks:

- for full implementation and management of the model;
- to develop human potential;
- to ensure access to tangible assets.

This business model of social entrepreneurship has been tested in agricultural production (Plovdiv Region) and in urban areas in different cities of the country for starting a small business (car services and repairing, blacksmith shops, hair salons, bakeries, pastry shops, tailoring workshops and others).

2.7 Conclusion

Social enterprises are accepted form of social and business activities in Bulgaria for more than 25 years. Nevertheless, there fully recognition by the Bulgarian law and authorities is not finished yet.

The main needs of the existence of such type of social entrepreneurship is accepted to be part of social incentives of the social market economy across Europe and EU Member States. As there a huge difference in practices in that field, the EC has accepted different strategic documents harmonising these practices. So, the Bulgarian law recognizes the definitions of social enterprises, social entrepreneurship and social entrepreneurs given by the European Social Business Initiative.

Although the application of social enterprise model is used from 1990s, the real boost of social enterprises is found after 2014 with acceptance of **Bulgarian Action Plan for Social Economy**. They are fully based on the **Bulgarian National Concept for Social Economy** from 2011.

The main sectors that are covered by the social enterprises in Bulgaria are: **Production and trade; Social Services; Educational services; Health services and Agriculture, eco- and rural-tourism.**

Although there are a lot of good examples of social enterprises in Bulgaria after 2014, they are based on the social business model that supports the development of economic initiatives undertaken by disadvantaged (socially and economically) families. The different examples cover three **main applied models**:

- (1) creating employment and developing the workforce;
- (2) social enterprise is a mediator between disadvantaged people and the market;
and
- (3) direct Service Model.

Some of the recommendations of the GECES (2016) for development social economy and social enterprises across EU Member States are fully recommended for the Bulgaria:

- to promote a culture of policy co-creation with social enterprises and their representative organizations;

- to promote participation of social enterprises in different financial schemes as a part of investment and capacity building funding programmes to help social enterprises;
- to enabling National public financial for raising the quality of (newly) established social enterprises;
- to launching national programmes for training social entrepreneurs on how to apply state aid for social enterprises.

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