



## Ecosistema de las empresas sociales: status quo y su desarrollo auspicioso

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**Resumen.** Se ha prestado cada vez más atención al desarrollo del sector social en Europa. El artículo presenta varios modelos existentes de empresas sociales en Bulgaria y otros Estados miembros, como, la República Checa, Grecia y Hungría, y analiza el ecosistema en el que están funcionando. La selección se basa en características territoriales, demográficas y hasta cierto punto regionales.

Se realizó un breve análisis comparativo. El principal aspecto examinado es el marco legal en el que operan. Se presenta una revisión de la posible cartera de instrumentos de financiación internacionales y nacionales y se realiza un breve análisis de la trazabilidad de los resultados. Se comenta la actualización existente y futura de las legislaciones y políticas nacionales. Se ha hecho una evaluación general del entorno necesario para sus actividades.

Se deliberan las características básicas y los problemas de los ecosistemas. El artículo analiza las barreras comunes y proporciona recomendaciones en las cuales los países examinados podrían trabajar para mejorar el éxito de las empresas sociales.

El artículo indica que la inestabilidad del entorno legal y financiero dificulta el desarrollo de las empresas sociales y reduce su longevidad.

**Palabras clave:** Empresas sociales; Ecosistema; Marco legal; Instrumentos de financiación; Tendencias; Desafíos.

**Claves Econlit:** B55; A13; L31.

### [en] Social enterprises' ecosystem - status quo and its auspicious development

**Abstract.** There has been an increasing focus on the development of the social sector in Europe. This article presents several existing models of social enterprises in selected member states, namely Bulgaria, the Czech Republic, Greece, and Hungary and analyses the ecosystem in which they are functioning. The choice is based on territorial alleys and demographic and, to some extent, regional characteristics.

A frugal comparative analysis has been carried out. The main aspect examined is the legal framework in which they operate. A review of possible portfolio of international and national funding instruments is presented and a short analysis of the traceability of the results is made. Existing and further updating of national legislations and policies is commented on. General assessment of the environment needed for their activities has been identified.

Basic features and problems of the ecosystems of SE are discussed. The article considers common barriers and provides recommendations which the countries under review could follow in order to improve the success of social enterprises.

The article indicates that the instability of the legal and financial environment hinders the development of social enterprises and reduces their life-span.

**Keywords:** Social enterprises; Ecosystem; Legal framework; Funding instruments; Trends; Challenges.

**Summary.** 1. Introduction. 2. Social enterprises and their ecosystem. 3. Overview of the social enterprises' ecosystem of Bulgaria. 4. Overview of the social enterprises' ecosystem of Greece. 5. Overview of the social enterprises' ecosystem of the Czech Republic. 6. Overview of the social enterprises' ecosystem of Hungary. 7. Comparative analysis findings. 8. Conclusion. 9. References.

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### 1. Introduction

The European Union strives to improve social cohesion and reduce inequalities. The need for action to achieve social change is manifested through the establishment of social enterprises (SE). They are citizens' individual response to different unfair situations in society. Social enterprises are private organizations which adopt strategies to achieve socially-oriented goals (Dacin et al., 2010). Social enterprises are one of the ways

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in which social innovation is applied in practice, where a wide range of strategies are adopted in order to address problems and opportunities in society (Alter, 2007) and enable citizens to respond to certain needs more effectively than the current situation allows them to. One of the unique features and advantages of social enterprises is that they are able to identify and understand regional problems. Their social mission relies on different stakeholders such as charity organisations, government, investment funds, among others (Defourny and Nyssens, 2016).

In order for SEs to thrive governments should ensure that their ecosystem functions well, taking into account the factors which shape it. Understanding SEs ecosystems better could give a perspective on the steps towards improving the sector and effectively supporting social enterprises in tackling societal problems.

Researchers have directed considerable efforts towards discussing the theory around social enterprises but there is a significant gap in the empirical knowledge on SEs (Asmalovskij, Sadilek, Hincica, Mizerova, 2018).

The current study analyses the ecosystem of SEs in Bulgaria the Czech Republic, Greece and Hungary and focuses on an in-depth survey of specific related legislation, direct and indirect stimuli provided by the states, including support-oriented financial instruments on a national level as well.

The purpose of the article is to identify the SE ecosystem in general - key features, general current barriers, their influencing factors on the national economies in selected countries with close population and innovation indexes; situated in Central and Eastern Europe, having a similar cultural measurement characteristic (Hofstede's scaling model) and, at the same time, a different level of economic and historical development.

The goal of the research is to examine to what extent the similarities between SEs in different countries can help define the types of SEs and their development. Based on empirical data from Bulgaria, Greece, the Czech Republic and Hungary, the article will attempt to identify common performances for the group under review.

The results will have implications for practitioners and policy makers focusing on social enterprises and fostering their development by following some recommendations for solving their problems.

The article also aims to analyse the relation between targeted financial streams; their adequacy and stability, on one hand, and their influence on the development of SEs and their life cycle which have not been studied so far.

Recommendations for tackling common problems and encouraging further steady development have been made.

The working hypothesis suggests that non-systematic and insufficient funding and lack of on time and targeted legislation result in to short-term functioning. A poor understanding of the role of SEs contributes to this as well. In order to test this hypothesis, the paper analyses the factors shaping the SE ecosystem, namely legal and fiscal framework and funding available.

The processed data have been collected from relevant scientific articles, country reports, laws and studies and the authors' questionnaire survey. In addition, descriptive data have been extracted from several national institutions. The article reviews the development of SEs over the past few years and compares the most recent data available for all four countries. The proposed data analysis method is a comparative research aimed at benchmarking different national policies and their effective metering. The basic indicators compared are focused on the number of SEs in the relevant countries, the employees involved, the main legislation framing the ecosystem as well as the fiscal policies and funding opportunities and measures. Based on common challenges the article outlines ways to improve the SE ecosystem.

## **2. Social enterprises and their ecosystem**

Although the terms social entrepreneur, social entrepreneurship and social enterprise have been used interchangeably, currently there are two widely accepted perceptions. According to the Anglo-Saxon point of view 'social entrepreneurs' are individuals launching activities dedicated to a social mission, often in an entrepreneurial way, while in Europe the emphasis is placed more on the result of the activities performed by social entrepreneurs — that is, on the social enterprises themselves, which are usually of a collective, cooperative or associative nature — rather than on the social entrepreneurs themselves. Europeans tend to stress the fact that social entrepreneurship is located inside the 'third sector' and the notion of social enterprises indicates non-profit entities pursuing the benefit of the community through the provision of goods and services (Solorzano, Guzman, Savall, Villajos, 2018; Defourny, Hulgard, Pestoff, 2014; Evers, Laville, 2004).

The EC also distinguishes between the two approaches. One that describes entrepreneurship in general as oriented to social innovation and social impact. The other focuses on social enterprises as new entrepreneurial forms and the key features which they show or are expected to show (European Commission,

Directorate-General for Employment, Social Affairs and Inclusion, 2016). The latter approach is the most widely used across EU Member States (European Commission, 2014). For many 'social economy' is a lesser-known term but Europe is going towards general acceptance of the term as more and more countries pass laws on social economy (Lejarriaga Pérez De Las Vacas, Bel Durán, Martín López, Sánchez Espada, 2018).

For the purpose of this paper, the European Social Business Initiative definition is accepted. It states that a social enterprise is 'an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders' (European Commission's Social Business Initiative, 2011).

The Commission uses the term 'social enterprise' to cover the following types of 'businesses':

- Those for which the social or societal objective of the common good is the reason for the commercial activity, often in the form of a high-level social innovation,
- Those where profits are mainly reinvested with a view to achieving this social objective,
- The method of organisation or the ownership system reflects their mission using democratic or participatory principles or focusing on social justice.

The above incorporates an entrepreneurial dimension, a social dimension and a governance dimension (European Commission, Directorate-General for Employment, Social Affairs and Inclusion, 2015).

It is evident that social innovation and social enterprises are a focus of interest but in a different way - rather as an additional area of intervention than as a targeted one.

Social enterprises have developed differently in Europe. There is a large variety of models and types of social enterprises in Europe. The term 'social enterprise' is not to be understood as one single legal form of organization, but rather as a term encompassing a wide range of models and expressions. The legal form of social enterprises is determined by the national legal systems. The social enterprise sector is very diverse across European countries. In Europe they embrace either a distinct legal identity exclusively designed for social enterprises or a wide variety of organizational and legal forms such as work integration social enterprises (WISE), cooperatives serving general or collective interests and with a 'public benefit status, social solidarity cooperatives, development trusts, associations and foundations with a 'public benefit' status and commercial activities, private limited liability companies with 'public benefit' status, mainstream socio-economic enterprises pursuing an explicit and primary social aim, community interest companies, etc. (Paunescu, Evans, 2018).

SEs are interrelated with various sectors and target groups and it is believed they represent 10 % of all European businesses, with 2 million social enterprises accounting for 6 % of EU's employment (Staicu, 2017). In this regard their ecosystem is influenced by various external factors.

In a comparative study the Directorate-General for Employment, Social Affairs and Inclusion states that SEs are influenced not only by the legal framework and access to finance, but also by wider recognition on the part of national governments and the definition of consistent public policies, the strengthening of the ability of SEs to self-organise, the development of research and training strategies to enhance the managerial skills of social enterprises (European Commission, Directorate-General for Employment, Social Affairs and Inclusion, 2016).

These factors shape a complex social enterprise ecosystem comprising of a number of independent and semi-independent elements as illustrated in Figure 1.

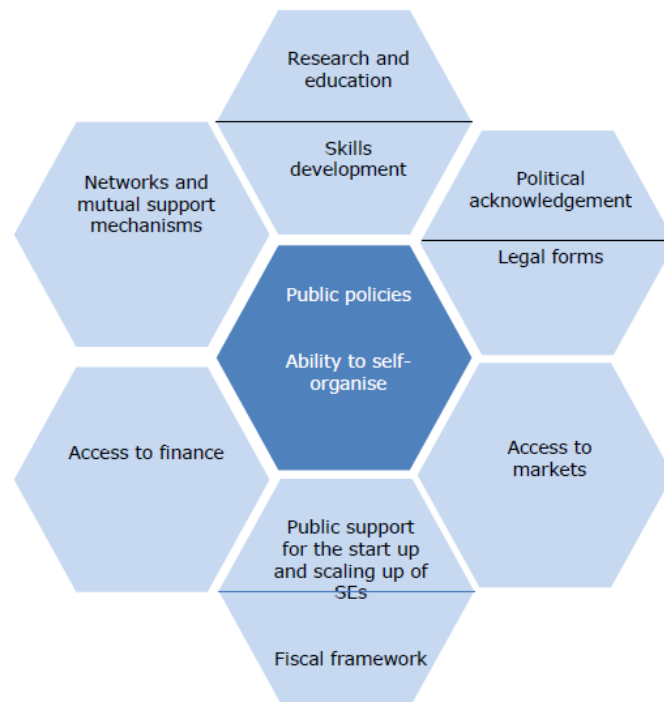


Fig. 1. Social enterprise ecosystem.

Source: European Commission, Directorate-General for Employment, Social Affairs and Inclusion, 2016.

In Eastern Europe examples of social enterprises could be traced back to the past but on the whole, there is a general distrust towards social enterprises in the region as civil society is not used to defining such enterprises as part of the third sector. In countries such as Hungary, Poland, Slovakia, the Czech Republic, Bulgaria or Romania, a certain resistance towards the activities of the sector could be observed.

What is typical for Eastern European countries is that the non-governmental sector is largely supported by finances from EU public funds and less by other current opportunities provided via direct and non-direct stimuli.

Social enterprises do not operate with a permanent dedicated budget. Usually, they would benefit from additional support from the government, including a few dedicated financial instruments.

Based on the analysis of the financial support for SEs, we can consider two general types of financial incentives - direct and indirect ones.

For indirect stimulus the government provides different preferences that are relevant to the activity of the SE. Some of them can be used regardless of the legal form of the enterprise. These include, for example, tax benefits for the donors to certain vulnerable groups (people with disabilities, including their technical support; socially disadvantaged; disabled or non-disabled children; drug addicts). Also, there are tax benefits for employers of long-term unemployed or people with disabilities and the possibility of exempting certain goods and services from value added tax (VAT).

The following apply as direct stimulus which could contribute to SE:

- Targeted national schemes;
- Bank loans – difficult to acquire due to the nature of SE activities, considered to be a high-risk one;
- Venture capital funding – usually not available to NGOs;
- Grant funding - a case of implementing targeted schemes under operational programs or national programs.

Grant funding continues to play an important role for civil society organizations and thus the growth of social economy, but there are no steady targeted national instruments (Asenova, Damianova, 2017). Another unfavourable trend is that social enterprises most often engage in short-term projects which leads to dependence on short-term project-based approaches to funding. Moreover, such organizations heavily rely on grants, which could have a negative effect on their innovation capacity, especially combined with short-term funding schemes. Social enterprises should aim to achieve self-sustainability in order to become sustainable, provide social services and foster innovation. This could be achieved via a various set of stimuli and/or targeted governmental policy.

A 2018 SI-DRIVE study on social innovation in Eastern Europe shows that different interest groups, including citizens, and civil organizations have been invited to participate in the policy-making processes

over the past several years. However, there is a high level of distrust among stakeholders, citizens, businesses, the public sector and civil society organizations, and in practice one can rarely witness a process of co-creation. Some authors argue that active collaboration between these stakeholders could lead to a better understanding of their individual points of view, help build mutual trust and enhance social innovation.

Looking at the positive aspects, the private sector engages in social projects more and more often. Young people become more open to social innovation and businesses support various initiatives as part of their corporate policy. As positive as this may be, such practices could contribute to but not reform the third sector.

These key changes show positive trends. In combination with relevant legislation and tools to support social enterprises as well this will leverage an improvement in the development of social enterprises.

The article looks at and analyses four national cases in order to outline a correlation between the existing legislative and financial frameworks and the stable functioning of SEs.

### **3. Overview of the social enterprises' ecosystem of Bulgaria**

#### **3.1. Characteristics of SE system**

Some specificities of the national social innovation system have been defined on the basis of the study (Arabadzheva, Vutsova, 2019):

- Social innovation is not a common term and it is relatively unknown for the country (The authors Assenova, Damianova, 2017 confirm this as well);
- The basic obstacles recognized are - a lack of necessary conditions for its realization (incubators, hubs), policy and targeted financial support and knowledge (Boelman, V; Heales, C., 2015);
- Social Innovation is observed mostly as a result of a response to a particular need by civil society or the third sector, yet such activities are accepted with conservative attitude due to history, culture and lack of tradition in similar practices;
- Still there are young people open to innovation who could bring about positive changes. Especially if they have more information on social entrepreneurship, enterprises and the help of the state - administrative, legal, financial;
- There is an increasing number of educational initiatives raising awareness about social innovation and social entrepreneurship.

SE in Bulgaria are different in terms of their organizational form. The two main groups of organizations are registered as non-profit or as non-financial. The first type represents the biggest share of enterprises, which define themselves as social – associations (Figure 2). They, together with foundations and branches of foreign organizations, form the main part of SEs, which are generally referred to as enterprises, registered under the Non-Profit Legal Entities Act. Another substantial part of non-profit SE are organizations registered under the Community Centers Act. The enterprises outside the mentioned categories represent around 2 % or less of all companies in the non-profit sector, which self-defined as social.

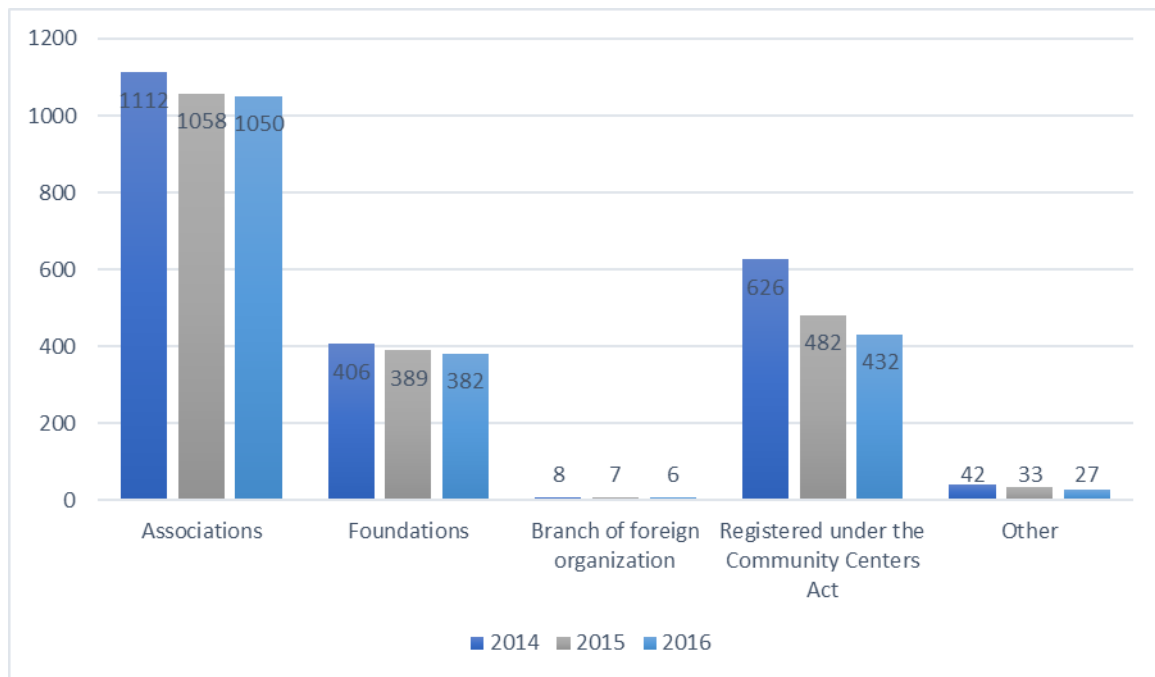


Fig. 2. SE in non-profit sector by types of entities.  
Source: National Statistical Institute, Bulgaria, 2019.

The graph demonstrates a prevailing presence of associations with a relatively stable profile.

Despite the balanced picture of non-financial SEs, the overall trend in relation to the number of companies remains negative. Such a trend correlates with insufficient funding to support social economy development and it is consequently reflected by the short life-span of a considerable number of SEs. The number of employees working in SEs also decreases over time with quite a high rate, which is also a characteristic of the short life-span of SEs.

The capital city seems to provide the best conditions and opportunities for SEs to thrive. The environment for the development of SEs is more favourable compared to other zones as there is more information available, networking and establishing contacts is far easier and more efficient in Sofia. In this regard, a unified national structure would dramatically benefit SEs. There are several networks and platforms built for this purpose but at the moment it seems that, to a large extent, none of them are fulfilling their task.

### 3.2. Legal framework

The Bulgarian legal system targeted at SE seems relatively adequate and it is updated periodically as well. Several legal documents related to social enterprises definition and work in Bulgaria are in circulation.

In October 2018 a long-awaited legislation defining social enterprises - Social and Solidarity-based Enterprises Act was passed by the National Assembly and promulgated in the State Gazette. This is a major step in the direction of supporting social enterprises and the effects are to be observed. The document provides an official definition of social enterprises and it applies to all organizations in the country.

### 3.3. Fiscal framework

Such stimuli are also implemented in Bulgaria. What is more specific is that SE as NGOs registered for public benefit are exempt from paying a local tax donation. Also, SEs might be given the right to build on or use municipal property (without a tender or competition). There are a few additional reliefs that are available to specialized enterprises and cooperatives of disabled people.

#### 3.3.1. Funding

Applicable funding sources for SEs in the country are:

- Funding through specific schemes of the Agency for People with Disabilities;
- Funding through specific schemes of the State Agency for Social Security Supervision;
- Funding through independent foundations;
- Funding through municipality programs;

- Collecting fees for paid services - SE can define independently the prices of their services. However, given the specificity of the vulnerable groups they work for, their ability to self-sustain is limited.

Figure 3 shows the funding for social economy development by different types of sources. The European Social Fund provides the most substantial part of the financial support for social economy. Funding from the national budget is calculated approximately, forecasting some expenses as there was not information available for the whole period. Also, there is no exact data on the amount of funding from other programmes, but an approximation is included in the graph as this financing exists. Such programs are OP ‘Innovation and Competitiveness’ and OP ‘Human Resources Development’.

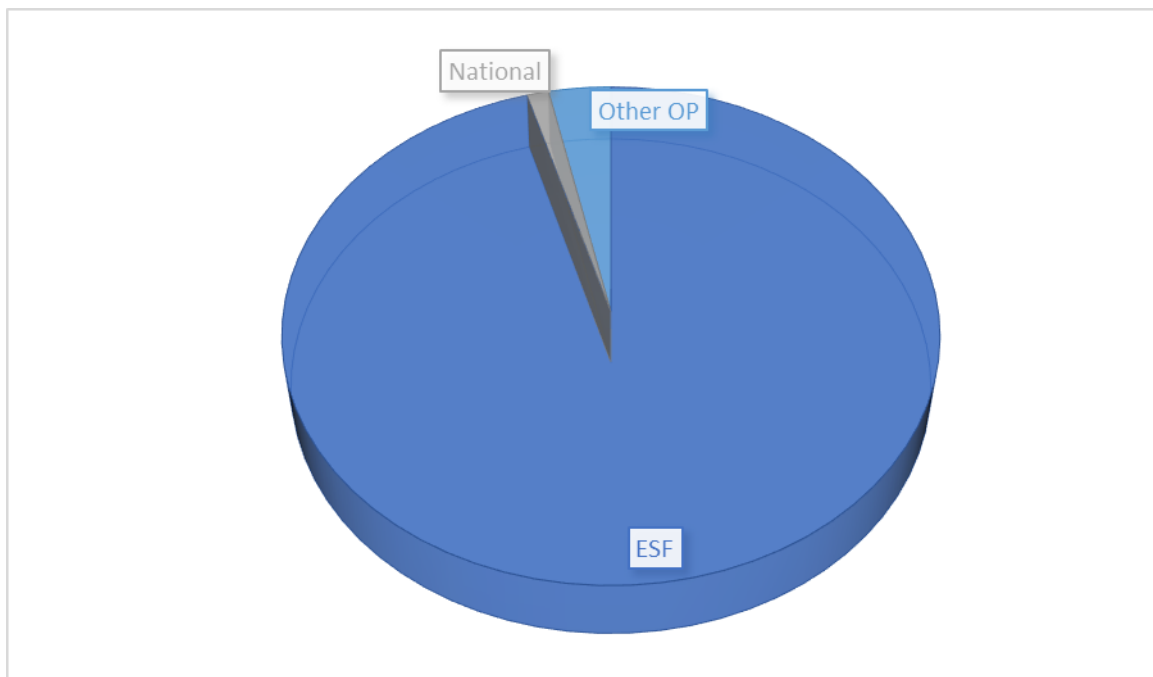


Fig. 3. Funding for social economy development by sources.  
Source: Ministry of Labor and Social Policy, 2019 and Authors' study

The financial information about SEs also shows a trend that most of the non-profit and almost a third of the non-financial SEs cannot support themselves properly which hinders their development and most probably shortens their life cycle.

A considerable part of the funding is received from the EU under several operational programs: Human Resources Development and Competitiveness, specifically Priority 5 on social inclusion and promotion of social economy; Horizon Program, the DG Enterprise and Industry COSME program, and the Employment and Social Innovation (EaSI) program of DG Employment, Social Affairs and Inclusion.

## 4. Overview of the social enterprises' ecosystem of Greece

### 4.1. SE characteristics

The Social Enterprises and Their Ecosystems in Europe country report on Greece states that the total number of social enterprises is 1148 as of January 2019 (Varvarousis, Tsitsirigkos, 2019). Several characteristics describing the ecosystem are:

- Traditions in the social sphere, as associations, cooperatives and charitable foundations have functioned for a long time in the country;
- However, expansion of social enterprises in Greece has been observed over the last decade;
- In the sector there is a need for additional funding and there is a general instability as far as the regulatory framework is concerned;
- Initiatives to promote the value added by SEs in Greece.

Also, there is an overall positive attitude towards the development of the social and solidarity economy in the country. It is believed that SEs will grow in Greece in the following years (Kontogeorgos, Chatzitheodoridis, 2019).

In Europe, all of the adopted laws shared the name of social economy, and incorporated the cooperatives, associations, foundations and mutual societies as entities of the social economy as well as other entities that respect the principles of the social economy, as they have been formulated by representative organizations of the social economy in Europe, and ratified by the European institutions (Fajardo, Frantzeskaki, 2017). Figure 4 shows the distribution of SEs by type, taking into consideration that a certain number of entities is not included because they do not meet the working definition for SE provided by EU.

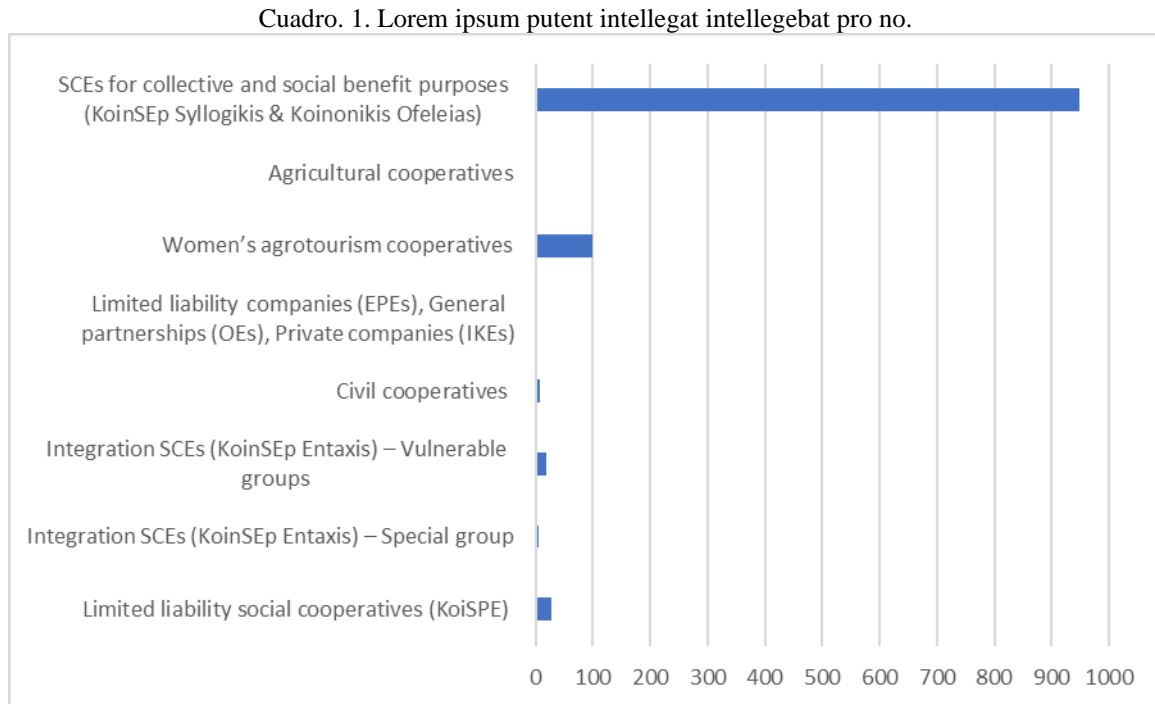


Fig. 4. Social enterprises by legal form in 2019.  
Source: Varvarousis, Tsitsirigkos, 2019.

More than 80 % of the SEs in Greece belong to Social Cooperative Enterprises for collective benefit and purposes. An interesting fact is that Women's Agritourism Cooperatives have a good share among the remaining part of SEs.

It is important to note that the information provided about the ecosystem is not absolutely exhaustive as some organizations do not enter the full economic data in their annual reports, as the Greek government requires (Varvarousis, Tsitsirigkos, 2019). However, this mainly concerns SEs which are out of the scope of the EU terminology.

Table. 1. Comparative data overview of Greek social enterprise characteristics 2012–2016.

Year	Number of SE	Number of SE that submitted annual report	Number of employees	Annual turnover in millions of EUR	Growth rate (number of entities)	Workforce (% of vulnerable groups)
2016	899	374	1023	10.1	28 %	37.71 %
2015	701	335	986	8.7	20 %	31.58 %
2014	583	214	639	6.4	57 %	30.75 %
2013	371	44	114	0.595	219 %	5.80 %

Source: Varvarousis, Tsitsirigkos, 2019



As evidenced by the table above the number of SEs, their employees and annual turnover has been growing with substantial percentage over the years. However, the total turnover of SEs, which is viewed as an overall economic effect, is considered to be very low. This fact could be explained because of their short period of operation which makes it difficult to get established in the market (British Council, 2017). The above proves that despite the positive trend of increasing turnover the financial situation of Greek SEs is rocky and as a consequence there is a lack of steady economic development affecting the whole ecosystem.

## 4.2. Legal framework

Greece has a tradition of practices in the field of social economy and the cooperative vision (Nasioulas, 2012). Following some legal changes in 2011 Greece marked the beginning of a new approach towards SEs and started to recognize them better and the results are evident.

The adoption and application of the new Law 4430/2016 gave an important boost and new dynamics in the social and solidarity economy. Based on the data available from the Ministry of Labour, it can be seen that quite a few new applications for registration of cooperative social enterprises, worker cooperatives and other entities of the social and solidarity economy have been filed with the Registry of Social Economy and Solidarity in the first four months since the adoption of the law (Fajardo, Frantzeskaki, 2017).

The law aimed to include all citizens in the work of social enterprises and not only vulnerable groups. It defines social enterprises as economic activities which operate in accordance with the principles of democracy, equality, solidarity, cooperation as well as respect for humans and the environment (Kontogeorgos, Chatzitheodoridis, 2019). At the moment a particular legal form for SEs does not exist. There is a certain freedom for SEs in respect to their legal status as long as they meet several operational criteria, which relate to:

- Objective;
- Governance;
- Economic equity;
- Profit distribution;
- Eligible membership.

## 4.3. Fiscal framework

There are some specific reliefs aimed at SE. Some of them have been presented below.

Social Cooperative Enterprises are not required to pay business tax, and in some specific cases the same applies to agricultural cooperatives (de facto social enterprises in Greece) (Varvarousis, Tsitsirigkos, 2019).

SEs pay all taxes on profits and VAT to the full. There are also no exemptions for start-ups.

Benefits related to indirect labor costs are not foreseen in the law with the exception of costs for employees from vulnerable groups.

SEs benefit from an exemption from different registration fees. Donors also receive tax reliefs, but there is not particular law or article related to SEs.

### 4.3.1. Funding

In the SE ecosystem in Greece there is a lack of sufficient funding. Several factors contribute to this situation:

- The biggest part of Greek SEs is newly developed and still not financially stable according to some national analyses (British Council, 2017);
- Their main source of income comes from trading which proves that real added value is relatively low;
- It is difficult to receive grants, with the exception of project-based grants;
- The Ministry of Labor estimated that the annual turnover of SEs is extremely low.

The access of Greek SEs to conventional funding is limited, in practice they are more likely to receive donations and in-kind resources than any other resources (British Council, 2017). Very few entities receive grants from the state by way of exception but there is not a specific public instrument to support SEs. Some support measures are not effectively implemented and SEs which are outside the region of the capital city are disadvantaged in terms of availability of information and funding. At the moment, the enterprises hope to improve the access to EU funds which would help the development of the sector.

## 5. Overview of the social enterprises' ecosystem of the Czech Republic

### 5.1. SE characteristics

The ecosystem of SEs in the Czech Republic is characterized by:

- Flourishing in the social sector in the last couple of years;
- Still, lack of enough political and public support;
- Financial difficulties and overdependence on public funds;
- Lack of adequate education and support for SEs (Frankova, 2019).

As in other countries, there is not one unified approach for gathering data on SE in the Czech Republic (Asmalovskij, Sadílek, Hinčica, Mizerová, 2018). That is why statistics review the number of potential SEs. For the 2014-2018 period, this number stood around 3,700 entities with a slight increase in 2018 when it reached 3,773. The most common legal form for SEs is Public Benefit Company and the figure below shows the other types of SEs in the country.

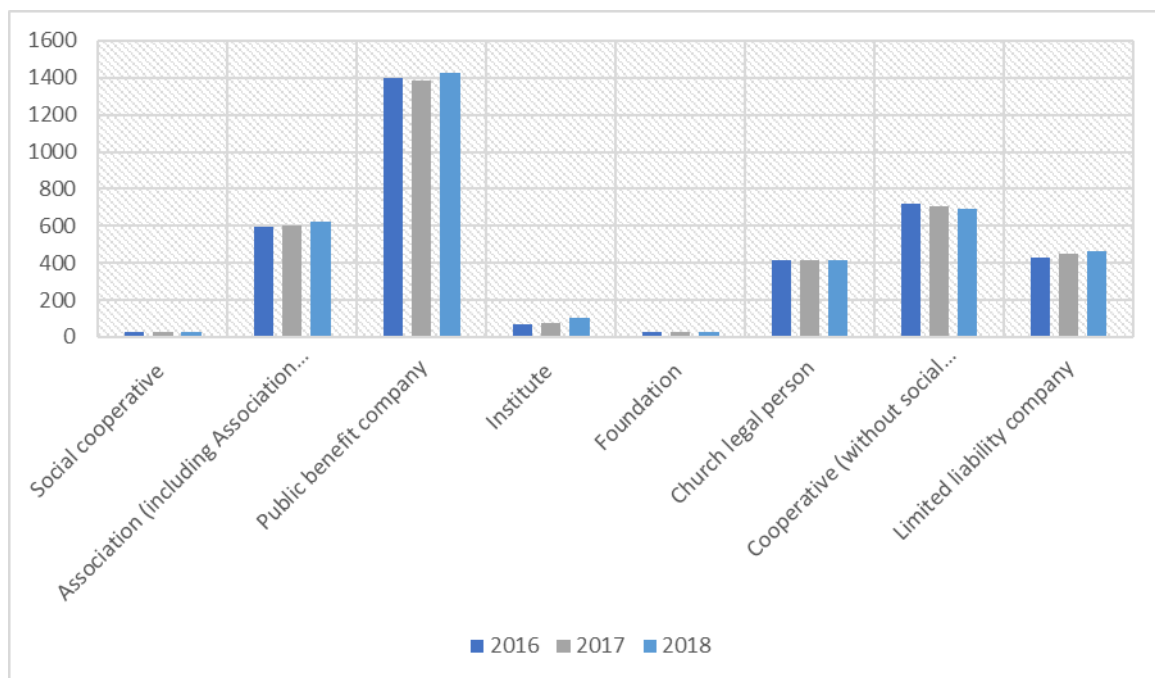


Fig. 5: Types of SEs in the Czech Republic  
Source: Frankova, 2019

Associations (including association branches with institutional autonomy) and cooperatives (without social ones) seem to be an appropriate form for SEs as well. Although associations are often the legal form for SEs, the portion which addresses the entrepreneurial dimension out of all NGO is very small (Staicu, 2018).

An important aspect of Czech SE ecosystem is the work of the Thematic Network of the Social Economy (TESSEA) which was established as a broad platform bringing together various stakeholders in the social economy field. (Fraňková, Francová, Johanisová, 2018). Its mission is to contribute to the development of social entrepreneurship in the Czech Republic, with a link to activities in the regions. TESSEA covers social enterprises from all over the Czech Republic, connects them, supports their interests and presents them externally. At the same time, it provides them and everybody who is interested in the topic with up-to-date information on social entrepreneurship not only in the Czech Republic, but elsewhere in the world as well.

The main area in which SEs in Czech Republic are engaged is the employment of disabled people (Dohnalová, et al., 2015). A typical feature for these enterprises is also that they often combine two or more activities which are unrelated.

### 5.2. Legal framework

As in other countries SEs in the Czech Republic use various legal forms. The definition of a social enterprise mainly follows the principles of TESSEA. However, stakeholders recognize the need for a better legal

definition. As a result, there is a proposed legislation document, including definition and aims of SEs, foreseeing register, as well as a monitoring body. It is expected that the document will be further discussed in the near future (Frankova, 2019). Therefore, there is not a special law on SEs in the Czech Republic at the moment and the country's current legal system does not recognise these concepts (Dohnalová, et al., 2015). Also, there is no available definition or concept of such enterprises (Vyskočil, 2014).

### 5.3. Fiscal framework

Given the fact that social enterprises are not explicitly defined, there are no tax reliefs targeted specifically towards them. However, there are a few options for these enterprises – one is aimed at non-profit companies, including donations and benefits related to employment, especially of disabled people (Frankova, 2019).

#### 5.3.1. Funding

The Ministry of Labor and Social Affairs has taken concrete actions towards supporting social enterprises. The support will be in the form of loans, which are specifically targeted at SEs (Frankova, 2019).

Such a preferential loans scheme was implemented earlier in the Czech Republic – it provided SEs with loans under special conditions if they comply with several criteria. Nevertheless, the program was not popular and SEs did not benefit from it. There is no study available on the reasons for the lack of interest in this scheme.

Over the past few years SEs in the country relied on EU funding, namely the Operational Program 'Employment' (OPE), the Integrated Regional Operational Program (IROP) and the Operational Program 'Prague – Pole of Growth in the Czech Republic', part of ESF and the European Regional Development Fund (ERDF).

Not surprisingly, SEs do not have access to conventional financing as investments in the sector are considered risky.

In spite of this general attitude there are a few banks developing instruments specifically for social enterprises. Another opportunity for SEs is to find funding from non-profit and non-governmental organisations (Dohnalová, et al., 2015).

Also, SEs take part in crowdfunding initiatives through online platforms, which is considered an innovative approach to financing.

Overall, SEs in Czech Republic are financially unstable and suffer losses (Asmalovskij, Sadílek, Hinčica, Mizerová, 2018). The authors have shown that the profitability of these enterprises is directly linked to their size and there is not a strong correlation between the age of the company and its profitability. As any company's performance depends on the lifecycle stage (Asmalovskij, Sadílek, Hinčica, Mizerová, 2018) it is logical to assume that the unstable financial situation of SEs is related to their short life-span.

## 6. Overview of the social enterprises' ecosystem of Hungary

### 6.1. SE characteristics

The features which define SE ecosystem in Hungary are (Kiss, Mihaly, 2019):

- SEs focus mainly on integrating vulnerable groups;
- Growth in knowledge about and interest in SEs;
- Unstable financial and legal environment;
- Motivated and dedicated people who are drivers for social transformation.

As other European countries Hungary lacks official statistics on social enterprises. The country report on SEs and the ecosystem published by the European Commission relies on various sources to gather the data needed in order to make the best approximation.

According to the data provided by the Hungarian Central Statistical Office the main part of the potential SEs consists of associations, which account for more than half of the entities.

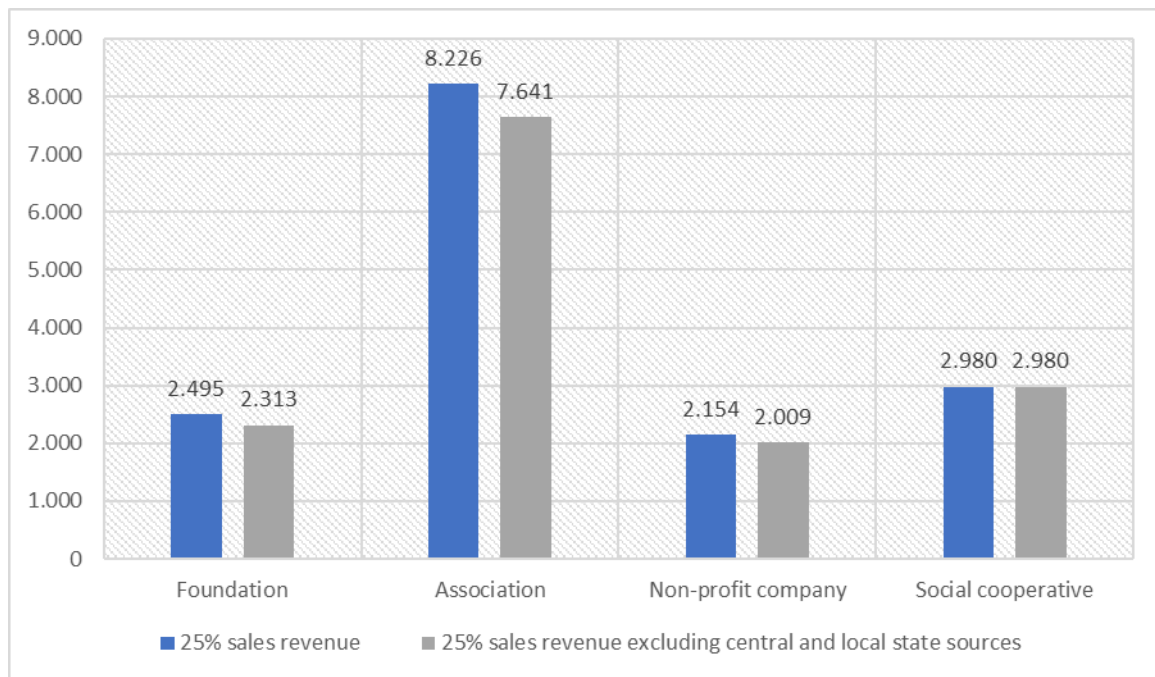


Fig. 6. Number of potential social enterprises based on various sets of economic criteria and legal form (2016).  
Source: Kiss, Mihaly, 2019.

Table. 2. Number of organizations, employees and annual turnover of potential social enterprises based on 25 % sales revenue criteria (2012-2016).

Year	Number of SE	Number of employees	Annual revenues (million EUR)
2012	13,286	72,744	1,515.70
2013	14,003	65,718	1,653.80
2014	14,829	81,117	2,379.40
2015	15,344	77,388	2,415.70
2016	15,855	72,642	2,328.30

Source: Kiss, Mihaly, 2019

The data above shows that the link between the number of SEs, employees and annual revenue is not straightforward.

Although there is a steady increase in the number of enterprises, the number of employees varies and it is not proportionally related to the first one. The annual turnover also does not seem to be directly linked to the number of entities or employees. According to an act from 2013 at least ten natural persons, legal persons, and/or organizations without legal personality are required to form an association in Hungary (Buchko, 2018). Having taken this into consideration and the fact that most SEs are in the form of associations, it is evident that the factors influencing the SE ecosystem are diverse and are not necessarily homogeneous with the factors which influence small SEs with personnel up to ten people.

The annual turnover of SEs for the period under review amounts to around 2 % of the GDP of the country (calculations made by the authors). However, this calculation is based on the above data of *potential* SEs, which includes high numbers of enterprises that are not clearly defined by a certain criterion. Also, 50 % of Hungarian SEs are small, employing between 1 and 10 people, and only 12 % have revenues above EUR 1 million (Etchart, et al., 2014).

## 6.2. Legal framework

There is not one single definition of SEs to be used by all stakeholders in the country. Laws on the different types of non-profit organizations, volunteering and social cooperatives, and especially the New Civil Law of

2011, shape the legal framework. The lack of unified law or regulation leads to a confusing legal environment (Fekete, et al., 2017). Such unpredictable environment has a negative impact on social enterprises (Etchart et al., 2014). At the same time, stakeholders define the introduction of a legal definition of SEs as critical, as they do not use one unanimously.

Some changes in different laws in recent years might have a partially harmful effect on the third sector, like increasing the influence of the state or discrediting organizations adopting foreign funds (Fekete, et al., 2017).

Apart from the available legal forms, the public benefit status can be awarded to organizations performing public benefit tasks.

### **6.3. Fiscal framework**

As SEs do not have one legal form, the tax reliefs which they could benefit from vary.

Despite their legal status SEs are eligible for some tax exemptions and are obligated to submit an Annual Public Benefit Report.

Associations and foundations, non-profit companies, social cooperatives and public benefit organizations (as all types of entities in Hungary) are exempted from paying value added tax for particular activities, e.g., sports, exercise, social care, applied arts, nursery care, adult training, etc.

For associations and foundation there are certain reliefs regarding labour cost, in addition they are exempt from paying vocational training contributions. The non-profit organizations benefit from not paying corporate tax. Also, all donors to public benefit organizations can use tax reliefs.

#### **6.3.1. Funding**

Overall, SEs in Hungary are not self-sufficient as far as their finances are concerned. Their need for funds is evident not only in the early stage of the entities' development, but also when it comes to covering operational costs, not to mention investments (Kiss, Mihaly, 2019).

There is support available from the state, including grants, but the funds are not enough to cover all costs. These factors lead to difficulties for the long-term development of the entities.

The advantage for the country is that private organizations also support SEs through different programs. But they are not very efficient as they do not provide sufficient funds and set serious requirements (Kiss, Mihaly, 2019).

The main problem of these programs, as well as the state grants and project funding, is that they are short-term and do not allow the organizations to make a long-term business plan, expand on the market, add new products or services to their portfolio and/or hire more employees.

Hungary provides various types of instruments to support SEs and a few banks even offer loans with special conditions for such organizations.

It is believed that microfinance programmes have been present in the country for a long period (Fekete, et al., 2017).

It should be noted that support schemes for social enterprises in Hungary have been co-financed mainly by EU Structural Funds (Kiss, 2017) as SEs are unstable and need support to survive. The lack of self-sufficiency is closely linked to the short life-span of the enterprises.

In conclusion, despite the diversity of financial tools available in the sector, SEs still struggle and further improvement is needed.

## **7. Comparative analysis findings**

Different countries approach SEs in different ways and try to improve their ecosystems through various instruments. Comparison between countries in close regions and size in terms of population, could give an insight into the most recent trends in the sector at European level.

This approach could help identify the most common characteristics of SE ecosystems.

The development of the sector has been influenced by many factors – history, culture, state support and legislation, availability of alternative resources, etc., which leads to some differences between SE ecosystems.

### **7.1. Common characteristics of SE ecosystems**

What is common for all countries under review is that in Central and Eastern Europe the experience with social entrepreneurship is limited because of the social and economic development of the region (Pelucha, Kourilova, Kveton 2017). Greece is not a typical representative of this group of countries since it is not a

new Member State but its SE sector, although with long-standing traditions, has undergone a more serious development over the past decade (Nasioulas, 2012).

Also, the concept of social and solidarity economy is not very well known and understood among the general public.

Another typical feature for the countries is that there is a focus on employing people from vulnerable groups.

A main obstacle before these states is the lack of gathering consistent information. Due to various specificities, including the broad definition of SE or the absence of it, it is difficult to assess the economic aspect and impact of SEs. The lack of a unified approach to obtaining data related to social economy leads to an overall lack of empirical data, which makes it very difficult to compare the SE ecosystems of the countries under review. It was not until recently that national statistical structures attempted to gather such information but it is still inconsistent.

The following information could be compared for the countries under review for 2016 (as the most recent year with information available and comparable from all countries):

Table. 3. Basic indicators of countries under review (2016).

2016	Number of SE	Annual revenues (million EUR)	Turnover as % of GDP
Bulgaria	4474	€ 0.70	0.0014 %
Czech Republic	3677	€ 0.17	0.0001 %
Greece	899	€ 10.10	0.0057 %
Hungary	15855	€ 2,328.30	2.0201 %

Source: Authors' calculations

A comparison of the annual turnover of SEs in 2016 as percentage of GDP in the countries concerned is made in order to estimate the economic significance of SEs.

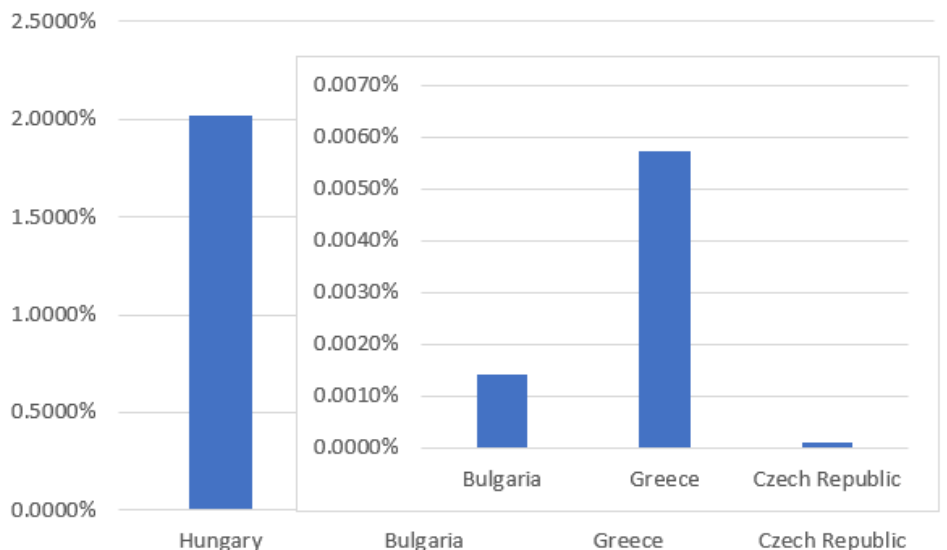


Fig. 7: Annual turnover of SEs in 2016 as percentage of GDP

Source: Authors' study

Unsurprisingly, deviations are observed in the percentage of the annual turnover of SEs in 2016 for the three countries. A similar trend is noted for the 2013 -2016 period. The very high percentage for Hungary is due to the fact that all potential enterprises are included in the statistics and their total number is quite high and several times higher than the same number in other countries. The figure shows a useful insight. Although the number of SEs in Bulgaria is substantially higher, their turnover generates less than half of this indicator in Greece for the period under review. One of the reasons for the improved performance of Greek

SEs might be the important boost and new dynamics in the social and solidarity economy as a result of the adoption and application of the new law in 2016 (Fajardo, Frantzeskaki, 2017).

## 7.2. Legal milieu

There is a tradition of social enterprises in many countries but their ecosystems are not usually regulated at state level. This becomes evident as more efforts are made to define the social and solidarity economy at national and European level. A common feature is that SEs undertake various legal forms and cannot be narrowed down to only one. In Hungary and Greece, the possibilities are so many that some of them are either not supported by the government or go outside the scope of the broad definition of SE as set by the EU. In most of these countries cooperatives are a very successful form of SE and Bulgaria is the only exception, although historically these structures appeared in the early 30s, they were liquidated during the communist regime without being restored at a later stage. Therefore, the state could consider the advantages this legal representation gives and apply it. In pursuit of a better regulation the Czech Republic has initiated a legislation related to social organization and it is expected to be further discussed. Bulgaria seems to be ahead in structuring the legal framework because a special Act on the principles of social and solidarity economy came into force in 2019. Also, further plans are made to improve the environment. In several countries policymakers are commenting on the need to register SEs, which would, to some extent, deal with the issue of gathering relevant data and SEs having too many legal forms.

What all of the countries concerned have in common is that the legal framework of SEs should be further developed or updated regularly and in line with contemporary trends.

## 7.3. Fiscal stimuli

The fiscal framework in Bulgaria, Greece, Hungary and Czech Republic follows almost the same pattern. Despite the differences in the state tax systems, the fiscal framework remains fragmented. This is a logical consequence of the fact that SEs are not properly and specifically regulated. The main common feature are tax exemptions for non-profit organizations, donors and specific reliefs related to employment of disabled people. These factors would be available even if SEs were not separately identified.

Fiscal benefits are aimed mainly at non-profit organisations as in the majority of the countries under review there is not a unified definition of SE and it is only logical that fiscal benefits are not directed towards them, but rather depend on the various legal forms.

Another common feature in the examples is the regional fragmentation as the main activity of SEs is concentrated in the capital city or large cities' regions. There is a contrast between the areas with best access to information, financing and skilled workforce (usually the capital) and the areas which need help with societal problems the most (usually rural and remote).

### 7.3.1. Financing instruments

At European level, The European Investment Fund claims that social enterprises do not have sufficient access to external financing. Usually, they rely on subsidies and internal resources.

This is true for all countries under review, except for Greece to some extent. Greek enterprises still struggle and cannot ensure their steady development, the short period of operation makes it difficult to get established on the market (British Council, 2017) and that is why they see a solution to their problems in European funding. Although various funding practices are available in some states, SEs are heavily dependent on EU funding, mostly ESF.

Most enterprises never reach the late stage of development, i.e. they do not survive more than 5 or 7 years on the market. They are not competitive enough and are unable to withstand competitive pressure.

Hungary and the Czech Republic provide several additional financial tools for SEs, but this does not change the situation dramatically.

Despite the fact that Bulgaria is the only state (out of the four concerned) with one unified legal definition of SE, there are no financial instruments that are specifically targeted towards them.

Stakeholders in Greece see better access to EU funds as an opportunity to improve the sector. However, they would soon realize what Bulgaria and the Czech Republic already know, namely that dependence on European financing has its risks and limits the development of alternative sources.

Despite the differences there is one common feature – insufficient funds available to SEs. The unstable financial environment hinders the development of a sustainable ecosystem for SEs, preventing them from the opportunity to evolve and expand and respectively from having a long organizational life cycle.

In brief, there are several general barriers which should be addressed in order to improve the ecosystem of social enterprises in all four countries:

- Lack of adequate financing, supporting social enterprises. Regardless of the available instruments in the countries under review, the funding is insufficient and most SEs need additional support in order to survive on the market and have the chance to develop.
- Updating the legal framework. If the social and solidarity economy is to develop and be viewed separately, further steps should be taken to define its legal aspects. Also, taking into consideration that especially in the context of a pandemic and the harsh economic consequences the world would face afterwards, there will be a pressing need to support social solidarity.
- Targeted measures towards the support of SEs. The above implies that as SEs have a bigger role in society, they have to be considered as a separate form with specific benefits which are in line with their work.
- Understanding SEs in a new and better way. This step is vital, especially given the current situation which will generate the need for changes and new approaches to tackling societal challenges.

## 8. Conclusion

The analysis of the factors shaping the SE ecosystem shows that non-systematic, insufficient funding, lack of time and targeted legislation as well, are linked to their short-term functioning. The unstable financial situation limits the SE market expansion, recruitment, opportunities for improving products and services and innovation potential as well.

As key features, the main current barriers and their influencing factors on the SE ecosystems of the countries under review are similar to the cultural measurement characteristic (Hofstede's scaling model) and, at the same time, different due to the level of economic development and background.

All countries under review show a tendency towards dependence on public funding. This inevitably leads to the short-term life cycle of SEs as their financing ceases after the end of their project or contract term. Even if the entity survives it again relies on project funding or grants. This factor prevents SEs from expanding their activities and increasing their social value.

Common characteristics as limitations of the number of SEs; the lack of concept of social and solidarity economy and poor understanding of the role of SEs have been identified; similarities with regards to existing barriers were found as well and thus a milieu for subsequent recommendations has been placed.

Recommendations:

Based on the analysis there are several directions in which the countries could work in order to improve the success of social enterprises. The trends relevant to them correspond to the ecosystem in other EU members in the region.

The following recommendations towards improvement of the SE ecosystems studied are summarized as follows:

- Updating current legislation and a follow up action plan which allows adopting EU best practices;
- Implementing adequate incentives (tax incentives or reducing the administrative burden for example);
- Offering flexible financial products, assessing social impact, ability to open up new market opportunities in the social economy, trying to avoid dependency on EU funding;
- Combining financial instruments with other forms of support – for example, technical support, interest subsidies and guarantees;
- Avoiding dependency on any type of support, diversifying financial instruments available to SEs, so that SE receive specific support and are recognized as an important part of national economies by policy makers and society. In this way more entrepreneurs and investors will be encouraged to help the sector;
- Appointing an independent structure (organ or committee) to be responsible for regulating and supporting the work of social enterprises;
- Involving the enterprises, in the process of policy preparation and in this regard supporting an open dialogue and cooperation between all types of stakeholders;
- Building sustainable networks of social enterprises to exchange experience and information;
- Ensuring support is easily accessible for the underdeveloped, distant and/or rural areas.

SE ecosystems are diverse but because of the desire to regulate the social economy better similar challenges appear at European level.

In conclusion, states should carefully consider what the best measures to support the development and the long-life cycle of SEs would be, without making them completely dependent, and should strike a balance between their social and business objectives.



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