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**PROMOTING SOCIAL-ENTERPRISE DEVELOPMENT
IN BULGARIA**

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Social enterprises in Bulgaria can be defined as business activities conducted by social-service non-governmental organizations (NGOs) with the goal of generating income that is reinvested in the NGOs to support their social missions. Typically, the profits from such businesses are either directed to social causes or reinvested in the businesses to increase employment and/or other opportunities for individuals who are socially marginalized.

This paper examines a model being implemented in Bulgaria by Counterpart International-Bulgaria, which is funded by the United States Agency for International Development (USAID). Counterpart's approach develops a mechanism that generates indigenous resources to sustain the delivery of social services. The model's main focus is on providing social enterprises with the business skills necessary to build and operate a successful self-sustaining business, with a secondary emphasis on providing access to financing. The approach, challenges and success of implementing this model are discussed in this paper.

1. Introduction

The Bulgarian concept of social enterprises is based on the goal of enhancing the sustainability of the Bulgarian NGO sector. While most social-service organizations typically focus on the socio-economic integration of marginalized members of society, social enterprises seek both to provide these individuals with the employment opportunities they need to advance themselves economically and also to ensure that NGOs generate sufficient income to support their social objectives.

In Bulgaria, a number of social-service NGOs were created in the last 10 to 15 years. Under the Law on Non-profit Legal Entities, these NGOs were granted the right to perform related business activities that generate financial support for the achievement of their missions. However, successful social enterprises are far and few between, so most NGOs continue to rely on outside funding to carry out their work. With Bulgaria's upcoming accession to the European Union, sources of foreign aid are expected to dry up, leaving the Bulgarian social-service NGOs in a difficult financial position.

To meet this challenge, Counterpart International-Bulgaria has developed a new model to promote the development of social enterprises in Bulgaria and to help social-service NGOs become self-sustaining without the need for outside funding. There is an old saying: "Give a man a fish, and you feed him for a day. Teach a man to fish, and you feed him for life." This philosophy lies at the very foundation of Counterpart's Social Enterprise Program. The model seeks to enhance the sustainability of the Bulgarian NGO sector by providing training and technical assistance intended to increase organizational capacity to operate in an independent manner and to be successful.

This paper describes the Social Enterprise Program, beginning with a brief overview of the challenges faced by social enterprises in Bulgaria. It continues with a discussion of the model's elements and implementation steps, and concludes with recommendations.

2. Challenges Facing Social Enterprises in Bulgaria

In most countries, organizations have been set up to help marginalized individuals. Some of these organizations have evolved into small-scale businesses that employ socially disadvantaged people, thereby providing opportunities for socio-economic advancement and/or generating revenue to support a social need. Making such ventures commercially viable is difficult, however, and rarely accomplished.

Some of the key challenges facing social enterprises in Bulgaria are:

- **Balancing business viability and social objectives.** Social enterprises require a careful balance between financial sustainability and social impact. In some cases, the business activity and social activity may conflict.

For example, the people who deliver social services as a part of social enterprises' business activity are still hesitant to request fees for these services, because this contradicts their belief that they should help socially marginalized people voluntarily. On the other side, the recipients of the social services are not accustomed to paying for these services, because for many years the provision of social services was basically the State's responsibility.

With the decentralization of social services currently taking place in Bulgaria, the delivery of services is gradually being contracted out to local businesses and NGOs. As a result, the provision of social services will improve considerably, because 1) there will be strict guidelines and reporting systems, and 2) NGOs that have been providing these services at the local level are more experienced and much better able to deliver and be accountable for them.

- **Lack of awareness and understanding of social enterprises and their role in the community.** Due to the lack of tradition in developing the third sector during the communist era, social enterprises still are not well-understood and often are misperceived by society at-large.

In Bulgaria, indications are that many NGOs and social-service NGOs already engage in income-generating activities because of financial necessity. In many cases, these activities are closely related to the missions of the NGOs.

However, social enterprises must overcome a number of challenges in order to gain public support and understanding. Better information and marketing are needed to inform the public about their work. In addition, strong partnerships must be forged with other businesses, organizations and institutions, with a focus on developing better network relationships.

- **Behaving like a business.** A social enterprise is a business that is involved in some form of commercial activity, whether it is the sale of products or services. The key

difference, however, is that a social enterprise is set up primarily for the purpose of meeting its social objectives, not producing income for individuals or companies. In other words, a social enterprise does not distribute profit but rather uses revenue to finance its social mission.

The key challenge is to get a social enterprise to “think” and “behave” like a business, not a charity. Only then can social-enterprise leaders focus their attention on improving their business operations and, consequently, the services they provide to marginalized groups rather than constantly searching for funding. The social enterprise has a stabilizing effect on the NGO, because by producing a revenue stream, it assures continuity of social-services delivery and job security for the staff.

In addressing the social enterprises during Counterpart International-Bulgaria’s National Conference in October 2004, Don Fail¹ said, “You must learn how to make money. Otherwise – you die.” The key point is NGO managers need to change their attitudes and mentality so they think and behave like business people and operate their ventures in a businesslike manner.

- **Lack of appropriate skills and knowledge.** To build and develop a business, it is important to know how to evaluate the feasibility of a new venture idea, develop a business plan and manage finances and people.

Most social enterprises are managed by one person who often does not have any business background. Furthermore, the staffs of social-service NGOs are mostly composed of social workers and philanthropists, and the science of making money is completely foreign to them.

In human-resource terms, the biggest challenge is to select the appropriate staff and to develop their business skills. Social-enterprise managers understand the value of business skills, but some find it difficult to move from theory into practice.

- **Being competitive on the market.** Lack of competitiveness is one of the most difficult obstacles for the social enterprises to overcome. The quality of social-enterprise products is not always up to standards, for two reasons. First, the people from the targeted social-services groups, who lack appropriate skills, often are involved in the production process. Second, product or service quality is not usually uppermost in the minds of the social-enterprise managers, who tend to focus on the social aspects of their organizations. However, sales success in the commercial market requires consistently high standards.

Many social-enterprise managers believe the positive social impact resulting from the sale of their products or services provides sufficient incentive for people to purchase the goods from their organizations rather than from competitors. This is not necessarily the case. A research study conducted by Roberts Enterprise

¹ Don Fail, Vice-President for Enterprise Development, Counterpart International, Washington, DC.

Development Fund², states: “... only if the product quality, service, and price are comparable, then – and only then – will customers factor in whether their purchase supports a worthy cause.”

3. The Social Enterprise Program in Bulgaria

Counterpart International-Bulgaria’s Social Enterprise Program is not a place to find money – access to financing is secondary. The idea is to give organizations the skills and knowledge they need to create and operate successful businesses.

Specifically, Counterpart’s Social Enterprise Program in Bulgaria seeks to:

- Enhance the financial and management capacity of social-service NGOs
- Promote and sustain economic growth and job opportunities in the community
- Ensure that NGOs achieve their missions

The program supports the sustainability of Bulgaria’s NGOs through creation of viable social enterprises throughout the country.

The difficulties NGOs experience in launching commercially viable enterprises to employ and/or support socially marginalized groups are not caused by a lack of financial resources. What is lacking is the capability of these organizations to turn their visions into reality. This is due to inadequate business skills, knowledge and entrepreneurial culture. Based on this assessment, the primary goal of the Counterpart’s Social Enterprise Program is to provide NGOs with the skills required to establish and operate a business. Although the program includes access to financing, the skills enhancement prepares participants to apply for loans at banks and other lending institutions as their businesses grow and they identify new needs or expansion opportunities.

4. Key Steps in Implementation

Counterpart pioneered the Social Enterprise Program in Bulgaria two years ago. The program provides training and technical assistance as well as access to financing. It also organizes study tours, networking and information exchanges, and facilitates the creation of a network of social enterprises in Bulgaria.

In response to the need for appropriate business skills and knowledge, Counterpart introduced a comprehensive training and technical-assistance plan to meet the business-development requirements of the program participants in areas such as financial management, accounting, marketing, business and strategic planning and change management. Local business consultants and trainers who understand the specifics of the country’s development were hired to provide instruction. Training modules were designed to help participants acquire the skills and tools they need to develop feasibility studies, to create and implement viable business plans, marketing strategies and financial-management practices, and to tackle more complex tasks.

² *Kristen Ace Burns, Five Social Enterprise Myths, Dispelled, State of Social Capitalism*

This ongoing learning process is supported by one-on-one technical assistance from the local business consultants. Recognizing differences in the development level of various organizations, Counterpart tailors individual training and technical assistance to meet their needs.

More advanced social enterprises receive customized and demand-driven technical assistance, aimed at improving their business planning for activities over the next three to four years. Social enterprises that are still in the process of developing and implementing their business ventures receive regular technical assistance to help them clarify their ideas and to find solutions to problems.

In addition, Counterpart provides access to financing through loans of up to \$5,000, which social enterprises can use for starting and/or expanding their business activities. These monies are disbursed through the Social Enterprise Foundation, an organization established specifically to provide loans to social enterprises. Organizations that have demonstrated, through the completion of training and site visits conducted by the program monitors, that they are ready to utilize and repay their loans can use this financial mechanism to increase profits and to create jobs in a shorter period of time.

Counterpart also organizes and conducts regular social-enterprise seminars and workshops intended to provide participants with the opportunity to network, exchange ideas and share experiences. Attendees represent a cross-section of social enterprises at different stages of development. This mix allows those in earlier stages of development to benefit from the experiences of those in more advanced enterprises. The workshops also stimulate thinking about solutions to common problems or difficulties experienced by the groups.

These workshops enable Counterpart to become better informed about the development of the social enterprises in the program and to learn of any barriers or hurdles. The information also helps Counterpart improve the focus of its training and technical assistance.

International and in-country study tours organized by Counterpart also play an important role in the learning process by exposing participants to their peer organizations in Bulgaria and other countries. These study tours help social-enterprise managers to develop visions for their business ventures and to gain from the experiences and lessons learned by other organizations.

5. Strategies for Successful Implementation

Implementing the Social Enterprise Program and changing the way NGOs think about business has been challenging, but the rewards have proven beneficial to the socially marginalized community that needs help. Here are the important steps Counterpart International-Bulgaria has taken to make this program successful:

- **Establishing trust**

Counterpart works closely with all social enterprises to make sure they are operating in an open, transparent manner. In the process, Counterpart has uncovered some poor practices related to accountability³ and has doubled its efforts to explain that reporting and operating in a transparent way is an effective approach to changing the public's attitudes and understanding.

- **Popularizing the social-enterprise concept**

Counterpart understands the importance of public support for the work of social enterprises. Towards this end, Counterpart undertook a national media and promotion campaign to raise awareness and acceptance at the local and national levels for the social enterprises' work. In addition, social enterprises were advised to use a more consistent, focused approach that clearly explains their underlying concept and the benefits their ventures bring.

- **Effective dialogue**

Counterpart introduced a special reporting format to both the social enterprises and the business consultants. The format is a cross-referenced questionnaire that includes questions designed to assess how well the business consultants believe the social enterprises are doing and how useful the social enterprises find the consulting advice provided to them.

For example, Counterpart learned that the major challenges facing social enterprises are inadequate business knowledge and skills⁴, a lack of business experience and low entrepreneurial culture. Of the respondents, 52% indicated the ability to plan and organize the business was a key factor for success and felt that organizations needed to increase their business knowledge and skills.

- **Working closely with business consultants**

After two years of implementing the Social Enterprise Program, Counterpart concluded that the role of business consultants is crucial to the program's success. Subsequently, Counterpart started providing additional assistance to the consultants to ensure they are able to deliver the technical assistance and guidance needed by the social enterprises.

Because the consultants serve as an important link between Counterpart and the program beneficiaries, setting guidelines for their work is critically important. It was discovered, for example, that consultants were providing assistance to some of

³ The Social Enterprise Program team encountered practices among several of the organizations for accounting the income generated by the organization as donations or membership fees. The main reason behind this practice is that given the small revenue the organizations generate, they are not willing to pay the necessary taxes. This is a common practice in Bulgaria, especially in the area of small to medium-sized businesses.

This fact leads Counterpart International – Bulgaria to conclude that it needs to work with the Bulgarian Center for Not-for-profit Law (BCNL) on issues related to advocacy and lobbying in favor of a better legislative environment for Social Enterprises in Bulgaria.

⁴ Please see section 2. Challenges faced by the Social Enterprises in Bulgaria

the social enterprises in areas other than business development, thus diverting focus from the program objectives. In one case, a consultant helped a social enterprise fill out a grant application to a donor organization. In thinking the donor's money might be helpful to the development of the social enterprise, the consultant acted in a manner contradictory to Counterpart's philosophy, which focuses on lessening donor dependency and teaching organizations how to be self-sufficient.

- **Mentoring the social enterprises**

Counterpart worked with all participants, both in groups and individually, to help them acquire the skills and knowledge necessary to run a successful business venture. In addition, the social enterprises were trained how to apply for loans with the Social Enterprise Foundation and/or with other local or regional financial institutions.

Organizations are eligible to apply to Counterpart International-Bulgaria for loans only after they have reached a certain level of organizational and business development. After disbursing loans, Counterpart closely monitors the organizations to ensure that the funds are used as originally proposed. It also provides assistance to the social enterprises to make sure they have the capacity to utilize the funds efficiently.

6. Success of the Social Enterprise Program

The measure of success for the Social Enterprise Program is not how many social enterprises it develops, how much money is spent on providing technical assistance or how many loans it disburses. Rather, the true measure of success is how many social enterprises are functioning and operating commercially viable businesses.

Currently, the Social Enterprise Program works with 37 organizations supported by 12 business consultants. Some organizations are doing well in developing their business activities while others are not. As of December 2004, the program works with 10 operational social enterprises, which to varying degrees cover the expenses of the NGO's activities, i.e., its social activities.

Counterpart has been successful in establishing a core group of consultants who are knowledgeable about the social-enterprise concept, and believes this group will continue to play an active role in the current and the future development of Bulgaria's social enterprises.

In a very short period of time, the program succeeded in extending three loans to social enterprises for expanding their current business activities. Counterpart determined that the loan-application and approval process was extremely helpful to the social enterprises, which was an objective of the original program proposal. The organizations had not been exposed to this process previously, so the opportunity to learn how to develop an effective

business plan, make financial and sales projections and justify their need for the loan was invaluable in helping them deal with their expanding business activity.

Through an effective public awareness and media campaign, additional organizations have shown their interest in joining the Social Enterprise Program. This is a testament to the model's success and applicability in Bulgaria.

7. The next step

Given the developmental challenges that most social enterprises face, there are several ways these organizations can improve their positions and obtain help from Counterpart's Social Enterprise Program.

A good approach for popularizing social enterprises as viable, innovative mechanisms for local development and employment is to undertake a campaign to educate citizens, businesses and local authorities about the work of these organizations. Social enterprises should avoid clichés and NGO jargon when addressing the media, and they should always emphasize their business side⁵.

Another initiative the Social Enterprise Program plans to undertake is creating a supportive infrastructure for social enterprises in Bulgaria. This can be accomplished by facilitating the development of a local social-enterprise network to share know-how and mentor other organizations interested in implementing this model. An integral part of this strategy is establishing a core group of business consultants that can support the network.

8. Conclusion

There is no shortage of ideas on how to help the marginalized population. However, practical ideas and the ability to successfully translate ideas into sustainable models are definitely in short supply. The availability of financial resources alone will not solve the problem, as Counterpart's Social Enterprise Program experience has made evident.

In view of the challenges at the mid-point of program implementation, Counterpart believes the outlook for developing and further strengthening social enterprises in Bulgaria has potential. Future hopes depend on creating as many viable, financially independent social enterprises as possible. These social enterprises, together with a core group of business consultants, will continue promoting the social-enterprise concept, which can be replicated and continue to provide sustained social services to the community.

Moreover, the social-enterprise model demonstrates its value by creating a job market for marginalized groups, working toward their social inclusion and building social capital, which are within the overall objective of achieving social and economic development of the country. Interim results are quite promising.

⁵ A suggestion made by a journalist during Counterpart International-Bulgaria's National Conference, October 2004

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Kapoor received a B.A. and M.A in Finance from the University of the National and World Economy in Sofia. From 2001 to 2002 she studied at both the University of Wisconsin and George Washington University on a USAID scholarship for promising young professionals from Central and Eastern Europe. As a part of her studies, she interned with the World Bank's Private Sector Advisory Services group (PSAIC) where she was involved in an empirical study of global credit markets & financial institutions.