

FOREST COOPERATIVES AS A SOCIAL INNOVATION APPROACH IN THE BIO – ECONOMY

Author: Todor Stoyanov¹

¹*University of Forestry, Sofia, Faculty of Business Management, Department of Marketing and Production Management, todor.stoyanov@ltu.bg*

Abstract

The aim of the present article is to study the current conditions for the development of the cooperatives in Bulgaria as a social - innovative approach in the field of bio - economy and to show the positive effect of their use and development. It also aims to show that forest consumer cooperatives have long been working as socially oriented enterprises in the forest bio-economy sector. A cooperative model was developed as a social enterprise in the forest bio-economy sector, showing the pros and cons of the legislation in the field.

Key words: *Social enterprises; Forest bio - economy; Credit cooperatives;*

This study is the result of the relatively small number of researches on the cooperative model as a social enterprise in the field of bio-economy in Bulgaria. It is also generated by the European Community (EC) Strategy for the Strategic Research and Innovation Agenda for 2020. It was written in 2006, revised in 2013, and has helped fund more than 230 research projects with more than € 1 billion in 19 Research and Innovation (RIA's).

- 12 out of 19 RIA's are mainly technologically oriented.
- Only 3 are socially oriented.
- 4 can be defined as combined.

Europe sets a course on resource efficiency and a sustainable economy. The aim is to be a more innovative and low-emission economy combining the requirements for sustainable agriculture and fisheries, food security and the sustainable use of renewable biological resources for industrial purposes, while ensuring biodiversity and environmental protection. In order to achieve this, the European Commission has set out a strategy and action plan for bio-economy, which focuses on three key aspects:

- Development of new technologies and processes for bio-economy;
- Emerging markets and competitiveness in the bio-economy sectors;

- Forcing politicians and stakeholders to work more closely together.

In its agenda for jobs, growth, justice and democratic change, President Juncker has identified 10 key priorities for the European Commission. Bio-economy is central to three of them:

- New growth for jobs, growth and investment - Innovative bio-economy is an important source of new jobs - especially at local and regional level in rural and coastal areas - and there are great opportunities for growth in new markets, for example in biofuels, organic products,

- Elastic energy alliance with forward-looking climate change policy - Europe needs to diversify its energy sources and can support breakthroughs in low-carbon technologies with coordinated research. Replacing fossil resources with biological resources is an indispensable component of future climate change policy.

- Deeper and fairer internal market with a strengthened industrial base.

The real innovative aspects of the bio-economy can be defined as: equity; social inclusion; promoting local knowledge; creating new jobs, that is, "Social innovation" are more technological innovation issues that can be triggered without additional public support.¹

The aim of the present article is to study the current conditions for the development of the cooperatives in Bulgaria as a social - innovative approach in the field of bio - economy and to show the positive effect of their use and development.

In accordance with the objectives of the report, which aims to give a holistic view of the problems and positive aspects of the cooperatives in the country, as a social innovative approach in the field of bio - economy, a combination of methods is applied. These include a review of literature, content analysis of the law's, secondary data, questionnaires, expert interviews, and expert knowledge of the author.

The data includes quantitative data from official statistics and scientific research (National Statistical Institute, National and Regional Forest Statistics - Annual Forestry Reports by the Forestry Executive Agency and the Ministry of Agriculture and Food and Research and quality data - expert knowledge of the author of the report and the experts from the Forestry Executive Agency, the Ministry of Agriculture, Food and Forests, the State Forest Enterprises, the State Hunting Enterprises and the different owners of the forests).

There have been numerous meetings, consultations and interviews with representatives of different property owners in the country in order to answer various questions, to provide review assessments and to give examples of individual cases.

The literature review explains the state of knowledge in the country and contributes to the preparation of the report. The examples are used for illustration and for a better understanding of cooperative work mechanisms.

¹ Forests in the bio-based economy: an unconventional perspective - Davide Pettenella, Mauro Masiero and Laura Secco
University of Padova, Italy

According to unofficial data on the basis of the principles of social entrepreneurship in Bulgaria, more than 85 non-governmental organizations are already working at the local level. In most cases, they sell services that involve high economic risk and do not make profits.

The typological characteristics of this type of entrepreneurship in Bulgaria do not differ greatly from those of similar enterprises in the rest of Europe:

There is a clear social effect - there is a balance between the pursuit of the profit and the direct support of the social status of certain groups of persons in carrying out the main activity of the enterprise.

There is a clearly defined target group - mainly people from socially vulnerable groups - those who need help to balance their life or social status with that of other members of society.

It has a specific purpose for business - it is aimed at improving living standards, providing employment, providing services and other forms of direct support to overcome the social exclusion of the target group.

An important feature of all social enterprises is the particular symbiosis they bear a priori between financial viability and ability to exert social impact. In this way, they achieve economic, financial and social goals, bringing them even more value and value to society.

Although there is no general information about the existing social enterprises in Bulgaria, as well as a summary analysis of the type of enterprises and the main spheres of activity, at the end of 2005 an Association of Social Enterprises in Bulgaria was established, whose 26 members in their development work out the practices and the strategic guidelines on employment among disadvantaged people.

Social enterprises in Bulgaria are different types depending on their basic characteristics:

Depending on the area in which they work, they are: Social enterprises as a provider of social and health services; Social enterprises such as training and training organizations; Social enterprises as employers of persons from marginalized groups or people with disabilities; Social enterprises engaged in production and marketing.

Depending on the target groups - social enterprises are oriented towards: Socially disadvantaged persons; Persons with physical or mental disabilities; Children and families at risk; Young people who are not integrated into society (such as orphans); Ethnic minorities; Women - victims of violence; Elderly.

Depending on the objectives, the social enterprise can aim at: Economic development - by creating employment and creating the well-being of the target groups; Labour integration of socially disadvantaged or disabled people, marginalized groups; Business Orientation and Entrepreneurship; Social protection.

- Most of the social enterprises in Bulgaria are currently related to the activities of the NGOs:

- Non-governmental organizations providing services to representatives of their members or target groups to which their efforts have been directed - services can be

educational, counseling services for people from vulnerable social groups, social or health services, social assistance, basic medical services and so on.

- In practice there are also non-governmental organizations that carry out economic activity - they use the profits from this business to finance activities in pursuance of the social mission of the organization.

- Other types of organizations that enter social enterprise circles are NGOs that provide employment for people from risky social groups, usually people with disabilities.

- In recent years, particularly encouraged by the funding provided by the EU and donor organizations, are non-governmental organizations that create employment and the development of the workforce. A list of NGOs can be seen in the attached list, the main task of which is to create new jobs for certain social groups that are targeted for it. Often, this model is related to the so-called "protective employment" where the social enterprise is an employer of people with disabilities - a typical example of this being the various unions and associations of disabled people - the blind, the deaf, n.

- Another common model of a non-governmental organization - a social enterprise, is that of organizations that act as intermediaries between the target group - most often people with disabilities - and the market. These organizations create working habits, working environments and opportunities for people with disabilities to work and then mediate the sale of the product - either through bazaars, special stores, etc. Profit is used to buy new materials and develop of additional services.

- The provision of social services is the third model of existence of a social enterprise within NGOs - social services are paid to external clients and at the same time it is a provider of social services for its members, which is subsidized by the municipality or the state after the conclusion of the contract.

In recent years, targeted legislative and administrative efforts have been made to create opportunities for an ever wider entry of TRADING COMPANIES into the sphere of social entrepreneurship. And here the forms are quite varied:

- Independent commercial companies - companies registered under the Commerce Act which, however, strive not only to maximize profit to provide employment, provide services to marginalized groups or people with disabilities.

- Other types of commercial companies are those that non-governmental organizations create in the performance of their functions. They can provide social services hire people with disabilities or provide other types of services, but the revenue from their activities can be invested in social services for specific target groups.

- Specific types of companies are those owned by alliances of people with physical or mental disabilities - they are largely overlapping as specifics with NGO's, but targeting one particular target group and serving its interests predominantly.

Social Cooperatives

There are similar types of social enterprises in Bulgaria, and "socially oriented" cooperatives are also business oriented - their goal is profit, while at the same time they

have a social focus. In practice, they have the longest existence in Bulgaria, but are rarely classified as a social enterprise. However, they have all the specifics of this type of enterprise: They provide employment for people with disabilities; They often aim at adapting their members to work and creating sustainable employment; Achieve professional and financial support to start up your own business; Provide support by delivering social services; Provide delivery of specialized services for people with physical or mental disabilities or financial difficulties.

A special manifestation of the social enterprise is the SOCIAL RESPONSIBILITY OF BUSINESS. It is difficult to talk about overlapping these two concepts - a social enterprise and a socially responsible business, but yet in the manifestations of this responsibility can be found characteristics that bring it closer to social entrepreneurship.

- A sustained commitment to pursuing a business ethics policy and contributing to economic development and improving the quality of life of employees and their families;
- Social Responsible Way of Business Management;
- Taking concrete commitments from enterprises to society;
- Participation of business in solving social problems;
- Existence of socially oriented projects benefiting communities, municipalities, state or municipal institutions, hospitals, schools or civic organizations.

In the countries of the European Union, the approach of the legislator for regulating social entrepreneurship is different. In most countries, there are not yet specific laws regulating the status of a separate legal entity - a social enterprise. In general, the practice shows that social enterprises have the form of cooperatives (Spain, Italy, Portugal, and Greece), commercial companies for social purposes (Lithuania, Finland, England, and Belgium), and a cooperative society in the public interest (France).

In all countries in one form or another, depending on the specifics of the relevant legislation, non-profit organizations are actively present as social enterprises or there is no formal legal obstacle to such. (Where the relevant legislation allows them to carry out business and they should invest the proceeds from this activity to achieve social goals.)

Some of the countries have recently adopted special laws governing the status of the social enterprise - Lithuania and Finland. In England, since 2005, a law is in force that, although it does not contain a legal definition of a social enterprise, governs a special organizational form for the purpose of social entrepreneurs to ensure that the organization's activities benefit the community.

In an attempt to summarize the existing models of social enterprises in the Member States of the European Union, we come to the conclusion that some of the main approaches to legal regulation of social enterprises are: countries that choose to separate into a legal act the legal framework of social enterprises (Lithuania and Finland) ; countries where there is no specific law and a requirement for a well-defined organizational form for a social enterprise but are regulated by a certain type of legal entity which performs social entrepreneurship and legislation provides for a number of incentive measures for their activities (Italy - Social Cooperatives, Portugal - social cooperatives for mutual assistance,

Greece - social cooperatives with limited liability); countries where a new legal entity is created for the purposes of the social enterprise (England, France); countries where there is no obstacle to social entrepreneurship developing under different legal forms of organization as long as they permit the pursuit of economic activities with social objectives (Germany, Sweden, Belgium). In Belgium, for example, with the reform of the Commercial Code in 1995, the status of a company with social goals (societe a finalite sociale), which, although commercial in character, aims at making no profit for its members but achieving social goals is introduced.

In the Central and Eastern European countries, (with the exception of Lithuania) there is no specific regulation for social enterprises. A number of studies and case studies show that social entrepreneurship takes place within non-profit organizations where legislation allows them to develop business. A number of countries, such as Poland, can boast a long tradition of developing and supporting social enterprises. A new law was passed recently in Poland, which contains detailed regulation and incentive measures for social enterprises, albeit in the law, to be called otherwise.²

In the present study we will follow the cooperative model of a social enterprise.

Cooperative values and principles

The cooperative business model is built on the principles of solidarity and mutual assistance and works to the benefit of members and the community. This distinguishes it from other business structures and defines cooperatives as an important factor for the economy, social activities, sustainable development and employment in all regions of the country.

Cooperative principles: 1st principle: Voluntary and open membership; 2nd Principle: Democratic Governance by Members; 3rd Principle: Members' economic participation; 4th principle: Autonomy and independence; 5th Principle: Education, Training and Information; 6th principle: cooperation between cooperatives; 7th Principle: Community Care;

Cooperative Values: Mutual Assistance; Liability; Democracy; Equality; Justice; Solidarity;

Ethical Values: Honesty; Openness; Social responsibility; Caring for others;

The co-operative principles, values and ethical values considered largely overlap with the key aspects of the European Community (EC) Strategy in the Strategic Research and Innovation Program for 2020.³

The cooperative model of the social enterprise provides direct benefit to its target population or "clients", members of cooperatives through members' services: market information, technical assistance / expansion services, collective bargaining, bulk buying economies, access to products and services, in foreign markets for products and services produced by them and others. Cooperative membership often consists of small producers

² Maria Kumanova, Nadia Shabani, Association "Znanie", Lovech, Analysis of Social Entrepreneurship in Bulgaria 2012

³ Seven Cooperative Principles, <https://www.willystreet.coop/seven-cooperative-principles>, accessed 16.08.2018

from the same product group or from one community with common needs – i.e. access to capital or healthcare. Cooperative members are the main stakeholders in the cooperative by taking advantage of the benefits of income, employment or services, as well as investing in the cooperative with its own resources from time, money, products, labour, and so on.

The cooperative model is embedded: the social agenda is the business. The mission of the cooperative is to provide members with services. Financial independence is achieved through the sale of products and services to its members (customers) as well as to commercial markets. Cooperatives use revenues to cover the costs of providing services to their members, and surpluses can be used to subsidize members' services.

Cooperative social enterprises include agricultural marketing cooperatives that trade and sell the products of their members and cooperatives for the supply of agricultural products provide raw materials in the agricultural process. Fair trade organizations often work with agriculture and cooperatives owned by commodity producers - that is, coffee, cocoa, wine-based tea, as well as non-agricultural products – i.e. crafts.

Self-help groups (SHGs), made up of low-income women and popular in South Asia, are often organized in cooperatives to support the diverse interests of their members in trade, health and education.

Credit unions are another example of a cooperative tied to economic development programs and financial services popular in West Africa, Latin America and the Balkans.

In the United Kingdom, a small difference in the cooperative, called "mutual societies" or "societies", is usually associated with the social enterprise. Unlike the real cooperative, mutual members do not usually contribute to the capital of the company for social enterprises through direct investment, and instead mutual funds are often funded by charitable sources or by the government.

Theoretical example: Cooperative owned and managed community savings and credit systems, Rotational Savings and Credit Associations (Latin America), Tontins (West Africa), Zadrugas (Balkans) are a form of local credit union to financial services. The self-defined savings and credit systems of the community are capitalized through investment and savings, which are then mobilized as interest loans and for members. Ownership is common and fair with all members holding a stake in the organization. Community savings and credit systems are democratically managed by a select body of members responsible for financial supervision and the approval and administration of loans. The Community's savings and credit systems are self-sufficient through the earned interest earned on loans.⁴

Forest ownership changes throughout Europe. In some areas, a growing number of so-called "New" forest owners have only small plots, have no knowledge of agriculture and forestry, and have no capacity or interest to manage their forests, while in other new municipalities and private owners they bring new interest and new goals for forest management. This is the result of various social and political events, including structural changes in agriculture, lifestyle changes, as well as restitution, privatization and decentralization policies.

⁴ The Four Lenses Strategic Framework, Toward an Integrated Social Enterprise Methodology, <http://www.4lenses.org/setypology/coop>, accessed 16.08.2018

Interactions between the type of ownership, actual or appropriate forest management and policy approaches are fundamental to the understanding and shaping of forestry but are often a neglected research area.

The special focus of the report is on the new types of forest owners in Bulgaria.

It is not about "new forest owners" in the sense of owners who have only recently acquired their forest, but the interest is more to new types of ownership - owners with non-traditional property and management methods.

Bulgaria has valuable forest ecosystems that are extremely rich in biodiversity and Bulgarian forestry has a long tradition. Significant parts of the Bulgarian forests have protective and recreational functions. The country is heavily dependent on imports of resources and energy, including wood / timber resources.

The transition to a market economy has revealed many problems in the forestry sector, which has led to urgent reforms in order to start economically, ecologically and socially sound forest management.

Cooperatives are widely held forms of governance, including agriculture, forestry, food, finance, health, marketing, insurance and lending. The cooperative is an autonomous association of voluntarily united individuals that responds to their common economic, social, cultural needs and aspirations through a co-owned and democratically-controlled structure. Strong cooperatives are able to overcome many of the difficulties faced by private owners.

Also, in the countries of the European Union, the approach and practice show that social enterprises have the form of cooperatives (Spain, Italy, Portugal, and Greece), commercial companies with social objectives (Lithuania, Finland, England, and Belgium), and cooperative society in the public interest (France).

Cooperatives in the small, remote and mountainous regions of Bulgaria, mainly Forest Cooperatives, are generally participants in the bio-economy circle, as well as socially oriented enterprises. Their purpose is to provide "good governance" to their management properties, support the local population, and provide employment, access to education and information.

These co-operatives are one of the major parts of the bio-economy in the abovementioned regions. They also help to carry out environmental, security and ecosystem services. They carry out their activity as medium-sized enterprises, bringing together a multitude of fragmented properties of different owners. In this way, they manage to comply with the regulations governing the management and use of resources from these territories, which would be impossible or at least unprofitable if managed by the owners.

Forestry cooperatives can use appropriate systems for year-round employment and sustainable income through various activities and achieve increased product efficiency and overall return and, ultimately, achieve better profit through cooperative efforts.

Some cooperatives own and manage dairies, distilleries, woodworking enterprises, tourist homes, hotels and motels, shops, ski runs, various agricultural activities, etc.

Through the collected revenues, cooperatives have the opportunity to carry out various

environmental and protective activities - recreation, water protection, erosion control, protection of endangered and endemic species and other ecosystem services that cannot be achieved in the conditions of fragmentation of private property and management is not sustainable.

For the purposes of the present survey, 9 (nine) forest cooperatives were selected by expert assessment from the districts of Smolyan and Plovdiv and the municipalities of Smolyan, Chepelare and Lucky. An analysis of forest cooperatives was prepared through the following questions: Number of members of the cooperative; Number of forest owners; Types of co-operators (owners); Managed area; Composition of forest types; Average annual yield from managed areas; Main and additional activity; Environmental and protective functions - recreational, water, anti-erosion, etc.: important protective functions - recreational, water, anti-erosion, etc.; the presence of a certificate from the Forest Management Board (FSC); In analysing the survey data of the selected cooperatives it was found that the members of the cooperative societies had an average of 749 (seven hundred and forty-nine) in a cooperative, with the owners on average only slightly more than twice - 1843 (one thousand eight hundred and forty-three) due to family ownership. More interesting data can be seen as a member - co-operators and owners. Here is a wide range of civil society organizations. Religions, trade unions, non-governmental organizations, municipalities, and even the state are included. The average area of the managed forest fund is 15 519 (fifteen thousand five hundred and nineteen) hectares, which, unlike the degraded plots, is a prerequisite for carrying out normal forestry activities and maintaining areas in good forest and ecological condition. The average annual yield of the cooperative is 7 532 m³ divided by the average number of members of the cooperative is 2.06 m³ / ha per year, which is the dividend of the members of the cooperatives (after deduction of management, extraction expenses, etc.). Under the assumption that the owner manages his own land, observing the normative rules and the law, he will never have an income of 2.06 m³ / ha per year, but as a cooperative member he gets this dividend every year from his property. All the cooperatives under consideration have forest plans for the forest territories they manage. This is one more thing that would not be done if the forest territories were managed by individual owners. 22.22% of the surveyed cooperatives have found that they need to be certified by the Forest Management Board (FSC). In conclusion, it is noted that: Cooperative management of forests and forest territories gives: higher incomes of the individual owners; provides additional means of subsistence in poor (forest) areas; supports the implementation of forest management plans and the sustainable management of these areas; provides employment; provides information services to members; promotes environmental and protective activities such as recreation, water protection, erosion protection, protection of endangered and endemic species and other ecosystem services;

One legislative obstacle has been identified to provide support to members of cooperatives with low interest short-term loans. The Cooperatives Act clearly defines the legal steps for establishing a credit cooperative. Unlike the legislation in many European countries, however, in our country there is a legal obstacle for cooperative banking

organizations to develop their business in the deposit and credit sphere. The sting comes from Art. 36, para 3, of Law on Cooperatives, where it is stated that: (3) The cooperative may, by decision of the General Meeting and by a resolution of the Bulgarian National Bank, under conditions and procedures regulated by a special law, perform deposit-credit activities. In para. 3, a legal opportunity is provided for the cooperatives to carry out deposit-credit activities subject to a special law and a decision of the Bulgarian National Bank. The problem in this situation is that the law, which can be treated as "special" and which actually regulates credit activity in the country, the Law on Credit Institutions, does not define or discuss the terms and conditions for the creation of credit cooperatives. Exceptions are made again by the mutual cooperative credit cooperatives of private farmers established under the Agricultural Capital Fund Scheme in accordance with the contracts concluded between the Government of the Republic of Bulgaria and the European Commission for the utilization of gratuitous funds, which are regulated in the "predecessor" credit institutions, namely the Banking Act. In Art. 1, para 3 of the Law on Credit Institutions states that "The provisions of this Act shall also apply accordingly to the banks established by a separate law, insofar as it does not provide otherwise", but a separate law regulating the cooperative banking in Bulgaria there is no real thing. There is only a draft of the "Credit Cooperatives and Associations Act", dictated by: the requirements of art. 36, para. 3 of the Cooperative Act; the existence of credit cooperatives established under the PHARE program with the project "Establishment of an Agricultural Capital Fund", regulated by § 17 of the Transitional and Final Provisions of the Law on Banks; Bulgaria's obligations under the European Association Agreement and the invitation for membership to ensure gradual alignment of its legislation with that of the Community where a number of countries, such as Germany, France, Austria, the Netherlands, Denmark, have highly developed financial institutions based on the cooperative; Established traditions in the Bulgarian cooperative work until 1951. This draft⁵ of law was submitted on 18 July 2001 by the MP in the 39th National Assembly, Yordan Nihrizov, to the Budget and Finance Committee, but was not put to the vote by MPs, which terminated this sole attempt to legislate for credit cooperatives in Bulgaria.

On the basis of this, we can conclude that in Bulgaria there is a gap in the legislation, which prevents any initiatives to create a credit cooperative. Although indications over the years lead to the conclusion that measures to regulate credit co-operative legislation may not be undertaken in the near future, we recommend legislative measures in this area.

Based on the seven principles of the co-operatives mentioned above, the EC Social Innovation Strategy, the experience in most European countries, and the European Commission's Resource Efficiency and Sustainable Economy course, it could be said that Forest cooperatives in Bulgaria, could be successful in implementing a social approach in the field of bio-economy.

⁵Project of Credit Cooperatives and Associations Law, http://www.bsdp.bg/document/?document_id=101, accessed 16.08.2018

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