

# Policies for financial support of social enterprises <sup>1</sup>

## Trends in promoting social entrepreneurship at the European Union level

**A circumstance of great importance:** In 2011, the Court of justice of the European Union adopted the Decision "Paint Graphos"<sup>2</sup>, by which it establishes a certain regulatory framework for cooperatives. With it, the Court recognizes that in relation to state benefits, due to the restrictions that are imposed on them when accessing financing for their own activities, cooperative companies do not operate in a privileged factual and legal position compared to companies for economic purposes. As a result, the measure of tax advantage for cooperatives could not be described as a selective advantage in their favor. The Court justifies its arguments by the characteristics inherent in cooperatives in terms of control, relations with their members that are not purely commercial, and, above all, weak access to capital markets and the urgent need to rely on their own funds to ensure their development.

**Avant-garde<sup>3</sup>:** Collective call on the European Union to grant limited profitability enterprises legal recognition and to provide guarantees of fair competition from the private entrepreneurial initiatives of the Advocating for Non-Profit Enterprises network.

*"The COVID-crisis highlighted the crucial role of social and solidarity economy organizations to provide the needed care for the population. We are major players of the European pillar of social rights and we strongly contribute to the European economy while fostering social ties among the people.*

*Yet, the specific legal models of companies with limited profitability are not yet recognized by European legislation. This concept is defined in an own-initiative opinion adopted by EESC<sup>4</sup> in 2019 and recognized at international level by the United Nations<sup>5</sup>.*

*Therefore, our structures are facing an unfair competition with for-profit enterprises caused by the legal oversights on our inner differences: we have a different approach to the distribution of surplus earnings and we have higher constraints on access to capital, which is necessary to grow. Also, in some countries we have legal restrictions on an enterprise, part of the structure and activity of a non-profit organization, without being able to take advantage of this status.*

...

*EU and national regulations must more effectively foster the development of limited profitability enterprises by setting a legal and political framework guaranteeing a fair while safeguarding our fundamental values of solidarity, economic resilience, and the absence of the pursuit of profit.*

*Various ways of including limited profitability enterprises in European law can be considered: the inclusion of the concept when the future revision of the rules on Services of General Economic Interest takes place, publication of an interpretative communication on the extension of the Paint Graphos ruling to cover non-profit enterprises, a protocol appended to the treaty or amendment of article 54 of the TFUE."*

## Decisions of Bulgarian institutions in support of social enterprises - what, how, when.

Forthcoming: Social enterprises and entrepreneurship in the Operational Program Human Resources Development for the new programming period (OPHRD) 2020 - 2027 (version as of 28.10.2020, sent to the European Commission:)



*"...There is a need for support for social enterprises in the use of new technologies and the improvement of digital skills, workplace equipment, providing access to markets and funding, as well as providing a quality workforce .." - p. 9 from the project of OP Human Resources Development 2020-2027*

Support for social enterprises and entrepreneurship is provided for in Specific Objective 1 "Improving access to employment for all jobseekers, in particular young people and the long-term unemployed, as well as the inactive, by promoting self-employment and social Economy" of Priority 1 of OPHRD for the next programming period "Employment Promotion and Skills Development". The analysis of the activities set in the project shows the following:

- Activities in support of social enterprises are provided under Objective "Support for the development of social enterprises, incl. and the digital skills of those working in them" (p. 42 of the project), however, social enterprises as such are not envisaged among the specific target groups of this Objective, such as local action groups.
- Social enterprises are also part of the measures under the Community-Led Local Development (CLLD) Approach, applicable in the territory of selected local action groups, provided that the funded operations are part of the measures of their multi-fund CLLD strategies approved for funding from HRD 2021-2027 through a selection procedure at national level and taking into account local specifics. Under this specific objective, OPHRD may support ITI and CLLD measures aimed at:
  - Support for the development of enterprises in the social economy in order to create conditions for sustainable employment of highly vulnerable groups and the implementation of socially significant activities.
    - Creating partnerships and networks, clusters in the social economy.
    - Support for conducting trainings for employees and workers in social enterprises; validation of the acquired skills at the workplace in the social enterprise (especially for people with disabilities) to integrate into the labor market
    - Stimulating the forms of cooperation between social enterprises for shared production and distribution of products. Support for activities to raise awareness, recognition of the products of social enterprises on the market.
    - Support for self-employment, incl. in the field of social economy: a. measures to stimulate entrepreneurship of those wishing to start a business, development and evaluation of business ideas, training for entrepreneurial skills, support for registration of business activities; b. measures for development of skills in the field of social entrepreneurship, incl. for the unemployed and young people; c. measures to support and develop start-up entrepreneurs; d. access to finance for start-up entrepreneurs; e. specific support for self-employment of young people and other disadvantaged groups in the labor market f. support for social entrepreneurship.

A total of € 14,024,082 has been set aside to support the social economy and social enterprises under one specific objective "Improving access to employment for all jobseekers, in particular young people and the long-term unemployed, as well as the inactive promoting self-employment and the social economy" of Priority 1 of OPHRD for the next programming period "Promoting employment and skills development".



## Recovery and Sustainability Plan of the Republic of Bulgaria

At the end of October, the government presented a Draft Plan for Reconstruction and Sustainability of the Republic of Bulgaria - October 2020. The main goal of the Plan is "economic and social recovery from the crisis caused by the COVID-19 pandemic," and in the long run "convergence of the economy and incomes to the Central European ones "and laying the foundations for a green and digital transformation of the economy, in the context of the ambitious goals of the Green Deal ."

According to the requirements of the EC, Bulgaria's plan must address the country-specific recommendations of the European Semester for 2020 and 2019, contain elements of reforms and lead to economic growth. It is recommended to prioritize investment projects with higher project readiness in view of the time horizons of the Mechanism, to create jobs and to strengthen the economic and social sustainability of the Member State and territorial cohesion. An effective contribution to the environmental and digital transition is also a precondition for a positive assessment, with a minimum of 37% of spending currently planned to go to green investment and 20% to digitalization.

With regard to the development of the social economy, the plan provides for the following (p. 49)

"Supporting the social economy - Support will be provided for start-up and existing social enterprises, as well as for the subjects of the social economy by creating focus points for promotion, promotion, consulting and assistance for starting and development of social entrepreneurship, supporting the digitalization of the (production) processes of the subjects of social economy. social and solidarity economy, incl. and in the field of green economy. The total planned resource is BGN 21.5 million with a implementation period of 2021 - 2024. "

**Relevant:** you can participate in a public consultation initiated by the Bulgarian center for non-profit law on the recovery and sustainability plan, as well as give your feedback, specific suggestions, and ideas or you can provide your one statement at the Portal for public consultations up to 29 of November: <http://www.strategy.bg/PublicConsultations/View.aspx?lang=bg-BG&Id=5572>.

<sup>1</sup> The present material is prepared by the Bulgarian Center for Not-for-Profit Law, Pavleta Alexieva, Program director and Zahari Yankov, legal consultant in collaboration with Aglika Stanina, student of "European Studies", fourth year at Sofia University "St. Kliment Ohridski", intern at the Bulgarian Center for Non-Profit Law

<sup>2</sup> C-78/08 - Paint Graphos e.a. <http://curia.europa.eu/juris/document/document.jsf?docid=109241&doclang=EN>

<sup>3</sup> Up to date

<sup>4</sup> A. Coheur. (2019). "Towards a European legal framework adapted for social economy enterprises (own-initiative opinion)". INT/871-EESC-2019. p.1-10

<sup>5</sup> They have a different objective function than standard corporations. Reflecting this, they are prohibited or significantly limited in their distribution of profits and income to units that control or finance them. Although they may earn surpluses, the principal purpose of TSE institutions is not to earn financial returns to investors, but to produce goods and services that have some public or social benefit. They therefore are not typically suitable for profit maximizing investment purposes. Entrepreneurs in these institutions are often driven by social or ideological impulses rather than solely pecuniary ones." Satellite Account on Non-profit and Related Institutions and Volunteer Work, United Nations – October 2018

<sup>6</sup> <https://www.nextgeneration.bg/#modal-two>

