Economic Entrepreneurial Growth: Bulgarian Case

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Abstract
Entrepreneurial theories and entrepreneurship have gained relevance and importance during the Covid-19 pandemic and post-pandemic period as the pandemic restrictions cut off some traditional business and work relations. The main question is: Is entrepreneurship a safety net for the economies? Looking at the latest entrepreneurial theories, the role of the entrepreneurial business and entrepreneurs rapidly increased in recent days, given the development of start-ups, academic spin-offs, etc. Based on the emerging trends of co-creation and co-working, entrepreneurial business is getting a boost nowadays. Universities as an innovative center also contribute to this emerging trend.

The paper aims to find another perspective for the entrepreneurial development: regional growth and development. Some theoretical background of entrepreneurship and entrepreneurial growth has been provided in the first section of the article, the methodological approach to regional growth through entrepreneurial development, in particular the Bulgarian case, in the second, and the practical implications of the given methodology – in the third section. The expected effects are given in the fourth section, and conclusions are made in the last one.

Keywords: entrepreneurship, entrepreneurial growth, regional development, Bulgaria

JEL: L26, L53, O20

1. State of the art

Entrepreneurship and entrepreneur are explained as the heart and blood system of the contemporary economy. There are a number of examples of people that succeeded as entrepreneurs and their entrepreneurial business is regarded as worthy not just for them but for society as well.

The very first understanding of entrepreneurs in the business economics could be found in the establishment of contemporary economic thought. Thus, recent business economics and understanding of the economic development are grounded in the entrepreneurship definitions from the very first economists (see. Cantillon, A. Smith, H. Devenport, F. Taylor, H. Fayol, J. Schumpeter and others) (in Sterev and Penchev, 2023). Accordingly, Hébert and Link (1989) summarize that “The entrepreneur is a person, not a team, committee or organization. …. Entrepreneurial actions are performed in all societies by individuals whose judgement differs
As the contemporary understanding of entrepreneurs and entrepreneurship is strongly grounded in the educational centers, the development of the “new age” entrepreneurs should be based on the theories of academic entrepreneurs. Accordingly, academic entrepreneurship is not a new topic but it has been reinvented in the last decade. The very first publication highlights the role of educational institutions and universities in facilitating the entrepreneurship process (Lamont, 1972) and after then the academic interest has been focused on research of the entrepreneurs’ background and the role of the schools and universities in training entrepreneurs for more than 30 years. So, the very first aim in developing entrepreneurial attitude and resp. for supporting entrepreneurship, is to train entrepreneurs.

Additionally, in 2002, Huffman and Quigley determine the role of universities with regard to attracting high-tech entrepreneurs through: “network events”, internships, business scholarships and business incubators. In their view, education centers are “good magnets” for entrepreneurs that could stimulate regional development through their entrepreneurial activities and entrepreneurial networks cooperation. Following Toole and Czarnitzki (2007) academic entrepreneurship is defined as a form of technology transfer. In that meaning, the academic entrepreneur is a researcher/scientific investigator who takes part in the commercialization of an generated technology. Furthermore, Feldman at al. (2002) found the connection between commercialization of the intellectual property of the American universities and equity instruments for technology transfer (as the first step to foster academic entrepreneurship – authors’ note).
Furthermore, Vedovello and Godinho (2003) found that one of the main instruments for stimulating entrepreneurship is to support academic/business incubators, given that the latter mainly support entrepreneurs. The understanding is that we need “entrepreneurial clusters” for more successful technology transfer and better entrepreneurial networking. But, “entrepreneurial cluster approach” depends on the decision of how to find (young) people that intend to be entrepreneurs. Thus, there is a need for national economic and/or social policy that inspires entrepreneurs to have a successful entrepreneurial start (Yordanov 2019, 2023).

2. Basics of entrepreneurial need: the Bulgarian case

Undoubtedly, Bulgaria is facing yet another economic and/or social crisis, which, considering the social and political situation, can possibly increase the negative effects for the country and impair the handling of the health crisis. Unfortunately, there are the first signals of such an economic crisis, namely an increase in inflation-driven pressure (consumer price index 2.4 – 2.5% from April 2021 to date) a decrease in unemployment (4.8% for 2020) and GDP growth (4% on an annual basis 2021 compared to 2020), as the major macro-economic parameters in the country.

From such macroeconomic data, low unemployment rates and real GDP growth lead to the exhaustion of the opportunities for intensive growth of the economy. Thus, the average wage increases (which further leads to an increase in inflation-driven pressure), and this leads to a serious increase in the “scissors” between the poor and the rich in the country. In addition, GDP growth, as well as an increase in production, has raised the demand for energy resources (globally), which further creates pressure on the inflation index and raises the level of national and international prices of consumer and investment goods. All the above create the conditions for the “perfect economic storm” to take place in the next economic and financial crisis. Only rapid measures to curb the economic parameters of the emerging economic crisis can “save the Bulgarian workers, employees and small and medium-sized businesses” (Idriz and Sterev, 2022).

Moreover, the country is amid the turmoil of the so-called social and demographic crisis, in which there is a serious decline in the birth rate and population, on the one hand, and a serious depopulation of large territories, on the other hand. All this is due to the enhanced uncertainty of the existence of Bulgarian citizens in these regions.

With the negative change in the economic situation, it is possible to increase people’s negative expectations, which further reduces birth rates and migration (within the country). In fact this “kills” the Bulgarian village, given that it leaves the village with no young people ready to work in smaller settlements, and respectively, reduces their motivation to start their own business at the place of living. The final result is an exponential decrease of economic and entrepreneurial activities that makes smaller villages more unacceptable places of living.

The change of the above situation requires fast and strong measures, including some unpopular ones, to strengthen the role of the government in the redistribution of national wealth without violating the principles and rules of free and competitive economy. The adoption of such a neo-Keynesian approach seems increasingly appropriate, given that countries with developed economies such as the US and Germany have been introducing
similar measures in recent months. Of course, these measures should not change, nor even suppress competition mechanisms, but only promote them. This requires a plan to slow down or even “reverse” the status quo in the country’s economic and social situation.

3. Practical instrument to stimulate the regional entrepreneurial intention

Encouraging social equality and reducing the relative share of the population at risk of poverty and social exclusion (32.1% by 2020) implies an increase in the income of this population. Given that the vast majority of these persons are pensioners or people with limited income opportunities, the proposed measures should presumably increase their disposable real income. In view of the above, the change in social payments (respectively pensions and social benefits) will lead to a change in the insurance system and will overstate the system’s ability to be “self-sustained” based on the social contributions paid by the people in work. At the same time, compensation at the expense of increasing the social security burden would lead to part of the income “joining” the grey sector, which would not have the desired effect for more funds in the country’s social system.

The possible solution of promoting social equality in the country, which will both stimulate and encourage the (regional) “local” and especially micro and small businesses, and at the same time increase the “real disposable income” of the population in the country (especially in small settlements), is the introduction of a “coupon/voucher/scheme” to partially cover the cost of living.

Such a measure will have an effect on the “social engagement” of young people, enabling the development of local (especially in small settlements) small entrepreneurial family businesses, which will restore and bring together families who are separated due to material shortages (e.g. children living and working abroad to support their elderly parents), and there are thousands of such examples across the country. Thus, instead of young people being migrants in the big cities, or even worse emigrants outside the country, they will have enough incentives to go back and set up, for example, a family grocery store, so that the entire family gets involved in the business and earns a living with dignity and pays taxes.

From a social point of view, the use of this coupon/voucher/scheme should affect mostly those 31% who are at risk of poverty, but also partly those who have been in this group for the previous 5 years (41.3% in 2015). By increasing their real disposable income through the coupon system, they will be able to meet the price increase with dignity, thus making them reasonable citizens of the state and respectively, could boost their motivation to engage in entrepreneurship.

The contrary shall mean shrinking of the real disposable income, which leads to a restriction of people’s social contacts and hence to social isolation, i.e. an increase in the number of people excluded from health care, social and educational systems due to low income, i.e. insufficient to make them be or feel decent citizens of Bulgaria that enjoy their full human rights.

3.1. How should the coupon/voucher/system work?

The coupon/voucher/scheme should be a COMPENSATORY MECHANISM of the real disposable income to ensure the “normal/ordinary” existence of people, especially those who are socially and/or
economically excluded from the society at the moment. Moreover, this compensatory mechanism serves as prevention from increasing the relative share of people in poverty, especially the so-called working poor people, with relatively lower increase in disposable incomes than price increases. In this case, the “scissors” of disposable income in the country will be reduced. This can be measured by the differences between the average income in the country and the regional average. For example, the national average income currently exceeds two times the average wage in most of the regions except Sofia and Plovdiv!

Accordingly, the coupon scheme should cover and compensate for the increase in these “daily” costs, which are considered basic for human existence, namely household expenses, food costs and clothing costs (partly). In addition, the construction of the tiered mechanism of the coupon scheme should be:

![Figure 1. Levels of coupon /voucher/ scheme](image)

The minimum social cost of living and the minimum basic income of a person must be used to determine the list of recipients of vouchers under the compensation mechanism. In addition, the appropriate payments under the scheme are:

- 100 BGN for food vouchers per person over 18 years of age.
- 100 BGN for vouchers for utilities (electricity, wood, coal), water and heating (district heating, gas)
- 50 BGN for vouchers for clothing.

### 3.2. How should the coupon /voucher/ scheme system be used?

In terms of competition and promoting the development of small businesses in the country, it is necessary to introduce a limit on where and how coupons from the coupon system can be spent.

- First, in terms of food coupons/vouchers, they should be used in small local shops, which will encourage the development of a good Bulgarian store network. This is especially necessary for small settlements
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and remote villages where access to essential products is limited and there are no motivated entrepreneurs to open such points of sale due to the low purchasing power of those living there. Additionally, this measure stimulated self-employment by promoting the opening and development of small family food stores.

Additionally, coupons can be used for purchases from local food producers (in local and regional markets), thereby encouraging both farmers and small local producers of food and clothing.

These and other restrictions can be introduced through a **REGISTRATION REGIME** for manufacturers and traders who are allowed to redeem coupons, i.e. accept payment coupons.

- Secondly, with regard to **coupons/vouchers for utility services**, they should be distributed among the different providers of such services. The only limitation shall be that the beneficiaries of the coupons should repay all their obligations to these suppliers within the respective month, including by using the coupons and funds from their own income.
- Thirdly, regarding coupons/vouchers for clothing, they should be used when buying from Bulgarian manufacturers or dealers of Bulgarian manufacturers.

The regulation of this part of the compensation mechanism includes **REGISTRATION REGIME** of producers and traders who are entitled to redeem coupons, i.e. to accept coupons as a payment option.

### 3.3. What are the steps to ensure the ‘fair’ implementation of the economic and social compensation mechanism?

The implementation of the Compensatory Mechanism can and presumably should be managed jointly by the Ministry of Economy (ME) and the Ministry of Labor and Social Policy (MLSP). The distribution of institutional commitments can be described in the following order:

**First.** The MLSP sets the levels of the poverty line and the social minimum (expenditure) (BGN 413 in 2022) as well as the minimum basic income line (e.g. BGN 600).

**Second.** The MLSP sets out a list of persons over 18 who receive income below the poverty line and below the minimum basic income. They allocate the people on these lists by the individual components of the compensatory mechanism.

**Third.** ME produces a register of Bulgarian producers and traders who have the right to cash coupons under the compensation mechanism scheme.

**Fourth.** The MLSP establishes a system for the registration of existing coupons. Through the system, financial intermediaries will be able to redeem them to bearers and monitor the compliance with the rules of application of the compensation mechanism.

**Fifth.** ME sets rules for the use and redemption of coupons under the compensatory mechanism. The rules of use are related to simplification of the cashing mechanism, especially for micro and small enterprises. For instance, the maximum value of coupons redeemed at a cash desk by a financial intermediary (commercial bank) within 1 week is 500 BGN. Amounts exceeding 500 BGN per week /100 BGN per
day/ can be redeemed by bank transfer. For large enterprises, including utility service providers cashing of coupons can take place once/twice a month.

Sixth. ME through the Ministry of Finance selects financial intermediaries / commercial banks to register the claimed coupons. Financial intermediaries through a specially established system register cashed coupons and, according to the rules laid down by the ME (fifth), make daily requests for reimbursement of the funds paid under the compensation mechanism.

Seventh. The MLSP makes monthly amendments to the lists, if necessary, prints the necessary coupons and distributes them through the Employment offices and/ or Social Assistance offices. The coupons should be printed in denominations of 5 BGN, thus allowing socially and economically disadvantaged persons to guarantee a minimum cost of food, water and heating of 4 BGN per day.

THE GUARANTOR FOR THE IMPLEMENTATION of the procedure shall be the Council of Ministers. The rules established should ensure simplified access of Bulgarian businesses to the scheme and, on the other hand, encourage people to voluntarily apply this compensation mechanism. The creation of appropriate digital tools under the individual steps will increase both the motivation for the participation of individual intermediary companies (e.g. commercial banks) and the motivation of consumers to participate voluntarily in this initiative.

Undoubtedly, a broad information campaign will be needed to explain to the Bulgarian citizens and businesses the benefits for the development of Bulgarian society and in particular that the compensatory mechanism is a tool for the reintegration of the Bulgarian village and a tool that supports Bulgarian business and society at large, and moreover prevents Bulgarian production from extinction!

3.4. What is the “bill” the government should pay for social and economic equality?

The summary account under the Compensatory Mechanism shows that 1.2 million people are estimated as socially poor, given that * 250 BGN maximum payment* 12 months = 3.6 billion BGN per year

The monetary multiplier in Bulgaria can be expected to be at levels of 1.2 – 1.25, which creates additional income in the country of about 0.8 – 0.9 billion BGN.

Taking into account VAT and income tax revenues, it should be expected that the money paid under the compensatory mechanism will be paid, as follows:

- 0.80-billion BGN of VAT
- 0.25-billion BGN of income tax
- 0.40-billion BGN of social and health insurance contributions (of company owners, self-employed and employed staff).

In total, revenues in the budget shall be 1.45 billion BGN under the scheme.

Therefore, the total expense of the State under this compensatory mechanism will be around 2.1 – 2.25 billion BGN per year, which makes about 1.8% of the GDP.

4. Economic and social effects of the proposed instrument: coupon / voucher / scheme

The provision of a basic income for living guarantees the achievement of NINE SOCIAL EFFECTS:

1. Social inequality in the country is reduced by reducing the gap between poor (socially poor) and rich people. This is guaranteed by the percentage increase
in disposable income of the lowest-income people, compared to an increase in disposable income of high-income people (who have remained uncovered by the coupon system). In doing so, this compensatory mechanism guarantees SOCIAL EQUALITY, where the state takes care of those placed under social and/or economic risk.

2. **Urban migration and emigration abroad will be reduced** due to the availability of a guaranteed basic income necessary to cover basic daily needs. In addition, people from small settlements will feel the comfort of staying and working, even set-up small local businesses in villages and small towns, where they will have a necessary and sufficient basic income to feel valuable to society without being socially depressed and living on social and/or economic aid! This will also “reverse” the trend of migration from villages to cities, not because of the Covid crisis, but because of providing the necessary basic income for the lives of the respective inhabitants. Moreover, this will as well reduce the interest in emigrating abroad.

3. Prerequisites are created for reducing the so-called ‘working poor’, who are under-educated and cannot cover the basic expenses for food and household needs. The application of the compensatory mechanism is not an aid and it will raise the self-esteem of these people, enhance the sense of usefulness to society, thus making them reasonable Bulgarian citizens.

4. **The social burden shall be switched** from the National Social Security Institute to the state, i.e. from working people (who pay social security contributions through their salaries and wages) to businesses and the state (through paid national taxes and fees). The contributions thus collected will further be used for the intended purpose - to increase the rate of the pensions and social expenses where they are most needed. By excluding people with low income from these systems, there are prerequisites for increased social and health costs that health care and social security systems cannot bear together with the costs of the COVID crisis. Shifting the burden of combating social and/economic isolation to the state budget will make both systems more effective and more focused on “those in need”.

5. **Psychological comfort is created** for the poorest part of the population, which allows the reduction of social conflicts by reducing social inequalities. Thus, social relations in small settlements will be “normalized”. The change in disposable income will “make” people at risk feel citizens of the state and thus, in general, this compensatory mechanism will have a social, economic and financial impact, which is in fact a beneficial impact and a huge soothing effect throughout society.

6. **Mental and psychological impact** is achieved associated with reducing psychological pressure from the lack of sufficient funds for living. Providing funds for a disposable basic income for subsistence will presumably give the Bulgarian citizens the opportunity to think about improving their qualifications and quality of life in order to be more competitive in the market. The most important and genetically determined thing for every individual is to work and provide for the wellbeing of their family with dignity. Humanity has not found greater psychological support than this so far. Every human being likes to be valued for their work and provide for their family. Without satisfying basic needs and providing conditions for a “dignified and
fulfilling life” no positive attitude towards education and qualification can be expected. It is for this reason that socially and/or economically isolated people get auto-isolated from both the healthcare and education systems. The provision of a minimum real disposable basic income increases the contribution of the groups at highest social and/or economic risk to healthcare and education systems.

7. Prerequisites are created for increasing the birth rate amongst young people who, being taken out of economic and social isolation, will have the opportunity to lead a normal social life. This will minimise one of the negative influences of low income - namely reluctance to social contact. Moreover, through this mechanism, the state will be the guarantor of their future as well as alleviate the worries of younger people about their elderly parents. Together with the previous effect – mental and psychological reassurance, it creates opportunities to increase the desire to build strong families.

8. Prerequisites to improve human health are created. The provision of a minimum basic income is related to the fact that Bulgarian citizens will have more funds for health, as well as have more time, which will replace some of the time in making additional funds. Generally speaking, when at work, people do not tend to think about diseases.

9. The activity of Bulgarian citizens will be increased and they will have the opportunity to implement their ideas. This will unleash the energy of social entrepreneurship, which can incentivise people to be active members of society, work in the country and make extra money, offering essential goods as a result of centuries-old traditions in their settlements. This will also boost cultural tourism, mountain tourism and other types of tourism, which will reduce social exclusion and accordingly improve the economic well-being of the currently excluded citizens from the economic and social life in the country.

The application of this compensatory mechanism shall also ensure the achievement of FIVE ECONOMIC AND ENTREPRENEURIAL EFFECTS:

1. Creation and development of micro and small family businesses in villages and small settlements. The possibility of using the coupon system by people on low incomes shows that coupons will possibly be used mainly in villages and small settlements. This will provide relevant conditions for the development of local businesses, which will attract young people to the opportunity to stay in these settlements and develop their own business, i.e. to have sufficient income to live a normal life.

2. Increase of revenue from sales for local producers. The increase in basic disposable income does not give rise to investment consumption (i.e. the purchase of a property or car), but creates opportunities to cover the higher expenses for the daily costs of food, beverages and clothing. This will increase purchasing power, and therefore lead to the development of small local food -farms and small local clothing companies. Once again, the compensation mechanism will make it possible to set up local micro and small businesses in small settlements and sell to local people.

3. Increased income, social and health costs in small settlements. Promoting the creation of micro and small local businesses will result in more people being involved in the social and healthcare
system. The compensation mechanism itself will “bring to light” some businesses that, using the opportunity to enjoy this compensatory mechanism, will contribute more to the social and healthcare systems.

4. By setting up local micro and small enterprises, the latter will employ labour that is not highly skilled and usually falls under the category of ‘working poor’ and/or people under economic isolation. Thus, it will increase the employment opportunities in villages and small settlements and reduce the relative share of the long-term unemployed who do not fall under the statistics of the unemployed, i.e. the relative share of people who neither work nor study will be reduced.

5. The application of this compensatory mechanism will lead to the ‘normalisation’ of economic and social regional inequalities. Understandably, this mechanism should be applied mainly to the economically disadvantaged regions of the country. This in turn will guarantee the “normalisation” of the living standards and the economic and social activity in the country’s “low-performing economic regions”. As a result, additional economic incentives will be created for these regions to enjoy a faster pace of development and thus the economic and social inequalities in the country will be reduced.

The effects for businesses, subject to compliance with the current competition protection law and does not violate state aid rules, are related to the following 7 RESULTS FOR DEVELOPMENT OF THE BULGARIAN ENTREPRENEURIAL BUSINESS:

1. Prerequisites are created for the development of micro and small businesses, especially in small settlements and villages where there is still difficult access to essential products.

2. The Bulgarian micro and small business will be saved and it will not be dependent on the investments of large companies. This will increase competition, and the final winner will be the citizens who will receive good quality Bulgarian goods at low prices.

3. Conditions shall be provided to increase the number of self-employed persons registered as eligible to get coupons under the compensatory mechanism. Hence the result is an increase in the number of people cover by the social and healthcare system, which further alleviates the budget of the National Social Security Council and the Health Fund in terms of the costs of socially and health-insured persons.

4. Prerequisites are created for BRINGING THE BUSINESS INTO SHARP FOCUS as part of the producers and traders who, acting on the fringes of the law, receive unregistered income. Through the coupon scheme, they will receive income from the activity, which should be registered and the corresponding taxes and fees will be paid including value added tax and Income tax.

5. The rate of non-collected payments due to utility suppliers, especially water service operators, will be reduced. This will help to make further investments possible and improve water supply, especially to small settlements.

6. Traditional Bulgarian productions will be saved. In the conditions of insufficient customers and remoteness of these customers, many traditional Bulgarian products remain abandoned and uncompetitive. The difficulties in their inclusion in the existing, mostly foreign retail chains prevent the Bulgarian business from reaching the Bulgarian consumer effectively. This scheme will shorten the SUPPLY CHAINS and not only will the
Bulgarian business benefit from this, but also the Bulgarian consumers.
7. Last but not least, Bulgarian economic patriotism will be revived: MADE in BULGARIA, which has actually been lost in recent years. At the moment, this slogan is understood as something bad and of low quality. By applying this mechanism, the Bulgarian consumer will be convinced that what is produced in Bulgaria can be and is high quality!

5. Conclusions and summary

Undoubtedly, the economic, social and demographic specifics of the country require the adoption of tough measures to protect the population from the rising economic storm worldwide, a storm that will not miss our country. At the same time, the state needs to identify emergency rescue measures for urgent REINTEGRATION of Bulgarian villages and SALVATION of Bulgarian entrepreneurs (resp. micro and small business), especially in villages and small settlements.

The proposed economic and social compensatory mechanism: introducing a coupon /voucher/ scheme to compensate for decreasing real incomes and creating a basic disposable income in the country, has SOCIAL and ECONOMIC effects that go beyond the effects of using social and economic benefits for the poorest people. The application of the compensation mechanism is a FAIR approach for income redistribution by the state, ensuring transparency, fairness and social equality in the country. It provides these necessary conditions that can stop migration and emigration, thereby saving the Bulgarian village from extinction and at the same time promoting the development of micro and small local businesses to support the economic and social development of the smallest settlements in the country.

At the same time is can be expected that some 250,000 Bulgarian citizens with high entrepreneurial intention will return to Bulgaria. This process will inevitably result in a solution to the problem of high-quality labour, and possibly raise the level of efficiency, because all those returning to Bulgaria have worked in other Western economies that are more competitive than the Bulgarian economy.

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