

POLICIES AND CHALLENGES FOR SOCIAL ENTREPRENEURSHIP OF EU COUNTRIES

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Abstract

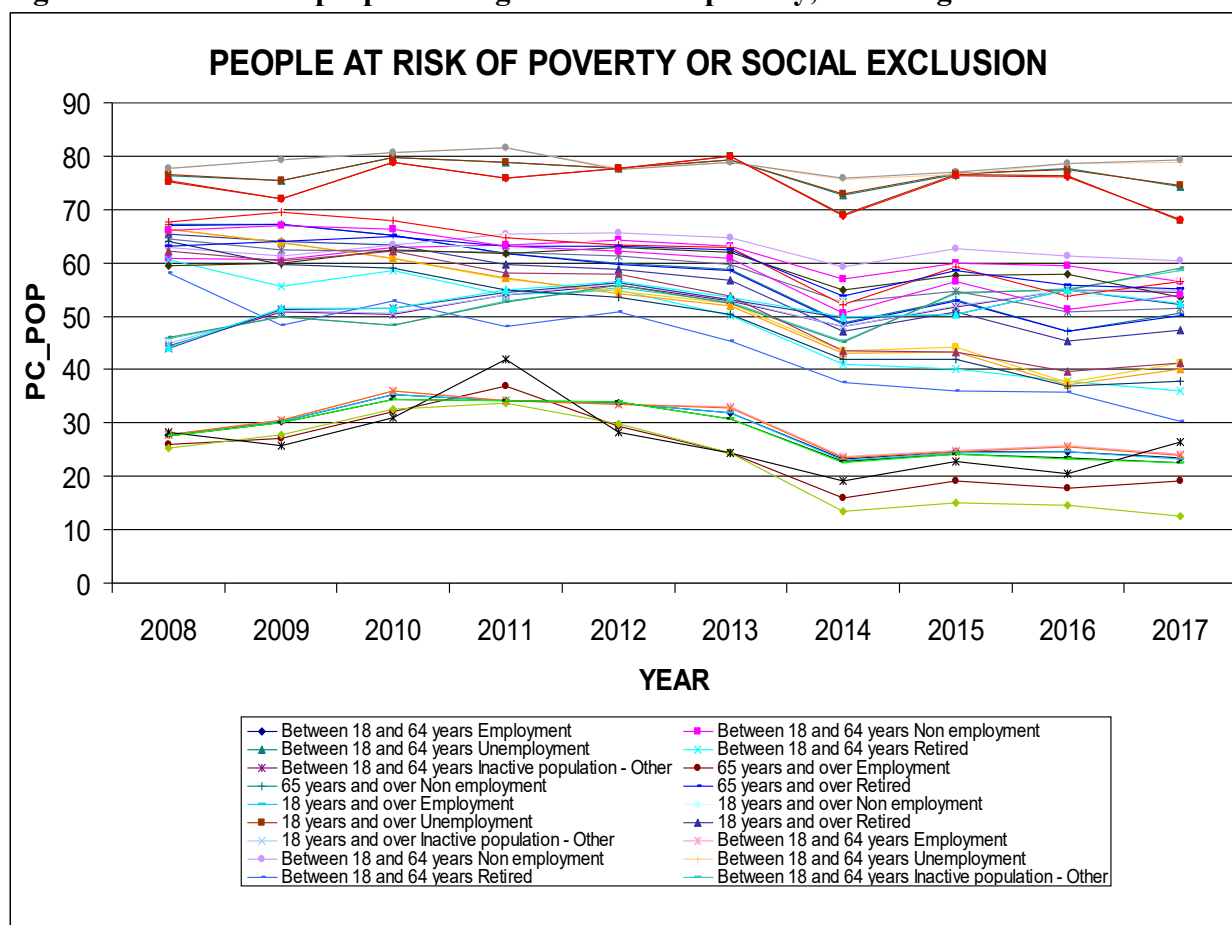
Social enterprises (SE) address poverty, social exclusion, and unemployment as key social challenges; create jobs, generate tax revenue, benefit society. Public policies support SE development and generate value for community. Policy design helps SE scale their impact by strategies such as franchising, mergers, acquisitions, diversification, organisational growth to extend to new markets, locations, products, services. Policy makers help SE overcome challenges; use social clauses and contracts, focusing on markets, finance and skills. Financial support by public funds, loans, equity or quasi-equity, subordinated debt from banks, hybrid funding sources, foundations remains essential for SE.

Social enterprises in Bulgaria

According to NCI data [Financial statement, 2018], the activity rate of the working population aged 15-64 reached 71.6% in the third quarter of 2017. Despite the high activity rate, some 101.7 thousand persons aged 15 to 64 belong to the discouraged; 2 696.7 thousand persons are out of the workforce due to inactivity. The outlook for 2018-2019 is expected to be moderately positive due to a limited supply of jobs. Statistics for people in Bulgaria at risk of poverty, following the data of NCI are presented on Figure 1.

About 4800 enterprises in 2014 have identified themselves as social enterprises, of which 2 194 are non-profit and 2526 are non-financial enterprises, according to NSI data, the overwhelming part being micro-enterprises and small enterprises. About 2/3 of non-financial enterprises make a profit and their turnover average to BGN 150,000 annually. The minimum threshold set for reinvestment for a social purpose is BGN 7500. Of the self-identified as social enterprises in Bulgaria, about 25% are commercial companies as a legal form, of which are created under the Cooperatives Act, the Non-Profit Legal Entities Act or under the Obligations and Contracts Act. In 2017, more than 36 000 were employed in the self-identified as social enterprises in Bulgaria, or over 1% of the total employed, the majority being representatives of vulnerable groups. For the EU, about 6.5% of employees are in enterprises of the social and solidarity economy. A register and a certified system for social enterprises have to be created in 2019. The government's government program for Bulgaria envisages for 2017-2021 (measure 54) the share of 2% of GDP for the development of social entrepreneurship as a quantitative indicator [Financial statement, 2018].

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Figure 1. Statistics for people in Bulgaria at risk of poverty, following the data of NCI.

Source: data NCI

The Program for Governance of the Republic of Bulgaria for the period 2017-2021 identified goal 41: Improving the quality of life of population groups through the development of the social economy and through transparent, socially responsible business practices "and measure 154 which formulates quantitative an indicator of nearly 2% of the country's GDP for the development of social entrepreneurship. Thus, it is underlined that the development potential of these enterprises has not been reached. Almost 2% of the country's GDP should be achieved by 2021 through the activities of enterprises in the social and solidarity economy. [Measure 154: Formation of an environment that brings about 2% of GDP to the social economy enterprises, Government Program for the Government of the Republic of Bulgaria for the period 2017-2021] [Report on the Full Preliminary Assessment, 2018].

Under the Human Resource Development OP 2014-2020 the social and solidarity economy is placed in a separate Investment Priority 4: "Promoting social entrepreneurship and professional integration in social enterprises and promoting the social and solidarity economy in order to facilitate access to employment" under Priority Axis 2: "Poverty Reduction and Promotion of Social Inclusion". For a scheme: The development of social entrepreneurship has been allocated a financial resource of BGN 15 000 000 [Report on the Full Preliminary Assessment, 2018].

The law regulates the social relations related to the 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. The law aims to promote the development of the social and solidarity economy as an economic sector with special rules for:

1. improving the access to employment and training for acquiring or improving the professional qualification;

2. creating conditions for support of the persons on social inclusion and independent living;
3. reducing social inequality and sustainable territorial development.

The 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.

The principles of the social and solidarity economy are:

1. Advantage of social-economic goals;
2. association for public and / or collective benefit;
3. publicity and transparency;
4. independence from the state authorities;
5. participation of members, employees in making managerial decisions.

The subjects of the social and solidarity economy are cooperatives, non-profit legal entities for socially beneficial activities and social enterprises.

The social enterprises shall be entered in the register of the social enterprises under the conditions and by the order determined by this law and by the rules for its implementation [LAW ON SOCIAL AND SOLIDAR ECONOMY ENTERPRISES, 2019].

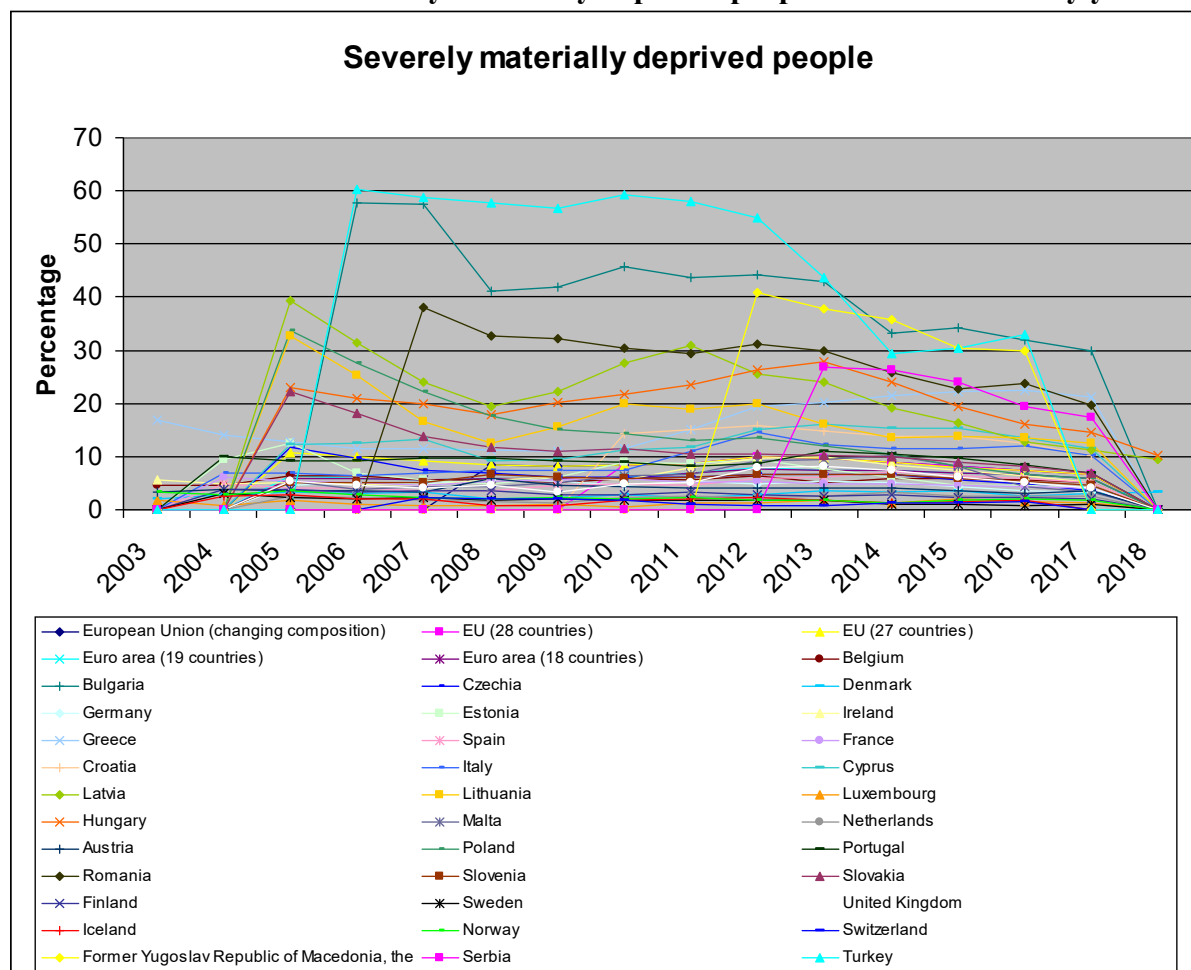
Strategies for scaling the social enterprise impact

Since 1982 the OECD programme on Local Economic and Employment Development (LEED) has advised governments and communities to respond to economic change and problems: contribute to the creation of jobs through policy implementation, innovative practices, stronger capacities and integrated strategies [Policy Brief on Scaling, 2016]. Statistical data on severely materially deprived people in EU countries, following Eurostat, are presented on Figure 2.

In European level, the definition of a social enterprise includes:

- an entrepreneurial dimension (with earned income generated by the sale of goods/services on the market);
- a social dimension (social aim and delivery of products/services);
- a governance dimension (accountability, participation and transparency).

The degree of development of social enterprises varies significantly across EU Member States. In Italy, France and the United Kingdom the social enterprises are well integrated in both the welfare system and market with social added value. In Bulgaria, Croatia, Czech Republic, Romania and Slovenia the social enterprises are still at an early stage of development, invisible and isolated. The policy makers have to help social enterprises scale their impact.

Figure 2. Statistical data on severely materially deprived people in EU countries by years.

Source: Eurostat.

Scaling impact through expansion

Scaling social impact is a challenge for all committed to supporting social enterprise development such as public agencies, networks of social enterprises, communities, researchers. Policy design has a significant role in helping social enterprises scale their impact, by considering different strategies. Franchising, mergers and acquisitions play a significant role - especially for social enterprises with more than 250 employees. Social enterprises could use all means: organisational growth, mergers, acquisitions and diversification to extend to new markets and locations or through new products and services. Policy makers should also highlight successful cases. A policy design should facilitate the creation of partnerships and enhance knowledge sharing among social enterprises and conventional enterprises (including through open sources and channels). Policy makers can help social enterprises overcome different challenges by focusing on **markets, finance and skills**. Social enterprises obtain partially their revenues from the markets.

Finance

Financial support from various streams remains essential to social enterprises during their scaling trajectory. Public funds or subsidies could help to scale their impact by replicating a proven model and build their organisational structure. Loans (equity or quasi-equity, subordinated debt from commercial and co-operative banks) are appropriate for social enterprises with consolidated business models. Other sources of funding are the hybrid funding sources, social-impact investing or venture capital, depending of their development stage or scaling pathway. Foundations also

provide financing, multi-year support, non-financial support, network involvement, organisational capacity building and performance measurement (OECD, 2014; OECD, 2015).

Challenges of financing of SE

Finance is the main barriers to scaling (requires EUR 100 000 to EUR 500 000 (Financing Agency for Social Entrepreneurship, 2015)). The early-stage social enterprises are not able to cover more than 75 % of their operating costs with revenues and thus could not reach their full potential. Foundations grants with their complex procedures are often difficult to access.

Social enterprises need favourable conditions to scale. The main strategies are:

- Encouraging national and local authorities to use social clauses and reserved contracts;
- Engaging conventional enterprises and corporations to adopt a social responsibility;
- Help in financing, connect SE with investors;
- Policies and initiatives (campaigns, awards, labels, media exposure, enhance social enterprises' visibility) which can help them generate resources – but also inspire others to replicate their models.

Thus, policy makers can help social enterprises select the most suitable strategy by promoting open sources and networks, stimulating knowledge transfer and supporting pilot projects [Policy Brief on Scaling, 2016].

The Europe 2020 strategy

The Europe 2020 strategy, designed as the successor to the Lisbon strategy, was adopted by the European Council on 17 June 2010. It is the EU's common agenda for this decade — placing emphasis on promoting a growth pact that can lead to a smart, sustainable and inclusive economy, in order to overcome structural weaknesses, improve Europe's competitiveness and productivity, and underpin a sustainable social market economy [Eurostat regional yearbook 2016].

The Europe 2020 strategy seeks to achieve the following five targets by 2020:

- Employment — increases the employment rate among those aged 20–64 to at least 75 %.
- Research and development — increase combined public and private investment in R & D to 3 % of gross domestic product (GDP).
- Climate change and energy sustainability — reduce greenhouse gas emissions by at least 20 %.
- Education — reduces the rate of early leavers from education and training to less than 10 %.
- Fighting poverty and social exclusion — lift at least 20 million people out of the risk of poverty and social exclusion.

The European Commission adopted seven flagship initiatives in order to drive progress towards these Europe 2020 goals:

- Smart growth — the digital agenda for Europe, the innovation union, and youth on the move, the latter ended as of December 2014;
- Sustainable growth — resource efficient Europe and an industrial policy for the globalisation era;
- Inclusive growth — an agenda for new skills and jobs, and the European platform against poverty and social exclusion.

Employment package

In April 2012, the European Commission launched the employment package 'Towards a job-rich recovery' (COM (2012) 173 final). This focused on the potential for structural, labour market reforms promoting job creation through to 2020 [Eurostat regional yearbook 2016]. The employment package builds on the Europe 2020 agenda for new skills and jobs:

- supporting job creation, including social enterprises and business start-ups;
- harnessing the potential of job-rich sectors;

- mobilising EU funds for job creation — through the European Social Fund (ESF);
- reforming labour markets;
- investing in skills,
- moving towards a European labour market.
- promoting social dialogue and the involvement of social partners in the development of employment and social policies.

Entrepreneurship 2020

The European Commission adopted an Entrepreneurship 2020 Action Plan (COM(2012) 795 final) at the start of 2013 [Eurostat regional yearbook 2016]. The plan is built on three main pillars:

- entrepreneurial education and training to support growth and business creation;
- the creation of an environment where entrepreneurs can flourish and grow;
- reigniting the culture of entrepreneurship in the EU and nurturing the new generation of entrepreneurs.

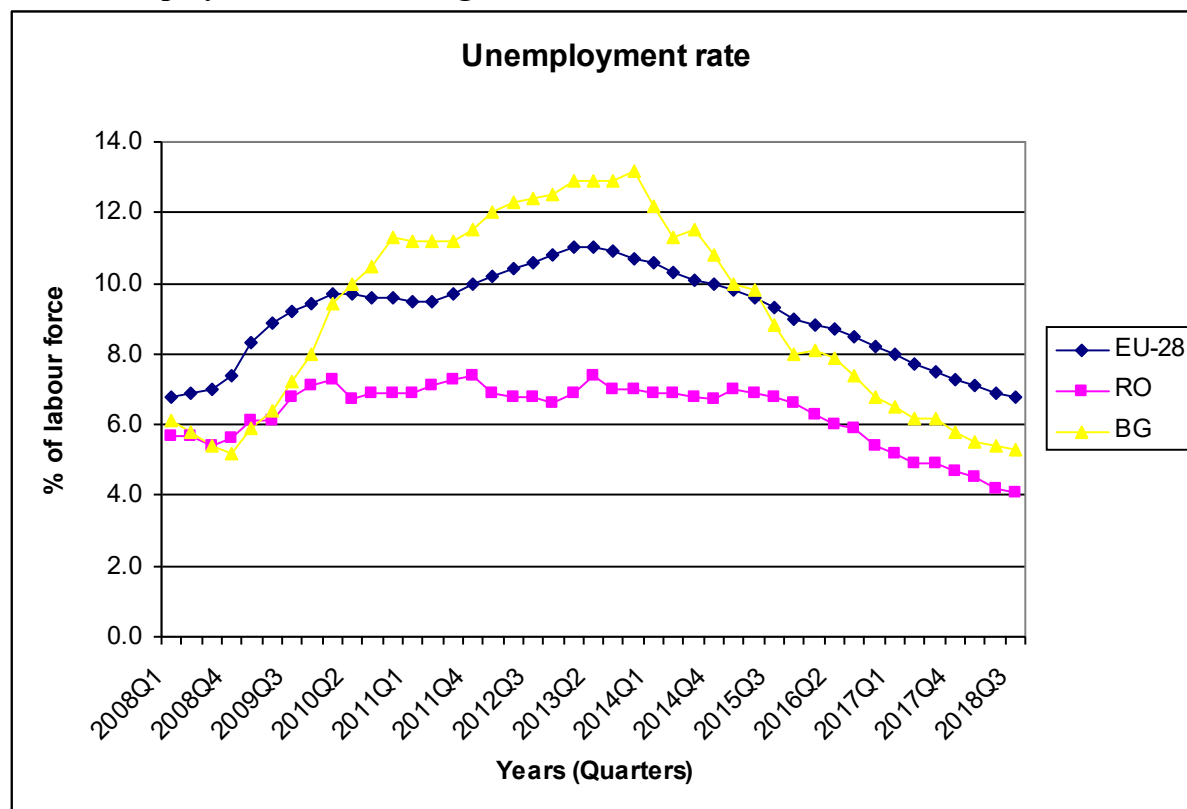
The European social fund (ESF)

The European social fund (ESF) aims to improve employment and education opportunities, as well as the situation of the most vulnerable people, for example, those at risk of poverty. During the period 2014–20, more than EUR 80 billion has been earmarked for human capital investment in the EU Member States. The ESF will focus on supporting four thematic objectives: promoting employment and supporting labour mobility; promoting social inclusion and combating poverty; investing in education, skills and lifelong learning; enhancing institutional capacity and an efficient public administration [Eurostat regional yearbook 2016].

EUROPE 2020 TARGET: lifting at least 20 million people out of the risk of poverty or social exclusion

Almost one quarter (24.5 %) of the EU-28 population was at risk of poverty or social exclusion in 2014, equivalent to 122.2 million persons. In this context, it appears very unlikely that the Europe 2020 target — which foresees lowering the number of people in the EU-27 in at risk of poverty and social exclusion by at least 20 million — will be met.

In 2014, around 40 % of the populations of Romania and Bulgaria were facing the risk of poverty or social exclusion. The risk of poverty or social exclusion in Romania, Bulgaria and Poland falling between 2008 and 2014 by 4.0 percentage points in Romania, 4.7 points in Bulgaria, and 5.8 points in Poland. The unemployment rate for Bulgaria, Romania and EU-28, following the Eurostat data, is presented on Figure 3.

Figure 3. Unemployment rate for Bulgaria, Romania and EU-28

Source-Eurostat.

The European platform against poverty and social exclusion addresses the adequacy and sustainability of social protection and pension systems and the need to ensure adequate income support in old age and access to healthcare systems [Eurostat regional yearbook 2016].

European Economic and Social Committee (EESC) considers that [INT/770 Financial ecosystem/social enterprises]:

- access to finance as one component in the full ecosystem needed for the development and growth of Social Economy Enterprises (SEE);
- ideal financial ecosystem for SEE includes features such as a multi-stakeholder approach, hybrid and patient capital solutions with guarantee schemes;
- ensure that financial regulation enables the development, promote research on the societal added-value of investing in SEE;
- social economy is an investment priority in the current Investment Plan for Europe;
- providing a supporting factor in the Capital requirements regulation. Bank lending to the social economy would benefit greatly from this, with no impact whatsoever on public finances;
- financial support from the EU level must be coupled with the EC providing guidance, training and capacity building for governments and key stakeholders;
- Member States should act as co-investors to support the establishment of ethical funds, social innovation funds and social venture capital funds and facilitate public guarantee schemes. Opportunities of tax rebate on income as well as other tax incentives;
- SEEs must themselves take initiatives in developing instruments such as auto-capitalisation, crowdfunding and engaging in social finance partnerships.

Member States must develop and implement national action plans for the social economy based on a broad stakeholder approach including representatives from civil society. The EESC stresses the need to see access to finance as one component in the full ecosystem needed for the development and growth of Social Economy Enterprises (SEE). The real potential of SEE can only

be realised if access to finance is integrated into a **tailored and fully integrated ecosystem** together with components such as legal frameworks, business development and various support, demonstrating that **social investment is both financial and non-financial investments** [INT/770 Financial ecosystem/social enterprises].

Using a range of finance sources

- **Public funding** remains a key finance source in many MS and for many SEEs.
- **Private finance** instrument vary from traditional instruments such as commercial banks, business angels and venture capital to such as donations, venture philanthropy and social impact investors.
- **Individuals' interest** to invest into SEE initiatives especially at community level. Crowdfunding platforms, donations and philanthropy provide a key finance resource for SEEs.
- **The social economy sector** itself generates funds in the form of retained earnings often encouraged by the tax relief system.
- **Specialised financial institutions, social, ethical and cooperative banks** as well as social venture philanthropy provide instruments specifically designed for SEE.

Consideration must be taken when building a marketplace or platform for these **instruments** and incentives to attract capital must be evaluated.

The heart of social finance is **social impact measurement** to demonstrate the social impact created in parallel with financial return. This is the only way to capture the full value created by the SEE activity and the full scope of Return on Investment (ROI) – both social and financial [INT/770 Financial ecosystem/social enterprises].

An ecosystem based on blended capital

Particular attention should be given to **hybrid forms of financing**. The hybrid capital combines public grants, philanthropic funds, donations with equity and debt/risk-sharing instruments. Financing instruments of a hybrid capital nature include recoverable grants, forgivable loans, convertible grants and revenue share agreements. Hybrid capital often involves close interplay between public and private capital and a common policy objective but also co-dependence balancing interests between stakeholders. Other finance solutions, suitable for SEE are **patient forms of capital**.

SEEs must themselves take initiatives in developing instruments such as auto-capitalisation, crowdfunding and engaging in social finance partnerships via own resources [INT/770 Financial ecosystem/social enterprises].

The Social Pillar is given welcome prominence. It should be made clearer how it will be put into practice, how resources can be made available through European Social Funds and other European instruments and how that will be financed at EU and Member State level. There are references to areas where new policies have been proposed, including fair taxation, the banking union and the functioning of the euro area. Full involvement of the social partners and civil society would be beneficial. The 2019 Annual Growth Survey is set in the broader context of 22 consecutive quarters of economic growth, including social inclusion [European Economic and Social Committee. ECO/481, 2019].

Conclusions

Social enterprises as new way of doing business address poverty, social exclusion and unemployment that are key social challenges. Social enterprises create jobs, generate tax revenue and benefit the society. Public policies support social enterprises to develop and generate value for the community. Policy design is helping social enterprises scale their impact by considering different strategies. Franchising plays a significant role for social enterprises. A variety of strategies such as organisational growth, mergers, acquisitions and diversification are used to scale their impact to new markets, locations, products, services, or revenue-generating activities. Policy

makers can help social enterprises overcome challenges, by focusing on markets, finance and skills. Financial support from various streams remains essential such as public funds, loans, equity or quasi-equity, subordinated debt from commercial and co-operative banks, emerging hybrid funding sources, foundations. Funders of social enterprises cannot always assess the impact of their investment. National and local authorities have to use social clauses and reserved contracts to help social enterprises to overcome different challenges.

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ЗАКОН ЗА ПРЕДПРИЯТИЯТА НА СОЦИАЛНАТА И СОЛИДАРНА ИКОНОМИКА

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