SOCIAL ENTERPRISE – WHAT IS THAT?[1]

A social enterprise is defined as a business that has specific social objectives that serve its mission. Social enterprises seek to maximize both financial profits and benefits to society. Their profits are principally used to fund social initiatives to achieve sustainable measurable impact.

The social enterprises are at the border between the non-profit organizations and the business companies

Specifics of the social enterprises which are important for the instruments for financial sustainability and growth

Social enterprises go through more difficulties than other types of enterprises in accessing resources and capital. All three key dimensions that contribute to their value creation affect their access to finance or the financial return on investment. Restrictions on the distribution of profits in social enterprises, their social mission and the specifics of their governance structure often lead to their identification as a risky investment that has a lower expected return. It is these features that must be taken into account in the design and implementation of financial instruments aimed at social enterprises.[2]

Specifics of social enterprise	Main consequences	Financial restrictions
Entrepreneurial: social enterprises are engaged in continuous economic activity such as the production and / or exchange of goods and / or services. This distinguishes them from traditional non-profit organizations / social economy entities that generate income but are not necessarily engaged in regular economic activities.	Economic activities can generate profits, but social enterprises have **limitations in the distribution of profits and / or assets.**	This can make it difficult to find financial support, especially for financial instruments where traditional investors expect a share of assets or profit (equity and quasi-equity).
Social: social enterprises pursue a goal that is important to society. To achieve their goals, they must have a long-term mission.	The long-term social mission is one of the factors that may give the impression to potential traditional investors that social enterprises are at **higher risk and less profitable** than other companies.	Financial instruments such as loans and guarantees may require higher interest rates and collateral. Social enterprises have difficulty obtaining long-term credit.
Governance: social enterprises implement participatory governance, democratic decision-making - mechanisms to "lock in" the organization's social objectives and the involvement of a number of stakeholders, including those directly involved in the enterprise, such as employees, end-users or volunteers.	Social enterprises often adopt the principle of "one member - one vote" in decision-making **(power is not based on capital ownership).**	The limited participation of private investors in decision-making, business process creation and business limits equity and quasi-capital.

Source: European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2014), 'A map of social enterprises and their ecosystems in Europe – Executive summary', p.2.

[1] The present material is prepared by the Bulgarian Center for Not-for-Profit Law, Pavleta Alexieva, Program director with the collaboration of Aglika Stanina, student of "European Studies", fourth year at Sofia University "St. Kliment Ohridski ", intern at the Bulgarian Center for Non-Profit Law.

[2] European Commission DG Employment, Social Affairs & Inclusion; European Investment Bank Advisory Services fi-compass (2016) „Financial instruments working with social entrepreneurship" – The social enterprise financial ecosystem, p.11