



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

OPINION

on

"THE SOCIAL ECONOMY – OPPORTUNITIES AND PROSPECTS FOR DEVELOPMENT IN BULGARIA"

(own-initiative opinion)

Sofia, 2012

The Economic and Social Council of Bulgaria included in its Action Plan for 2012 the elaboration of an opinion on

"Social Economy – Opportunities and Prospects for Development in Bulgaria".

The development of the draft opinion was assigned to the Commission for Social Policy and the Commission for Economic Policy.

Pursuant to the decision of the Commissions Dr. Ivan Kokalov – member of the ESC Group II – trade unions – was appointed rapporteur.

At its meeting of 16 October 2012 the Commission for Social Policy and the Commission for Economic Policy discussed and approved the draft of this opinion.

At its Plenary Session held on 29 October 2010 this opinion was adopted by the Economic and Social Council.

1. The concept of social economy

1.1. The social economy has a specific genesis and occurs at a time of severe economic problems and social conflicts, so it has always been rationalised and understood within the contemporary ideological, economic and political context. The entire 19th century and the first half of the 20th century abound in examples showing that when large groups of people fall in adverse economic and social conditions, they resort to using structures of solidarity, join together and create social economy organisations.

1.1.1 Even the first mutual organisations that emerged in the nineteenth century (often called "brotherhoods") and their funds are a form of response to the severe living conditions of industrial workers and peasants.

1.1.2 Moreover, the consumer cooperatives emerging during the same period were created by people who had no access to goods and services using conventional means. Production cooperatives, on the other hand, evolved as a result of the desire to preserve the relative independence of their members' work and protect them from having to accept employment as wage workers.

1.2. ESC accepts the understanding that the main objective of social enterprises is the provision of goods and services to their members or to larger community groups – not servicing capital investments. Therefore, generating revenue (larger than expenditure) is an objective of secondary

importance after the performing the respective activities (services) and is not a driving force in the economic activity of these subjects.

1.3. ESC holds the opinion that social enterprises have as their primary objective the creation of beneficial social impact rather than making profit for their owners or members. These entities are simultaneously part of the real economy and of organised civil society. Generally, they do not distribute profit but rather invest in the achievement of their social goals.

1.4. Within the wide range of social enterprises ESC notes the development of several major forms typical of this type of economy:

1.4.1. As it is generally known cooperative enterprises are a major component of the social economy. Over time they have become very numerous, varied, and entered into many new spheres of the economy. In the beginning of the 21st century the International Cooperative Alliance (ICA) unites more than 750 million cooperative members from the five continents. There are many types of cooperatives: agricultural cooperatives, workers' cooperatives, savings cooperatives, crediting cooperatives, consumer cooperatives, social security cooperatives, marketing cooperatives, housing needs cooperatives, social and many others.

1.4.2. Mutual associations (mutual benefit associations) play an increasingly important role in the areas of health care and social security of developed (industrialised) countries and contribute to the management of different social risks, such as covering expenses for medical care, provision of medicines and medical consumables, hospital expenses; supporting the families of deceased persons; funeral expenses

(especially transportation of the body of the deceased from abroad); supporting social ceremonies like weddings or funerals.

1.4.3. Associations providing benefits and services to their members and the community at large (usually using non-market means but often using market ones as well).

1.4.4. A wide range of specialised work integration social enterprises – from enterprises for people with disabilities to enterprises for persons who have remained outside the labour market for a long time.

1.4.5. Other self-supporting enterprises, associations, mutual associations, and other similar organisations having as their main objective the achievement of social goals and operating in accordance with the principles of social economy.

1.5. Despite the existence of some differences in their mechanism of operations and activities, ESC believes that there are a number of common characteristic features that bring together social enterprises:

1.5.1. Their activity is predicated on social or public goals and is for the most part characterised by social innovation.

1.5.2. Gained profits are reinvested into the achievement of these social or public goals and the provision of services to individual members or to larger social groups is considered more important than making profit.

1.5.3. Their activities are organised in accordance with the principles of democracy, solidarity and social justice in decision making.

1.5.4. The management is autonomous and maintains its independence from the influence of government and other institutions.

- 1.5.5. The interests of the people outweigh those of the capital in the distribution of income.
- 1.5.6. Provision of goods and services primarily to vulnerable groups of consumers for which it would be otherwise impossible to meet their basic human needs.
- 1.5.7. The mode of production of goods or provision of services is aimed to achieve social and professional integration through giving access to employment for disadvantaged people, particularly if they are disadvantaged due to their low qualification, social or professional problems.
- 1.6. Although historically various components of the social economy have long been known ESC believes that its recent advancement can be understood as an innovative strategy for socio-economic development, reflected in the creation of a new and sustainable economy segment. This segment is parallel to the existing economic structure, has the potential to offset their negative effects and brings change to the socio-economic development of a country, without prejudice to existing economic structures and entities, and their operation.
- 1.7. In this regard, ESC believes that considering the new and specific functions of the social economy, its current potential and possibilities should be considered beyond the conventional notions and that they should be perceived as a reliable tool for serious improvements in the basic structure of the economy, employment, distribution, income levels, etc. In this regard, the most common idea of the functions of the

social economy, i.e. "combating poverty and social exclusion," is definitely limited.

1.8. The social economy as a whole performs socially specific functions that cannot be fulfilled or are insufficiently fulfilled by the state and the market. In this context, the social enterprises are really needed to cover essential needs of groups of people who cannot be met through existing government policies and market mechanisms.

1.9. ESC notes that in the further development of the concept and practice of social economy it is necessary to make a much clearer distinction between this kind of economy and the so-called third sector (understood as a segment composed of non-governmental organisations). Although there are common characteristics and definitions of social economy and the third sector, the ESC believes that there are key differences that should be allowed more attention in the debates and policy development of the social economy.

1.9.1. A typical feature of the social economy is placing the main emphasis on the democratic principles of decision making in such organisations and in general there is no rule that prohibits the distribution of profit. In the case of the third sector the prohibition on the distribution of profit is the main focus, whereas the issue of democratic governance is not of the same priority.

1.9.2. Moreover, in this way social enterprises can earn their own income and to distribute it among its members, while third sector entities operate mostly based on external subsidies (government or other sponsors) and

do not earn their own income and do not distribute their own earnings among their members.

- 1.9.3. While expressing its support for the third sector ESC at the same time believes that organisations functioning in line with the concept of social economy have a more significant potential and contribute more to economic growth and employment.
- 1.10. ESC further emphasises the public importance of the social economy and the third sector as a kind of compensation mechanisms for social exclusion and social exclusion effects resulting from the problems and weaknesses of the real economy and the institutions of social protection. Social economy organisations and the third sector provide to excluded groups, which cannot acquire or take advantage of certain benefits and services within the existing economic structures and institutions for social protection, the ability to create parallel structures for access to such benefits and services.
- 1.11. ESC discerns a trend in the European Union for the emergence of hybrid forms between the social economy and the third sector – where the regulatory differences between them are only formal and concern primarily their registration.
 - 1.11.1. In Finland, Portugal, Spain and Italy, for example, organisations often choose cooperative status when registering, while in other EU countries, they are usually registered as non-profit organisations.
- 1.12. ESC believes that there are potential risks and challenges to the further development of the social economy if the basic principles, characteristics and objectives of this economy and the interests of the

key stakeholders are not clearly and specifically defined and regulated. In this situation, it is possible to use the regulatory and institutional framework of the social economy to create social enterprises which focus mainly on using existing forms of tax relief and incentives, rather than on protecting the general social interest and the benefit of the persons involved in such organisations.

1.12.1. Some banks in Spain for example have benefited from the regulation of non-profit organisations and have gradually restructures their not return their "social saving programme" outside of their basic structure. So these bank programmes have been transformed into foundations and have gained legal autonomy because this status allows them to meet the formal regulatory criteria and become eligible for tax relief.

1.13. In this regard, ESC proposes that before adopting regulations for social enterprises the legislative branch of government should make a sufficiently detailed preliminary analysis and assessment of the possible expected effects as well as the legislative regulation of stakeholders' interests.

2. Recent trends in the development of the social economy in the European Union

2.1. ESC notes that since the early 1980s in the European Union there has been a renewed and growing interest in the development of the social economy. Since then the need for revival and further development of the social economy has been officially and publicly declared and a number

of Member States have started to implement specific policies for its development. In such countries the support and the actual development of the social economy in the early 1980s proved to be a kind of buffer before later economic and social problems in the context of the economic crisis.

2.2. Of course, the development of the social economy in many countries did not prevent the crisis, but it created a real opportunity to mitigate its most serious economic and social effects. According to ESC, exactly at a time of economic crisis the social economy has proven its ability to compensate emerging problems that cannot be solved by the state or the market.

2.3. Despite the growing importance and relevance of the social economy, there are significant differences between Member States in terms of its development. For example, the study commissioned by the European Economic and Social Committee prior to the accession of Bulgaria and Romania to the EU showed varying degrees of development of the social economy in Member States and their differentiation into three main groups:

2.3.1. Countries deploying extensively the social economy: France, Italy, Portugal, Spain, Belgium, Ireland and Sweden.

2.3.2. Countries deploying relatively modestly social economy: Cyprus, Denmark, Finland, Greece, Luxembourg, Latvia, Malta, Poland and England.

2.3.3. Countries where the social economy hardly deployed or not deployed at all: Austria, Czech Republic, Estonia, Germany, Hungary, Lithuania, the Netherlands and Slovenia.

2.4. According to a more recent survey of the International Centre of Research and Information on the Public, Social and Cooperative Economy (CIRIEC) the persons employed in the social economy are around 14 million, representing about 6.5% of the EU workforce. According to the data of the European Commission, currently in the EU there are around 2 million social enterprises, providing work for about 6% of the workforce on the continent.

2.5. Other studies show that approximately every fourth enterprise established in Europe, is social. In Belgium, Finland and France, the share goes up to every third undertaking. It is also reported that social enterprises are very resilient to the crisis, and sometimes even more effective in purely economic terms.

2.6. ESC believes that the evident dynamic development of the social economy during the last two decades in the EU is not only a consequence of national policies but primarily the result of the focused European policies implemented during this period. ESC welcomes the growing interest and increasing efforts of the EU institutions, especially the European Commission, to support the development of the social economy.

2.6.1. In this regard, ESC recognises the importance of the Communication from the Commission to the European Parliament, the European Economic and Social Committee and the Committee of the Regions on

"Social Business Initiative: Creating a favourable environment for the promotion of social enterprises as key players in the economy and social innovation" presented in October 2011.¹

2.6.2. A sign of the coherent European policy for the social economy is the presented in December 2011 Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on European Social Entrepreneurship Funds.

2.6.3. Great significance to the development of the social economy sector also has Commission Recommendation of October 2008 on² as well as the Small Business Act for Europe³ prepared by the Directorate General "Enterprise and Industry" of the European Commission. At the same time the social economy policies are implemented within the initiatives ADAPT and EQUAL through the European Social Fund by means of its pilot project "Third System and Employment Programme" through the PROGRESS programme.²

2.7. The European Commission explicitly states that taking these steps, it puts the social economy and social innovation at the heart of its agenda

¹ Communication: Social Business Initiative. Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation - COM (2011) 682 final, 25 October 2011

² EC Communication on a Commission Recommendation on the active inclusion of people excluded from the labour market, COM (2008) 639 final, 3 Oct 2008

³ Communication "Think Small First" – A "Small Business Act" for Europe COM (2008) 394 final, 25 June 2008

⁴ Within the Commission the social economy initiatives are entrusted to the department of "Crafts, small businesses, cooperatives and mutuals" to the "Fostering the competitiveness of small and medium enterprises," DG "Enterprise and Industry". Since 2000 the social economy is represented by an autonomous European Standing Conference of cooperatives, mutual societies, associations and foundations (CEP-CMAF), Which in 2007 adopted the name "Social Economy Europe."

in terms of the degree of approximation of regional development and in seeking solutions to the problems facing society, and especially in the fight against poverty and social exclusion. Arguments for this are available in a number of documents, the strategy "Europe 2020", The flagship initiative "Innovation Union" and the "European Platform Against Poverty and Social Exclusion" and the Single Market Act.

- 2.8. ESC emphasises that the structural funds of the European Union should be used to support social enterprises. Thus ESC welcomes the Commission's proposal to include after 2014 an "investment priority" in the European Social Fund focusing especially on them.
- 2.9. ESC joins the opinion of the European Economic and Social Committee to prioritise social enterprises in the adoption of the multi-annual financial framework and set aside enough money for them.
- 2.10 According to ESC swift steps are needed to ensure that the access of social enterprises to innovation and R&D programmes such as "Horizon 2020" is provided on the same terms as that of other actors at European, and national level.
- 2.11. ESC notes with satisfaction the broad public support for the actions of the Commission in the development of the social economy. An example of this are the public consultation on the draft Single Market Act, which showed a strong interest in the possibilities of social enterprises and the social economy in the response to the economic and social challenges, creating new jobs, further social integration and improvement of social services.

- 2.12. ESC finds that the current development of the social economy in the EU is associated with the emergence of new fields and forms to create new types of social enterprises. One of these new fields is health care. The demographic trends, exacerbating health care issues facing health-care services, individual groups of the population, and the existence of problems with the access to health-care services can be considered as a prerequisite for these new forms of the social economy in health care. In this regard, in the EU we observe a development of structures for assistance, new forms of social security and new systems of health care, based on local communities or built in accordance with cooperative principles.
- 2.13. The collapse and the problems of the labour market have also become a prerequisite for the development of other forms of the social economy. For example, in France, there are specific economic entities the purpose of which is to support the redirection of the unemployed to the labour market; associations with specialised interest; as well as local neighbourhood councils. In Germany there are forms of corporations for employment and training; in Belgium – companies for job training; while in the UK there are business corporations in local communities.
- 2.14. The serious problems in the financial sector are seen as a prerequisite for the development of various organisational forms defined as "decentralised financial systems", "alternative financial systems," "informal financial systems", etc. In particular this has to do with restoring conventional and specific character credit associations,

cooperatives for saving and crediting, as well as credit systems based on solidarity.

- 2.15. ESC notes the development of new forms of social economy also in the agricultural sector. They include irrigation cooperatives, grain banks, credit unions and marketing cooperatives for agricultural and handicraft products, etc.
- 2.16. Considering the diversity and dynamics of current developments in the social economy, ESC believes that this economy today should be seen not so much and not only as a means of realising certain values or achieving narrow social goals. Therefore, the social economy should not be understood by definition as the economy of the poorest and the most vulnerable, because such a view restricts its significant importance.
- 2.17. Therefore, ESC emphasises that in the current phase the social economy is a necessary complement to the deformed economic and social environment which contributes to the maintenance of market economy elements for combining economic profitability with storing human capital and complements social safety nets. It helps create new business entities, expand the range of market players, create new jobs for disadvantaged people, including those with disabilities.
- 2.18. ESC emphasises that the social economy today is a champion of all modern European democratic values, a form and an example of active European citizenship.
- 2.19. Last but not least, it should be noted that the social economy is a key element of the European social model because its subjects – the so

called social enterprises operate in all sectors of the economy and contribute directly to social and economic cohesion.

3. Opportunities for the development of the social economy in Bulgaria

- 3.1. ESC welcomes the efforts of the Bulgarian government and the Ministry of Labour and Social Policy (MLSP) to create the necessary preconditions for the development of the social economy in Bulgaria. The National concept for social economy is a good basis for further public debate and the specific formulation of the main preconditions and incentives for the development of the social economy in the country.
- 3.2. ESC believes that the social economy has a long tradition and history in Bulgaria mainly through the development of cooperatives. During the 120 years since their introduction to the Bulgarian economy cooperatives passed through many trials and crises, but proved resilient as a result of following the fundamental values and principles of the social economy. Today in Bulgaria there are nearly two thousand cooperatives with over 500 thousand members. The majority of employed people with disabilities work in such cooperatives.
- 3.3. Irrespective of the fact that in Bulgaria there are also other forms of social economy, ESC finds that in comparison with a number of European countries the social economy in our country has little contribution to solving the economic and social problems emerging from the crisis. In this respect it is necessary to evaluate and systematize all underlying assumptions and conditions that can lead to a strong impetus

to the development of this important segment of the socio-economic system in the country.

- 3.4. ESC finds it appropriate to continue the public debate on the National concept for social economy with all stakeholders. A broader national study of the existing forms and practices of the social economy in the country will significantly contribute to a clearer and more precise definition of the main actors of the social economy in Bulgaria.
- 3.5. ESC believes that the study of European experience in countries with developed social economy will not only enrich the national debate, but also provide basic ideas and proposals for the development of the social economy in the country. ESC recommends a thorough analysis and evaluation of the Bulgarian historical experience and traditions in the development of mutual associations and enterprises that were the subject of particular interest and success in a previous historical period. In this regard, ESC believes that there is still little interest in and attention to the potential for development of mutual enterprises especially in the areas of finance, micro-crediting, health care, social security and welfare.
- 3.6. ESC finds that the current Bulgarian legislation provides a good basis for the implementation of activities with strong social impact and benefits. In terms of the National concept for social economy, however, it is necessary to introduce legislation and regimes, which more clearly and discretely regulate the social enterprises and the incentives and conditions applicable to them. In this context, there is a particularly urgent need for legal regulation of the main forms of social economy in

the country, which are entitled to benefit directly from specific funding and policies supporting the social economy. As already stressed, it is crucial to institute reliable legal restriction for other operators different from those involved in the social economy to benefit from the funding and incentives earmarked for Social enterprises.

- 3.7. ESC believes that studying the legislative regulation practices in the area of social economy in countries which have similar traditions and history to those in Bulgaria are a reliable way for the timely resolution of regulatory issues standing in the way of the social economy in the country.
- 3.8. According to the ESC the current European legislation is another reliable basis for the development of the social economy in Bulgaria and its legislative regulation. In this respect, ESC believes that the transposition of the main recommendations of the European Parliament in the national legislation is the second important step for the necessary legislative regulation of the social economy in the country.
- 3.9. ESC also supports the call of the European Parliament for statistical recognition of the subjects of the national economy and the introduction of national satellite accounts. The development of reliable statistical database for social enterprises is a prerequisite for the effective analysis and subsequent monitoring of its development.
- 3.10. In its opinion on "The Role of Bulgarian Cooperatives for the Development of the Social Economy within the Europe 2020 Strategy" ESC proposes the statistical formation of cooperatives in Bulgaria by building statistical satellite accounts them. ESC also proposed that the

National Statistical Institute (NSI) adopt a methodology for the creation of satellite accounts for cooperatives in Bulgaria by using the results of the project realised in collaboration with CCU and NUPC. Therefore, ESC believes that the timely introduction of statistical satellite accounts for the main subject of social economy in Bulgaria – cooperatives – can become a reliable model for further proceedings in respect of other forms of social economy in the country.

- 3.11. ESC welcomes the position expressed in the National concept for social economy concerning the avoidance of imposing of excessive regulation and control over the enterprises and other social economy organisations in the country. The implementation of this approach will provide the necessary independence and autonomy of social enterprises in relation to governmental or institutional influence, which is one of the fundamental principles and values in understanding the social economy. At the same time, we consider it appropriate that the government should require from social enterprises and organisations which use the label "social enterprise product" to provide the necessary institutional and financial openness and transparency.
- 3.12. Considering the main characteristics and the prevailing local profile of the social enterprises, ESC appreciates the crucial role of local authorities for their development. Moreover, ESC proposes continuing the consultation and debate about the role of local authorities in the development of the social economy and addressing the broad range of unsolved questions in this area.

3.13. ESC believes that guaranteeing social entities' access to financial resources is crucial to the success of the social economy in Bulgaria. Despite the limited national resources, much larger funding opportunities are emerging in the Operational Programme "Human Resources Development" and Operational Programme "Competitiveness". In this regard, ESC emphasises that there are still many difficulties and obstacles facing social enterprises, and in particular cooperatives, with respect to their access to funding from the European Structural Funds. Given the problems of ensuring social enterprises' own financial contribution in the context of their participation in the operational programmes, it is necessary to provide opportunities for special assistance, including through the creation of a special fund.

3.14. ESC believes that in order to provide the necessary financial resources to social enterprises in Bulgaria, it is necessary to assess the effects of their activities. Irrespective of some general principles and findings of the importance of the social economy, there is a lack of more precise estimates of the role, place and impact of the development of social enterprises in the country. In this respect, ESC believes that the availability of a reliable tool for assessing the effects of the activities of the entities of social economy and making such assessments the country's problems in funding and providing incentives, including through introducing new benefits, will be solved much faster.

3.15. ESC notes that the country is also experiencing a certain deficit of trained professionals in the field of the social economy. In this respect it

is an evident need of more productive dialogue between the government, the universities, and social enterprises, as well as for providing means for support of academic institutions preparing specialists for this area of the economy. In order to increase the attractiveness of this field of education, it is essential to update the list of the regulated professions in the Republic of Bulgaria and to add the professional qualification "social entrepreneur".

- 3.16. ESC reports the need for overall policy coordination for the development of the social economy in the country. In this regard it proposes the establishment of a coordinating body at the Ministry of Labour and Social Policy, responsible for overall policy and application of the concept of social economy in the country, while at the same time maintaining the functions of the National Council for the Integration of Persons with Disabilities.
- 3.17. ESC also considers necessary to conduct an extensive national survey and start using other forms of systematisation of best practices in the development of the social economy in Bulgaria. On these grounds, it is necessary to ensure widespread presentation and promotion of these practices which should be sufficiently accessible to all stakeholders, especially to young people.
- 3.18. ESC believes that a very important aspect of the promotion of the social economy in the country is the rapid development of reliable methods and conducting specific studies to assess its contribution to the socio-economic system.

3.19. ESC expresses its unanimous position that only on the basis of effective social dialogue and active involvement of social partners and other key stakeholders it is possible to achieve the desired solutions and results in the development of the social economy in the country.

3.20. In conclusion, ESC expresses its firm conviction that the long-time Bulgarian traditions, the social dialogue and the experience in the country are reliable prerequisites for the successful development of the social economy and declares its readiness to actively participate in all major stages of the consultation process.

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