



THE CHALLENGES OF RUNNING SOCIAL ENTERPRISES: FINDING BETTER SOLUTION FOR DEVELOPMENT OF THE BULGARIAN RURAL REGIONS

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ABSTRACT

The law in force in Bulgaria does not provide for a shared concept in terms of "social enterprise". This type of enterprise is neither defined as a specific legal form, nor is perceived as an innovative way of meeting the growing and unsatisfied demand for social services.

This paper is purposeful towards shedding light on the social enterprise phenomenon in Bulgaria. The first part of the paper provides legal analysts and underlines the fundamental principles that enhance and support the third sector in Bulgaria. An assessment of the existing legal documents is provided with a goal of identifying to what extent do the various legal forms envisaged by Bulgarian legislation exhaust the opportunities for promoting enterprising solutions to social challenges. The second part points out of the existing organizational forms, which one is closer to the definition of social enterprise, focusing on their potentiality and contribution in meeting social needs. In the third part is proposed an institutionalized concept of the social enterprise that encompasses the characteristics of a differentiated legal entity. Methodological framework in the paper is developed in three aspects - government policy, non-for profit sector and community. The study corroborates the necessity to focus on social enterprises through more elaborate and explicit perspective, and to clarify its conceptual base in relevance to the institutional background and support in Bulgaria.

Key words: social enterprises in Bulgaria, government policy, institutional framework

INTRODUCTION

The third sector in Bulgaria plays a significant role in developing of dynamic and innovative solutions to meet various society needs. The enterprises in this sector are characterized by strong focus on the necessities of specific social groups; knowledge and expertise to meet their needs and to tackle complex social issues by offering accessible services' delivery. The combination of producing social and economic returns not only supports them in achieving sustainability of their results, but also to become a complementary and even substitute factor of the government in accomplishing its social role and support in public services.

Even though the social policy has always been a matter of careful policy making and interventional measures, one of the main obstacles in development of social enterprises in Bulgaria remains the fact that there is no

such officially legal definition. Bulgarian legislation is not an exception of the European level statutes for specific legal forms relevant to social economy (associations, cooperatives, mutual societies). The vast array of organizations that compose the third sector has been recognized in several legal documents and regulations. In practice the concept for social enterprises covers traditional forms such as cooperatives, associations and foundations as well as gives room for business models like single-person limited liability companies.

The entrepreneurial dynamic of the third sector organizations has received more attention only recently due to its significant development rate and success in dealing with specific social issues. The established organizations have been recognized by the policy-makers as a driving force in supporting people in unequal position; in promoting enterprising solutions to social, cultural, health or environmental challenges; and in facilitating the provision of public services.

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In Bulgaria social enterprises still cannot find their place in the form of a particular definition as a separate legal entity. The absence of such legal definition gives room for more non-governmental types of organizations to be qualified as value-driven structures, which principally reinvest their surpluses to further social, cultural and even environmental objectives. At the same time this vagueness places the different types of legal entities that could be defined as “social enterprise”, given their economic and social dimension, in an unequal position.

Worldwide developing of “social enterprise” concept

The “social enterprise” was conceptually introduced in Europe and in the United States during the 70-80s. In Europe, the breakthrough step was made by the Italian journal “Impresa Sociale” which introduced the concept of “social enterprise” to emphasize the necessity of a wider recognition of a successful new business model solely envisaged for the achievement of social purposes. The theoretical definition was inspired by the legal initiatives to institutionalize the social enterprise form. The changes began with the legal decision 396 of 24 March-7 April, 1988 that addresses the workability of the Crispi Act of 1890. Section 1 acknowledged the role of government control and recognized the public status of institutions providing social, educational, health and other related services as the so called *Istituzioni di Pubblica Assistenza e Beneficenza*, “IPAB”. The Court decision found that these provisions were in contradiction with the provisions of the Italian Constitution (1948) and more precisely with section 38 which provides for the freedom of private assistance. In this light, the provisions of the Act of 1890 were considered as not in line with the characteristics of the third sector as well as with the capacities of private enterprises to deal with important social issues. As a result, Section 1 was declared unconstitutional (Santuari, A. (2001) *The Italian Legal System Relating to Not-for-profit Organizations: A Historical and Evolutionary Overview*; *The International Journal Of Not-for-profit Law*, Vol.3, Issue 3).

Article 41 of the Constitution of the Italian Republic states that: “Private economic enterprise is free. It may not be carried out against the common good or in such a manner that could damage safety, liberty or human

dignity. The law shall provide the appropriate programmes and controls so that public and private-sector economic activity may be orientated and co-ordinated for social purposes.” (Constitution of the Italian Republic, Parliamentary Information, Archives and Publications Office of the Senate Service for Official Reports and Communication).

Furthermore Article 45 recognizes the social function of co-operatives. A more elaborated definition of “social enterprise” was introduced with the Law 381/ 1991 (*Disciplina delle cooperative sociali*) and the new form of co-operative: the social one. The legal provisions introduce two types of social cooperatives - those that deliver social, health, and educational services (A-type), and those that integrate disadvantaged people to work (B-type). The main functions performed by these cooperatives are formulated as working for social cohesion and support for disadvantaged people. Later on the EMES scholars, based on the experiences of social enterprises at national level in EU-15, introduced a definition of social enterprise that relies on a set of social and economic criteria with the goal of identifying both newly developed organizations and third sector initiatives that were refashioned by a new entrepreneurial dynamic (Borzaga, Defoumy, 2001). This dynamic trend represents the social characteristics of these enterprises in terms of serving community interests, bottom-up initiative, less decisive role of the capital ownership and limited distribution of profit, as well as participation of various parties. At the same time the economic aspects are underlined by the sustainability of performed activity, high degree of autonomy, higher economic risk and minimum amount of paid work.

To a certain extent the absence of concrete legal formulation for social enterprise became more an advantage than a disadvantage, as according to some scholars the definition could narrow and limit the scope of its performed activity and impact (Kerlin, 2009). Similar conclusions are supported by the fact that the definitions of social enterprise vary considerably and it is rare to find an official one throughout the European Union. As an example could be pointed out that 86 per cent of the registered social enterprises in Finland have adopted the legal form of company. In Poland the Act on Social Co-operatives puts forward the issue of social enterprises as cooperatives. In the “Polish Social Economy

Manifest" social enterprises are recognized as "a possible investment opportunity" ("Polish Social Economy Manifest" (2008), Conference „Solidarity Economy during the meeting in Gdahsk Shipyard). The introduced social cooperatives are close to the idea for labour cooperatives that are established by unemployed or individuals with problems stemming from their adequate social and economical integration. There are three main forms in Latvia that are recognized as social enterprises - associations, foundations and religious organizations. Similarly, in Hungary social services could be provided either by legal persons such as: associations, foundations, religious groups, or by individual or joint enterprises aiming at social service activity. According to the French Social Action and Families Code (Article L312-1) the legal entities that perform continuous basis social services are medico and socio-medico institutions. Only in the UK a new form of limited liability company (the Community Interest Company, CIC) has been adopted in order to distinguish the social enterprise as a business with social objectives which is less driven by the need for profit maximization. This different practical experience at the European level is united by certain common characteristics and activities of the social enterprises. These organizations are established to pursue social goals and to address target groups of society, they count on voluntary social work and participatory approach, and last but not least they have non-profit orientation. Social enterprises act at local level, but focus on variety of different groups (disabled, unemployed, disadvantaged and poor) and for that reason their activity is expected to be a concern for various sectors — social policy, employment policy, industrial policy. Although their impact is limited there is the real potential of overall improvement in the above mentioned sector fields. Therefore the introduction of a legal framework of social enterprises is more than just formal institutionalization, but rather securing the performed activities and opening new development perspectives for social enterprises.

According to some authors, the social enterprise is acknowledged as an alternative or as a complement of the government efforts to deal with social needs that remain sidelong (Seelos, Ganly, Mair, 2005). The concept of social enterprise as an initiative arising at local

level thanks to the activation of the community, suggests that these organizations contribute to the enhancement of social capital. According to Coleman (1990) like any other type of capital, the social capital is productive, but it can be depleted if not renewed: *"...Social capital is defined by its functions, it is not a single entity, but a variety of different entities having characteristics in common: they all consist of some aspect of a social structure, and they facilitate certain actions of individuals who are within the structure"*.

Considering this fact, the lapses of the social policy and mechanisms could cause negative effects with more significantly scope of influence than the shortcomings of economic policy and regulations. The solution to overcome these potential problems is revealed in the opportunity to involve players, who represent both society and institutions, through more accessible and efficient regulative structure. Scott suggests that: *"...regulative processes involve the capacity to establish rules, inspect or review others' conformity to them, and as necessary, manipulate sanctions - rewards or punishments - in attempt to influence future behavior"* .(Scott, W.R. (2001) Institutions and organizations; Sage, Thousands Oaks, CA, p. 52)

The core of what mainly distinguishes these social enterprises from the business organizations is their mission to sustain social improvement and to achieve permanent positive effect over important social issues. Their performed business activity is used as means to achieve these goals and the surplus they have accumulated supports and creates lasting improvements.

Categorization of the social services in Bulgaria and responsibility for their supply

Even though social enterprises deal with important social and economic concerns, the its concept has limited dissemination in Bulgaria. The lack of understanding of the potential of social enterprises generates several negative effects (social exclusion, lack of various personal services, underdevelopment of certain less advantaged areas); hence the importance of building awareness and empowering social enterprise through a more enabling legal framework that does not penalize social enterprises. By this it is implied not necessarily the provision of particular legal form but operationalizing the concept of social

enterprise by focusing on the underlying causes, rather than only dealing with the consequent negative results.

The social enterprise as any other enterprise conducts an economic activity and relies on different resources - human, tangible fixed assets, financial, intangible assets etc. For that reason it is necessary to distinguish which specific characteristics are intrinsic only to this type of entrepreneurial activity.

A solid base for such a distinction and further focus and clarification of the target group of these types of enterprises in Bulgaria is not a matter of any particular legal form, but recognition of their activity in specific fields. According to the Bulgarian legislation an enterprise is qualified as social in terms and in respect to activities, such as social services; health care; educational and training services; production, trade, consulting initiative that support specific public needs, it performs. The present analysis is concentrated in three main fields: social services, health care and educational and training services.

One of the traditional areas of social enterprises' competence is the provision of social services. As a rule these services are paid and they accumulate incomes from their social activity. According to the law definition for "social service" in the Social Assistance Act (SAA), Chapter 4, paragraph 16 (1): *"The social services are based on social activities and are aimed at helping people for performing their daily activities, as well as their social inclusion"*. In the Bulgarian legal world the *"activities which assist and expand the opportunities of persons to lead an independent life and which are carried out at specialized institutions and the community"* (State Gazette No 120/2002 of Social Assistance Act of 1998 (2002 Revision), are regulated also by the Rules for the Implementation of the Social Assistance Act (RISAA). Following the text in paragraph 18 (1), these social services are responsibility of the state, municipalities, physical persons registered under Commercial law, and legal persons. This implies that in Bulgaria, providers of social services fall into two main categories - public providers and private providers. Referring to paragraph 40c and 40d of the Social Assistance Act, as suppliers of social services the above mentioned subjects are expected to provide their potential customers with project of the contract for

provision of particular social service, as well as an individual plan after assessing the needs of every customer and the goals that are pursued.

Even though, it is not realistic to expect that the state and municipalities have the resources and capacity to support and fund all community-based services. More likely is that provided social services do not cover and fulfil needs of the target groups as sometimes they even have not been determined properly. An important fact is that there are preferences towards community-based services that are defined as *"state delegated activities"* (education, health services, social assistance and care, culture). Consequently, the services that are most likely to be provided by the municipal administration are the ones that have secured state funding. The reform towards more active decentralization in provision of social services presupposes the following processes:

- elaboration of comprehensive national legislative system for community-based social services as alternative to state social care;
- new approach and public attitude towards the responsibility of community in supporting these community-based services;
- establishment of stable criteria and quality standards in order to evaluate and assess the impact of provided social services.

In 2010 the amendments of the Local Taxes and Free Acts were a matter of discussion with the National Association of Municipalities, as well the process of further decentralization and giving to municipalities freedom in terms of decision-making process and responsibility at the local level. The state continues to maintain and guarantee the performance of social functions and participates through financing the above mentioned state delegated activities. The decentralization comprises of financial decentralization and decentralization in the way that specific services are offered and managed. The process of decentralization is carried out in two stages. The first one is represented as delegation of more administrative functions and power to local authorities. The second stage allows for contracting out functions and obligations from local authorities to private providers of social services. The reason for such reform stems from the necessity for more efficient social services and more strict control over their performance. It is true that municipalities as

public providers of social services possess more privileged position compared to private providers. There is no public information available for the quality of the social services delivered directly from municipalities, as well regarding the level of control and financial mechanisms. As general rule the efficiency and consequent control are not recognized by municipalities as their responsibility and duty as they remain the provider of the social services.

Hence, it is also essential to qualify the mechanism for financing social services. There are three opportunities for accumulation of financial resources:

- suppliers of social services, that are registered in the Agency for Social Assistance, may apply for financial support from state budget or municipalities' budgets;
- suppliers of social services may finance their activity by incomes from taxes of their social services;
- financial assistance from the Social Assistance Fund or other state funds.

The practice so far shows the potential and capacity of the private providers of social services to fulfil the needs, which public providers fail to satisfy. The advantages that give arguments in favour of this statement could be summarized in the following items:

- prevailing number of private providers of social services contact directly to the customers, which gives them the advantage to be closer to the sources of problems and to the relatively optimal solution;
- the usual practice in these organizations is to rely on external donors, that not only invest and develop the institutional and financial capacity of the enterprise, but also control in terms of results and utilization of available resources;
- the organizational hierarchy of the enterprise and its internal control enhance the quality and timeliness of provided social services.

Another public sphere that receives significant attention and active participation of organizations from the third sector is the **health care**. In this case the Bulgarian legislation has explicitly differentiated one category of providers - the so called specialized enterprises, which have a defined

share of employees with disabilities. Legal texts in the Law on Integration of People with Disabilities, envisage these organizations to be registered either as companies (according to Commercial law) or as cooperatives of people with disabilities (according to Cooperative law). It is an often practice when provided services in terms of health care support the first category services - the social one.

Legal person with non-for profit goal can not perform such activity, unless they register a social enterprise as a subsidiary company - the most appropriate and used legal form is the one of a single-person limited liability company. That way the social enterprise is owned by the legal person with non-for profit goals, and the sole shareholder manages the newly established company. The financial resources in these category public services could be categorized in three groups: resources received in connection to health insurance, as well as from the municipality and state budgets; direct payments from patients; and donor programs.

Provision of **educational and training courses** also represents a sphere of the public life with active participation of social enterprises. The law in force gives the opportunities of the schools and the centres for professional education to be registered as non-for profit organizations according to the special legal regime. Referring to the National Education Act an educational service is the one that is provided by the education of children and students besides their regular educational process without providing them with educational degree or professional qualification. An important specification is that social enterprises that perform this activity have no legal authority to confer qualification or educational documents, unless they have accomplished a special procedure for registration and assessment.

Social enterprises in Bulgaria

The missing link between the social entrepreneurial activity and the demand for a particular community-driven service seems to be a comprehensive definition of "social enterprise". According to the existing legislation in Bulgaria the formulation that could be traced back to the term "social enterprise" concludes to: *"a business activity, which is performed by legal person with non-for profit goal, which has explicit social effect on vulnerable groups in the society with a goal: increasing their social standard,*

employment and provision of services or other forms of direct support that will result in their efficient social inclusion”(Law on Non-profit Legal Entities).

The goal of the social enterprise is not an accumulation and distribution of profit, but investment of the incomes in special social cause. By using “vulnerable social groups” are addressed people, who need help to increase their social status or quality of life to the level of the other members of society. The expected “social effect” specifies the positive changes in the social status by providing:

- permanent employment;
- access to products and services on privileged prices or for free;
- definition of these social groups as beneficiaries of the incomes from particular social activity, when these incomes are provided as charitable donations or are used in a manner improving their social status.

One of the most widespread legal forms for providing social services in Bulgaria is the *legal person with non-for profit goals*. According to the Law on Non-profit Legal Entities, in Article 2 (1) is stated that: *“The non-profit legal entities shall freely determine their objectives and may determine their status as organizations pursuing activities for public or private benefit”*. Furthermore in Article 3 (1) is exactly defined that: *“The non-profit legal entities may pursue additional business activities only provided they are related to the subject of the basic scope of activities specified in their registration, and provided the revenues are used for the purpose of attaining the objectives set forth in the statute or the articles of association ”*.

There are two types of acknowledged non-profit legal entities - associations and foundations. These two organizational types, registered under the Law on non-profit legal entities, are eligible to conduct activity in various social spheres. According to the Report on the “Study on practices for management of non-profit organizations in Bulgaria” 81 per cent of the non-profit organizations are registered as associations, of which 74 per cent are registered to pursue activity for public benefit. Foundations that have been registered to pursue activity for public benefit are 13 per cent of the total number of registered non-profit organizations. Their competence and activity are different and encompass almost all

aspect of the public life, although a priority is given to the problems and needs related to the social and health aid and assistance; educational sphere and research activity, development of communities. Certainly the range of their activity is defined by the sources of their financing. In their prevailing part these sources are represented by international donor organizations (53 per cent). Almost one half of the non-profit organizations (46 per cent) receive their incomes from membership shares, and about one third (35 per cent) from business activity. The contributions of the physical persons (26 per cent) and companies (23 per cent) are also spread practice in accumulating financial resources. Only 17 per cent of the non-government organizations have received government subsidies, and as insufficient are defined the contributions of charity initiatives (11 per cent) and local power (5 per cent).

As the conducted social policy and its support mechanisms are responsibility of the state and the local representatives of the state power, there is a significant importance of the collaboration between them and the non-profit organizations. This collaboration with the public authorities mainly takes form of the contract arrangement between municipalities and non-for profit legal entities. The specific features of these contracts are conceded by the Law for Local Management and Local Administration, where is specified the sphere and the subject of the contract, the goal and forms of collaboration, the rights and the responsibilities of the involved parties, as well as their share of participation. In Chapter 8, Article 59 is defined that municipalities may collaborate among each other or with physical and legal entities in order to achieve the goal that is a matter of common interest; or the municipalities may assign carrying out an activity to a particular physical or legal entity.

Another form of collaboration is when municipality participates in the establishment of non-for profit legal entity, which is supposed to carry out a specific activity for public benefit. This form of collaboration is the so called “municipality foundations”, which are bounded with the common framework of the Law on non-profit legal entities.

An important aspect is the possibility for non-profit entities to participate in consulting the executive authorities in the process of preparing and decision-making, as well as in

development of new policies in different society spheres. There are two mechanisms through which is released this possibility: institutional and de-institutional. The choice between these two mechanisms depends on whether the law envisages consulting of the executive authorities by non-profit legal entities to be in the form of participation of the representatives of the non-profit legal entities in the advisory structures (Society councils, common commissions etc.) or independently from these structures.

Considering the de-institutional mechanism the initiative for consulting and advisory activity is bilateral and may be taken from the citizens and their organizations, as well as from the executive authority itself. Regardless of whether the initiative was taken up from the executive authority or not, the latter is obliged to discuss the opinion or the statement of the non-profit legal entity. The de-institutional mechanism regulates participation of the non-profit legal entity in development of the policy decisions through:

- offering an opinion or a statement of the interested non-profit legal entity in respect to draft decision/ program;
- initiating of community debate or discussion;
- participation in the sessions of the competent authority, but only after they have been officially invited.

The institutional mechanism subdivides the form of interaction between the non-profit legal entity and the executive authority into permanent authority with specific rights and temporary structures. The main disadvantage in appliance of this mechanism is the absence of definition in terms of rules, procedures and policies for communication and advisory initiatives with representatives of the third sector, as well as the absence of explicit legal organization of the mechanism of this form of society control.

Non-profit legal entities are also provided with the opportunity to participate in releasing the operational programs. They may be beneficiaries of the program funds, and they can take part as partners of other organizations. In Bulgaria seven Operational programmes, which are co-financed by the European Regional Development Fund, the European Social Fund, and the Cohesion Fund, operate currently. Non-profit organizations have the

opportunity and are eligible to apply individually or in partnerships with companies, municipalities or government institutions. An important opportunity is comprised in the Operational program “*Administration capacity*” and sub-priority 2.3.: “*Strengthening capacity of the civil society structures*”, (for improvement of corporate management and development of social responsibility). The goal of this sub-priority is to improve the knowledge and the capacity of the structures of the civil society to initiate and actively to participate in the local and national policy-making process, as well as for achievement of effective partnership and dialogue with the administration and its structures.

Another operational program is the “*Human resources development*” program and its sub-priority 51 “*Support of social economy*”, which provides for support for the existing specialized enterprises and cooperatives for disabled people; for new working places in the sector of social economy and initiating volunteer and civil initiatives; for establishment of social enterprises by giving start capital for employment of people from vulnerable groups; advisory services for development of social enterprises; educational and training programs for improvement of the management and business skills; and for introduction of the good practices in the social enterprises, cooperatives and specialized enterprises for disabled people. In the sub-priority 52: “*Social services for preventing social exclusion and overcoming its consequences*” of the same operational program is envisaged support for development of new social services, and establishment of sustainable models for collaboration and reciprocal action among all the interested parties in the process of social inclusion at the local and regional level.

The admissible beneficiaries under these priorities are municipalities and providers of social services, advisory companies, employers etc. That way the non-profit legal entities may participate in performance of the operative programs in the forms of beneficiary, partners or executors. In principle for them is regularized the opportunity to perform monitoring of projects through their deliberative vote in the observation committee. The appointed specialized authority that

controls the activity of the organizations for community benefit is the Minister of Justice.

Significant part of the non-profit legal entities is involved in business activity to support their financial stability. As already mentioned in the Law on Non-profit Legal Entities, Article 3 (3) it is foreseen that non-profit legal entities may perform additional business activity only if this relates to the subject of their main activity and only if they use the accumulated incomes for achievement of the goals specified in their by-laws or constituent act. The performance of this business activity is subject to the circumstances and the rules defined by the laws that regulated the type of these business activities. An important specification is that non-profit legal entities do not distribute the profit from their business activity. One weak point is the absence of stimuli (including tax benefits), stipulated for the performed business activity. One of the mechanisms for stimulating financial stability is the received state support in terms of state subsidies and financing on the bases of competition.

Considering the above represented legal characteristics of non-profit legal entities, it could be concluded that this legal form does not fulfil entirely the theoretical comprehension for social enterprise, in view of the fact that by its definition this term presupposes performing business activity. Therefore if the non-profit legal entity is defined as social enterprise it would be contrary to the Law on non-profit legal entities, which strictly stipulates for the non-profit activity and goals of these organizations. In such cases the Law foresees the establishment of social enterprises by non-profit entities. This legal opportunity for performing business activity by non-profit entity is through separate legal subject, which is founded by non-profit legal organization or is legally connected with non-profit legal organization. The enterprise, which is established by the non-profit legal organization, is often a company and follows the provisions of the Commercial Law.

In the most cases the newly established enterprise is a single-person limited liability company and its incomes are invested or used for the social goals of the mother company. This decision is based mainly on two reasons. The first one is that it is a reliable way to collect credit resources and to establish separate management for the business activity. The additional motive is the legal requirement that a business activity could be performed only by companies.

Another option regulated by the Law on Integration of People with Disabilities, is the establishment of specialized enterprises and cooperatives for disabled people as defined in Article 28 (1). They are registered with the Agency of people with disabilities and are expected to meet the following requirements:

- In specialized enterprises or cooperatives of blind people or people with sight deficiencies the members with disabilities shall be no less than 20 percent of the personnel;
- In specialized enterprises or cooperatives of people with hearing deficiencies the members with disabilities shall be no less than 30 percent of the personnel;
- In specialized enterprises or cooperatives of people with other disabilities they shall be no less than 50 percent of the personnel.

According to Article 21 (4) of the same Law, the professional education of the people with disabilities is performed in the above mentioned specialized enterprises and cooperatives.

As a summary of the legal framework regarding social enterprises and their activity, it could be concluded that:

- enterprises that are involved with carrying out social services are supposed to register in the Agency for social assistance as suppliers/providers of social services;
- providers of social services could be physical persons of Bulgarian nationality, registered under the Commercial Law, and legal entities - trade companies, cooperative societies and non-profit legal entities;
- providers of social services could also be the state and municipalities;
- in the category of state providers is included also the Social Assistance department.

Which one of the legal forms meets the concept of “social enterprise”?

Before further proceeding it is important to make another distinctive specification. The broad definition of social responsibility of business includes sustainable economic development. The narrow interpretation of the term considers commitment to particular engagements towards well-being of society. One important issue that remains aside is that the concept of “social enterprise” is not exhausted only by the social responsibility of the business. The term “social responsible business” possesses the following characteristics:

- permanent contribution for economic development and increase the quality of life

not only for the employees in the company, but for the community itself;

- positive influence on community;
- sustainable standard of living.

The main difference between social responsible business and social enterprise consists in the purpose of performed business activity. The activity of the social enterprise has salient social effect and is towards certain social groups. In cases of a social responsible business this effect is achieved when part of the incomes is redistributed for charity or important social purposes, but it is not perceived as main activity. The social effect does not go along with the main activity. In the case of social enterprise there is a direct relation between the subject of the business activity and the socially beneficial goals.

The relation between social enterprises and the category of small and micro enterprises could be made only in case when the social enterprise is established as company from non-profit legal entity. The advantages for the social enterprise, defined as micro, small or medium enterprise refer to:

- participation in different programs and funds for stimulating establishment and development of micro, small or medium enterprises;
- access to specialized information;
- opportunities for partnerships and interrelation with similar enterprises;
- special tax regime.

In Bulgaria closer to the idea for social enterprise are specialized enterprises and cooperatives of people with disabilities. They have to meet some requirements concerning the relative part of people with disabilities from the staff. At the same time there are possibilities for additional funding for programs and projects of people with disabilities, or for special enterprises and cooperatives of people with disabilities. There are also a number of policy documents that contribute to the shaping the labour market in Bulgaria, as well as the strengthening the position of disabled people on the labour market. The Strategy to Provide Equal Opportunities for Disabled People (2008-2015) formulates the key intervention areas such as: efficiency of the employment programs; incentives for employers to hire people with disabilities and to adjust the working environment to their special needs; educational and training programs; and promotion of social entrepreneurship.

The Law on Integration of People with Disabilities contains a section on employment where special enterprises are specified and

regulated in a comprehensive manner. In Article 25 is required that the Agency for Disabled People has to keep record of special enterprises and to provide funding for their business projects, in addition to granted subsidies. Furthermore the taxation law stipulates the incentives for self-employment of disabled people who are entitled to double tax-free income levels. The Law envisages that the employers of people with disabilities are eligible to benefit from corporate tax relieves proportionately to the number of the disabled people hired in the business. Specialized enterprises are totally exempted from paying corporate taxes on the profit they make, as well as from paying local taxes.

The main problems in the social reform in Bulgaria ensue from necessity of stimulating policies for interaction among the state, municipalities, non-profit organizations and business. In this relation the solution is decentralization of the social services in terms of:

- authorisation of special rights and responsibilities from central government to the local authorities to take strategic decisions in provision of social services - this includes definition of the local priorities and social services; holding out new opportunities for alternative social services;
- delegating the right of provision of social services to private suppliers, with gradual change in the involvement of the local authorities from direct supply of social services to financing and control over the way the resources are utilized in terms of quality of provided social services;
- stimuli for the municipalities to finance development of particular social services that will be provided on their territory;
- involvement of the society and citizens in provision of social services;
- social inclusion of the customers of the social services.

The main challenges in the process of decentralization on first place ensue from confusion of the roles of the participants in this process. According to the stipulations of the Social Assistance Act in Article 18 it is specified that social services are released by the state, municipalities and private suppliers. At the same time, announcement of a competition for assignment of particular social service to private supplier or to municipality structures is responsibility of the municipality itself officially represented by the mare. That way municipality becomes a supplier and assignor simultaneously.

The real decentralization presupposes that the local authorities will have the right to assess the social needs and to define the appropriate conditions for their fulfilment, but at the same time to control the process and to seek for responsibility from assigned providers of social services.

Another observation is the inequality between providers in terms of their access to public funds and the control over their activity. The tendencies of recently conducted competitions have shown that these competitions are mainly for the new services “delegated state activity”, for which is secured and provided financial support from state budget. This way is preserved the *status quo* of the already existing social services. The specified delegated state activities do not exhaust the needs of the different target groups, considering that it is responsibility of municipalities to provide on their territory specific services, which are financed by local budget. At the moment the limited municipal budgets hinder release of detailed and profound analysis of the social necessities.

In order to provide such kind of surveys and to develop alternative social services for the local community, municipalities should have the opportunity to accumulate own income. This presupposes continuum of the fiscal decentralization, such as taxes and fees paid by citizens in municipality remain entirely or partially in the municipal budget. An efficient decision is also utilizing the capacity and resources of private supplier of social services. Unfortunately in the most cases municipalities experience difficulties in acknowledging the non-profit organizations as potential partner in provision of social services. To solve this problem it is necessary all the partners to share the same concept and statements in respect to the opportunities and the framework of the decentralization process, as well as participation of private suppliers in the process.

Concluding remarks on social enterprises in Bulgaria

In 2006 was proposed “Organization of social enterprises” with particular legislation changes. The significance of this document refers to the definition of “social enterprise” in the draft Chapter 6 “Social enterprise” in the Social Assistance Act. According to proposed provisions in Article 23 (a) 1: “*Social enterprises encourage entrepreneurship in the social sphere with realizing social inclusion and represent the opportunity for the people in unequal position to live adequate independent life*”. The social enterprise itself is defined as business activity

with social effect, performed by legal entities with non-profit goal or companies with participation of more than 50 per cent share of non-profit legal entity. Under term “*social effect*” it is implied:

- provision of social, educational, health or other services; as well as trade or production of goods;
- financial results from these activities are in favour of people in unequal position;
- performance of these business activities secures employment of people in unequal position, whose share is more than 30% of the total employees;
- creation of new opportunities for employment, development of skills and professional realization for people in unequal position.

These proposed changes are supplemented by adequate changes in the Corporate Income Tax Act. The proposals foresee holding the corporate tax within the enterprise and its redistribution to support performed social activity.

This proposal remains only as a draft-project as well as the legal definition of social enterprises, which is in contrary to the acknowledgment that in the recent years the entrepreneurial responsibility has grew in terms of strengthening and improving society life (1). Regardless of this fact, the practical examples show that this type of organizations does exist and participate actively in provision of community-based services. The social enterprises’ model represents a quite successful combination of entrepreneurial initiative and social responsibility. Social enterprises are led by the notion for social responsibility and awareness. They use the business approach and market-driven strategies to deliver social benefits and to deal with important social problems. The main characteristics that describe the social enterprise phenomenon comprise of introduction of a new manner in dealing with social issues and sustainability of provided social services. Since in this paper have been discussed the main legal forms under which social enterprises in Bulgaria could be registered, there could be outlined some particular criteria for qualifying one enterprise as social.

Social enterprises direct their efforts towards *specific target groups* of potential customers - the people that represent socially vulnerable groups or in general groups with unequal position in the society. Therefore the legal framework within which are provided the social services concludes to the Social Assistance Act (SAC) and Regulations for Implementation of the Social

Assistance Act (RISAA). Social enterprises pursue activities for *public and private benefit*. The defined social purposes are irrevocable, since they are registered as non-profit legal entities upon the Law on non-profit legal entities or cooperatives for disabled people upon the Cooperative Law. Consequently social enterprises are *prohibited from profit distribution*, unless they establish subsidiary company, which falls into jurisdiction of the Commercial Law. Even then, the subsidiary company pursues business activity which is closely related and supports the main purpose of the non-profit entity. The Law stipulates also *continuum of performed social activity* even in the cases of liquidation of the social enterprise. According to Article 44, in the Law on non-profit legal entities the property, which remains after satisfaction of creditors, could be delivered to a non-profit legal entity with similar objective; or to the municipality which is also bound to use the property for purposes or activities similar to the ones of the dissolved enterprise. Social enterprises could be defined as one of the main *drivers for community development*. This result is achieved first of all through working on the social cohesion and incorporation of disadvantaged people to the community life. They have the capacity to strengthen the social capital not only by increasing life quality and integration of people in unequal position, but also by incorporating society to their activity and initiating civil responsibility and awareness. Another undeniable contribution of social enterprises is that they deal with issues and look for solutions in areas that are not attractive for the business companies to invest, nor are supported by reliable or even adequate state interventions.

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