

## **SOCIAL DIVERSITY AND MICROFINANCING AS INSTRUMENT OF THE FIGHT AGAINST POVERTY**

The social diversity under the transition to market economy in Bulgaria raises difficult questions to the social policies about the balancing of the social support measures in such a way that to make possible to provide for adequate degree of security of the social support together with defining and implementation of sustainable forms of social inclusion and re-integration in the labour market. The creation of incentives for the nascent private sector through the support for entrepreneurship, the small and medium sized enterprises and the family businesses creates possibilities to exert positive impact on the processes of social diversity by the creation of greater sustainability of the self-initiative of the private sector and of the self-employed. This contributes to the raising of employment and incomes thus leading to the improvement of the social welfare as a whole.

In the understanding of social diversity there is a great need of revealing the differentiation among different forms of poverty and design of appropriate policies for the fight against it. An important step forward in the study of poverty in Bulgaria during the last decade has been made by analysis done by Bulgarian authors creating the grounds to define new forms of poverty and to search for approaches and measures for circumscribing of unfavourable tendencies towards worsening its consequences.<sup>1</sup> The revealing of new trends in the social policies as regards the new forms of poverty is important for the choice of measures for the fight of poverty.

The present paper aims to reveal some basic aspects of practical implementation of microfinancing with the purpose to diminish the poverty of socially weak groups of the population.

First, the difference between microcrediting and microfinancing has the purpose of describing the role of *microfinancing* as an instrument of social policies of new type. In world wide scope the microfinancing is given a special attention not only as a measure for the support of employment and incomes but as an instrument to set as a priority the fight against poverty.

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<sup>1</sup> Bulgaria: the Challenges of Poverty, (on the basis of the Multipurpose Household Survey in Bulgaria carried out during 2003 by the NSI and the Ministry of Labour and Social Policy with the assistance of the World Bank ), a study by Tsanov, V., B. Bogdanov, K. Stoyanova, M. Kotseva, I. Beleva, D. Mircheva, A. Tzvetkov, National Institute of Statistics, 2006;

Second, attention is paid to the contemporary concept of the life cycle in the course of choice of strategy against poverty and the relevant change in the set of measures for the fight of new forms of poverty.

Third, the problems of the three institutional levels of microfinancing with social targeting against poverty and some aspects of impact assessment of the implementation of microfinancing in Bulgaria.

### **Specific features of microfinancing as an instrument of social policies and implementation in Bulgaria**

In the process of financing the economic development of the transition countries like Bulgaria since the beginning of the 90s the microfinancing has been given a role to play for the nascent private sector as contributing investments for public and private goods as well as in the small and medium sized enterprises. An important aspect for the development of microfinancing is its specification as different from the microcrediting. The experience of a number of countries shows that the advantages of microcrediting for the poverty alleviation are not unconditional – the reality of microcrediting may prove to bring unfavourable worsening of the debt servicing burden of the poor in times of economic slowdown and crisis.<sup>2</sup> It is true that microcrediting may have advantages for poverty alleviation, as the Nobel Prize Laureate Mohammed Yunus has proved, but under the conditions of rapidly rising indebtedness to financial intermediaries during the present decade the microcrediting (as providing easier access to credit) has created higher risks of debt „traps” for the socially weak groups. Microcrediting can be a solution but there is empirical evidence that it may not be considered as panacea for poverty alleviation.<sup>3</sup> Under the conditions of credit expansion in Bulgaria since the beginning of the present decade until 2008 the increased volumes of microcrediting has also lead to the growth of the indebtedness of the households and it the start of the financial crisis it is to observe that the drawing of new credits by the households is considerably reduced as a result of the worsening of their creditability. (See Table 1).

The application of the microfinancing as an instrument for sustainable social changes in poverty alleviation has become a dynamic area of practical solutions as well as of improvement of the targets for making progress in the economic development of countries with newly emerging markets or developing countries with higher level of poverty.<sup>4</sup> As much as the small and medium sized business is based on entrepreneurial initiative, the self-employment and the development of family businesses, the public and private schemes for microfinancing have become important instruments for stimulating its investments

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<sup>2</sup> Dean Karlan& Jonathan Morduch, Access to Finance, Chapter 2 in: Handbook of Development Economics, Volume 5, Dani Rodrikand Mark Rosenzweig, eds., June 2009

<sup>3</sup> <http://poverty-org>, The Financial Access Initiative and Innovations for Poverty Action, Consortium of researchers at New York University, Harvard University and Yale University

<sup>4</sup> Robinson, Marguerite, The Microfinance Revolution: Sustainable Finance for the Poor, Washington, DC, IBRD/The World Bank, 2001

Table 1

	2007		Growth on annual basis, BGN			
	Bill. in Euros	(% of the total)	2007	2008	2009	2010
Mortgage loans	2,979	39.8%	64.7%	37.3%	20.4%	17.8%
Consumer loans	3,157	42.1%	47.5%	33.7%	17.3%	13.1%
Mmonetary financial institutions	2,971	39.7%	46.3%	29.1%	15.0%	11.1%
Other financial institutions	186	2.5%	70.0%	70.0%	30.0%	21.0%
Overdraft	673	9.0%	60.2%	52.9%	22.6%	17.1%
Other loans	527	7.0%	24.0%	22.7%	16.7%	13.2%
Loans on credit cards*	9	0.1%	6.3%	10.0%	10.0%	15.0%
Financial leasing	146	1.9%	23.4%	44.0%	16.0%	12.0%
<b>Total</b>	<b>7,492</b>	<b>-</b>	<b>52.3%</b>	<b>35.3</b>	<b>18.5%</b>	<b>15.0%</b>

Source: Bulgarian National Bank; Unicredit Bank

\* Includes only the balances of nonbanking financial companies.

and growth with the purpose of providing employment, increasing incomes and further development of small businesses. In such a role the microfinancing in its forms of grant schemes and financial support through national and international programmes and funds has contributed considerably to decrease the social burden of the transition as related to higher unemployment rates and social exclusion.

However, evaluating the trends that have prevailed during the last 15 years in the process of stimulating the small and medium sized businesses, it is to be stated that during the economic transition in Bulgaria considerably higher importance for the firms' finances have played the bank *microcredits* at the banking products' market in stead of the *microfinancing* grant schemes and financial support. Microcrediting has developed on commercial basis through the banks and the competition among them contributes considerably for the diversification of the credit products of the banks.

Up to 2003 the experience gained in microfinancing with the purpose of poverty alleviation, is not good enough in spite of the fact that there are many project financed forms of microfinancing on the side of the foreign official and nongovernmental organizations. Since 2003 the microfinancing has become officially undertaken and targeted social policy in Bulgaria. At the same time, the access to microcredits has become more restricted for a number of newly created small and medium sized enterprises as well as small businesses as crafts due to the low level of availability of their own capital or lack of adequate own assets to be regarded as collateral of the credits from banks. Limited access to credits have not only the above mentioned small and medium sized enterprises but also social groups and persons which do not have a constant source of incomes and do not pay social securities' payments. In practice these are the most vulnerable socially weak groups because of the risks of long term unemployment, lack of incomes and poverty. Under the conditions of the transition to

market economy in Bulgaria the existence and sustainability of poverty among some social layers raises the question for the societal attitudes to poverty and the social policies for poverty alleviation and social exclusion.

The clear distinction between microcrediting and microfinancing of small and medium sized enterprises, as well as of the alternative possibilities of access to credit of different social groups in practice takes new dimensions and forms in the globalised world. In greater number of countries the fight against poverty as a strategy relies upon the implementation of microfinancing in order to support the access to financial resources and to apply financing and subsidized credit for the support of most vulnerable social groups.

### **The problem of poverty alleviation as a challenge to new social policies**

During the transition of Bulgaria to market economy the achievement of higher rates of economic growth has stabilized as a trend since the end of 2003 up to the end of 2007 as the rate of annual growth of GDP surpasses 6 per cent. Until now in spite of contributing to the standard of living, the economic growth has not been good enough to serve the needs of improving the solution of the social problems. The market economy has brought to social diversity but at the same time to the deepening of the gap between the poor and the rich. It is a fact that the higher prosperity of some social groups is in contrast to another part of the population that encounters great risks: risk of unequal conditions during childhood, risks of poverty of whole communities and social groups, risks of being at work until too old age to earn one's living, risks of isolation and limited self subsistence in old age, social exclusion in different forms. As stated in the OECD report on social policies of May 2008: "That the conventional social policies have not helped the people adequately is confirmed by one essential fact: since the beginning of the 70s up to the middle of the 90s of the XX century the incomes from labour and capital have been redistributed ever more unequally among the population of each country member of the OECD".<sup>5</sup> In a similar way the gap between the poor and the rich in Bulgaria due to rising inequalities sets unfavourably stable trend.

On such grounds at present since the beginning of the present decade the evaluation of the risks of the vulnerability of the socially weak groups due to poverty acquires great importance for these groups. It is important to evaluate also the threats for the society as a whole from the rising stratification and poverty.

In making the choice of strategy for more efficient poverty alleviation and the respective change of set of means for the fight against new forms of poverty it may be important to consider the concept of the life cycle of poverty according to the age structure of the population. Under such approach it is important that the society which could be based on the solidarity and mutual support has to pay attention to the early intervention for the fight against poverty, for in-

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<sup>5</sup> OECD Report on social policies, May 2008, p.23

stance the children poverty in order to provide adequate and timely support. Such a support may help avoid higher costs of expenditures against poverty and its consequences at older age of the individuals involved – as for instance the fight against illiteracy crime, etc.

It is to be considered that with regard to children poverty much importance is to be given to the thesis of the necessity to make on time the public choice between the two alternatives for public expenses: the cost for the society of neglecting the status of children left unsecured in poverty or the public expenditures to undertake measures against poverty of the threatened children. The preferences to make on time financial support for prevention of social exclusion of children and for their education are to serve the purpose of avoiding long term risks and cost to the society from rising illiteracy and rising crime.

The poverty as a part of the contemporary society creates the need of new approaches for its alleviation with regard to the needs of other groups besides children, as for instance the young jobless people or the old women who cannot sustain a decent living as they may rely only on small pensions because of having had lower salaries as employed.

The upsurge of new forms of poverty increases the necessity of good evaluation and choice of adequate social measures for its alleviation.

First, the poverty is always to be recognized and there are many social differences due to poverty. It is part not only of the life of separate individuals or families but of whole communities and in this way it sets firmly its localization at definite regions, towns, quarters ,etc. Thus the poverty tends to reproduce itself in communities and in definite localizations.

Second, the fact that the people are poor is a sign that they have not been successful in joining the labour force or the society. In other words the poverty and inequality make evidence of inefficient society in which the human resources and possibilities are not properly utilized. In stead of that the society has to cope with heavy costs of the problems of the risk social groups that pose risks to public security.

Third, the children of poor parents have lower chances to have success in life: the increased inequality of incomes leads to increased inequality of the access to education, job training and social integration. In this aspect according to a study of OECD: „The failure to fight poverty which is the fate of millions of families and their children is to be criticized not only from social viewpoint but because it reduces the possibilities to sustain economic growth.”<sup>6</sup>

The deepening of incomes' inequality and of the differences in the distribution of incomes of the households is related to different causes, including the problems of the job availability and level of incomes, the changes in the rapid development needs, change of technologies, the impact of globalization, the changes of demographic and family models and other factors. The acknowl-

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<sup>6</sup> „The Employment and Social Policy Response to the Jobs Crisis”, in: OECD employment outlook, OECD 2009, p.74

edgement of the social diversity allows for the possibilities to take into consideration not only the economic but socio-cultural and ethnic causes which are at the roots of poverty and its reproducing in different forms. For instance, in Bulgaria the empirical studies of the status of the Roma population not only analyse the causes and forms of poverty in their communities but they also pay attention to the deepening of inequalities to which the social policy has to target the social support and microfinancing measures for policy alleviation. The way in which the social policies have been carried out in the past offered only one approach for tackling with the deepening inequality in the distribution of incomes of different social groups: by the application of taxes on this part of the society that has had contributed and gained more from the economic growth (i.e. the members of society with higher incomes) in order to pay compensation to those who cannot find job because of illnesses, lack of qualification etc. All countries in the world continue to make use of tax collection and redistribution of incomes as a main way for poverty alleviation and other forms of social inequalities. This approach creates however problems – if the incomes keep rising after some time it becomes more difficult to redistribute more money by higher taxes as the voters in better economic status may refuse to accept the rising tax increases while the higher level of taxation may discourage investments and the motivation to earn higher incomes.<sup>7</sup>

Under the demographic situation in Bulgaria there are also other barriers setting limits to increasing the public expenses through higher taxes – the employed people bear high burden to run their families because of the necessity to support financially their parents with low pensions. For the greater part of social groups there is a necessity to support financially the family members in old age. This solidarity within the families in Bulgaria makes the family as a community stronger to encounter difficulties, gives a special feature of its sustainability against deepening poverty and adds up to the social diversity.

In stead of relying solely upon taxes and public transfers at present the developed countries are in search of other means for coping with social challenges. To this goal are devoted *the active social policies* as they are an attempt to change the conditions of life of individuals and communities and not solely to soften the inequalities resulting from these conditions. In contrast to the passive and compensatory approach of the past the stress is laid upon the investment in people and in stimulating them for active participation in the labour market with the purpose of maximizing their potential to become independent and self supporting members of the society. For instance life long learning and the rejection of the age discrimination in cases of employment are examples of approaches of active social policies.

Besides a stress may be laid upon the social policies based on the prospects of the life cycle, for instance it is necessary to evaluate how the conditions of life during one phase of life of an individual or a community may exercise

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<sup>7</sup> Musgrave P & P. Musgrave, Public Finance, Macmillan Publishers, 1999

influence upon the future conditions of life and thus to preview future problems. By making use of the life cycle analysis in connecting the problems of childhood through the mature and old age problems of the risk social groups in practice the new type of social policy needs the specific targeting of programmes for microfinancing. This targeting serves the need to make the choice of different areas and activities to be financed on the basis of more adequate evaluation of the life cycle needs of the socially weak groups with the aim of poverty alleviation and or its prevention. For instance through the means of microfinancing programmes improvement of public services for children may be undertaken or possibilities for professional training of young people be funded to encourage the employers to take young people at job.

The social policy has been often considered in the past as a burden for the society and as creating burocreatization which is harmful for the business and discouraging the employment and investments. At the contemporary stage by making use of the life cycle approach the problems of microfinancing may be treated on the basis of three key goals of social policy:

#### **Providing for the children better possibilities for normal start in life**

A number of social problems are rooted in childhood poverty. Childhood poverty alleviation is very important for the social policy: the children brought up families with inequality problems are worse performers while at school, have difficulties in getting a job and keeping it, more often they are jobless, ill or hit by diseases in old age which worsens inequalities and the misery of different generations as a whole. Generally the family instability and the inadequate family cares for children exert negative impact on the life chances because of inabilities of parents to bring up their children or because of bad qualification of staff involved with services for children.<sup>8</sup> Reforms are much needed in the employment and tax laws in order to provide support for the parents caring for children, to improve the social benefits for children and to support the mothers in the treatment of their rights to combine work and family obligations, etc. The achievements of such reforms in Bulgaria involves besides the above mentioned measures also special attention to provide public housing for the Roma population at municipal level, to undertake measures to keep their children attending school etc. The sharpness of these problems imposes very high social and economic costs for the society.

For the purpose of active social policy against poverty the following measures have increased their importance:

- Investments in children – including programmes for intervention in early childhood, especially such that involve family support;
- Increasing the possibilities for employment of mothers – together with reforming the tax and social benefits systems in such a way that to encourage getting a job thus being the second family member employed besides the father;

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<sup>8</sup> Better Regulation Task Force, OECD, 2000

- Improving the complementarities of family and labour relations through co-ordination of a number of areas as children's benefits, paid leave for bringing up small children and better attitude to family support at the workplace and by employers;
- Encouraging favourable attitudes to raising the average rate of birth by family policies which support bringing up of children and give the possibility of young parents to keep actively involved in their job promotion.

### **Providing support of individuals for overcoming barriers to jobs with better qualifications**

The job creation for unemployed and support of socially disadvantaged persons to get skills in order to become employed are the most appropriate ways to contribute to economic and social development. The vicious circle when becoming jobless leads to the losses of self confidence and qualification, isolation and social exclusion. Active policy measures may be undertaken in order to overcome this. In many OECD countries success of active social policy is indicative and stimulating as it shows how to improve employment possibilities. The progress achieved in reintegrating the jobless to the labour force may be enlarged to involve other groups as handicapped, socially disadvantaged people etc. Interventions may be directed to improve their reintegration to the labour market.

The results of such policies of transition from social benefits to bringing back to work are positive measures and they have to be supported by additional policies for social measures at work. Such active policies are useful if the beneficiaries of social supports not only are given a job but manage to keep the job and thus overcome poverty „traps“.

### **Protection of the well being of the old people by stimulating their inclusion in economic and social life**

The pension system of the expenditure-covering type is important for the well being of the old people but its increasing cost due to the growing number of the old aged people creates difficulties for its financial sustainability as well as for maintaining social benefits of other social groups as younger generations. The poverty of people in old age is a very serious social problem in Bulgaria because of the aging of the population. In order to have a functioning well pension system there is a need of more realistically constructed relation between the social benefits, on one hand, and the average life duration and the income of the actively employed part of the population, on the other hand. The hopes of the younger generations to shorten the working time do not correspond to the need of the older generations because of the needed contributions to the pension system. The need to make older people to stay longer at work does not mean an overall resort to prolonging the years needed to get a pension: the status of illness and handicapped people at old age are serious reasons besides old age to get retirement. In addition to this a greater number of old people need

access to qualified and long term medical care. The priorities in this field may include:

- Rationalizing the expenditures for social pensions of old people funded from the state budget – for instance considering proper differentiation of pensions for the employed with average incomes and higher than the average incomes;
- Encouraging longer work involvement while reducing possibilities for early retirement, correcting the conditions for early retirement, etc.<sup>9</sup>
- Improving the quality and the access to long term social care for old aged people as social assistants for the old aged people and better monitoring of the quality of these services, etc.

The active social policies have the potential to decrease the negative effects of the social systems as having being run only by redistribution of state budget revenues and expenditures. The active social policies take into consideration the life cycle in order to fight poverty according to age differences and have the purpose in transition periods for the socially weak individuals to prepare for better adaptation to labour market in order to avoid poverty. The need to change the practical approaches and means of the fight against poverty is an outcome of the difficult relations between social problems and socio-economic realities. It is to be acknowledged that the financial resources spent on active social measures do not have a secure return. The failures to get results from social measures because of the impact of bad communities may tend to discourage further continuation of some measures, for instance against childhood poverty. At the presence of such risks the social support is confronted by a number of challenges to economise the expenditures of public institutions and to search for public-private partnerships. The governance of active social policies for some social communities with the aim of poverty alleviation demands to interact with all interest groups from the public and private sector.

### **Specifics of the implementation of microfinancing as an instrument for poverty alleviation**

The microfinancing is applied in Bulgaria at three institutional levels (the Republican state institutions; the banking institutions and the official funds and programmes of developed countries and global and regional financial institutions; non-banking financial and credit institutions). The specific features of microfinancing as an instrument of social policies is to be traced most clearly in two of the institutional levels – at the level of state budget institutions and at the level of official funds and programmes of foreign countries, the EU funds and the programmes of the United Nations Organisation and the World bank.

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<sup>9</sup> There is acknowledged need of avoiding the very high long-term costs of expanding „inactive” programmes such as early retirement benefits and to promote better prerequisites for stimulating private businesses and raising incomes. / See OECD employment outlook, OECD 2009/

### **At the level of State institutions**

The main aims of the social policies involve the reduction of unemployment, poverty alleviation, improvement of the quality of life of the Bulgarian citizens, creation of social capital and social integration. In order to achieve these strategic priorities there is a need of adequate effective and efficient socio-economic instruments.

Among the instruments of social policies applied for the purpose of social support for jobs' creation an important role is played by the State Fund "Rehabilitation and social integration" and the State Fund „Labour conditions" at the Ministry of labour and social policy of Bulgaria.

The State Fund "Rehabilitation and social integration" supports employment of jobless handicapped by employers to whom the Fund transfers the resources due for the employed for the wage payments, additional payments, and the due payments for social security, health security etc. The Fund may be made use of by employers who create new jobs for handicapped for not less than 30 months. For the creation of access to jobs created – up to 1500 BGN, for adjustment of job place – up to 1000 BGN; for equipment of a working place for a handicapped person – up to 3000 BGN. The Fund „Labour conditions" at the Ministry of Labour and social policy is created to support the contribution at different sectors' branches' and regional Councils for the labour conditions, organizations of workers and employees and organizations of employers. The Fund provides up to 20 per cent of the total value of a social investment undertaken if a given beneficiary has paid regularly the social securities due for the last 6 months, the risk factors of labour conditions have been declared and there has been a contract concluded with medical service for medical care provision at work place.

The social-investment funds have become important and effective instruments of social and economic policy. Such a fund was created in Bulgaria by the Law for the Social-Investment Fund as of 3 of April 2001 as a secondary budget spender of budget credits of the Ministry of Labour and Social policy. The activities of the Social Investment Fund according the respective Law are carried out on the basis of different programmes and projects financed by Bulgarian and foreign sources from different donor institutions. From the beginning of February 2003 the Social Investment Fund has started the implementation of a joint project on „Social Investments and Encouragement of Employment" between the International Bank for Reconstruction and Development (IBRD) and the Ministry of Labour and Social Policy at the total value of • 67, 8 bill., which are to be invested in socially important projects within 5 year–period. The financing is undertaken by a state-guaranteed loan lent to Bulgaria by the IBRD. Besides the Ministry of Labour and Social Policy as well as the beneficiaries of the Fund are to provide own sources of co-financing at the value of • 17 bill.

The main purposes of the Fund and of the projects implemented for the enforcement of the existing system for social protection and solving problems of unemployment and the poverty alleviation include:

### **Implementation of microprojects for the development of the communities and accomplishment of microprojects for infrastructure and for active measures at the labour market**

By the means of the financial grants from the Social-Investment Fund for the microprojects in favour of the *development of communities* the purpose is to create possibilities and prerequisites for sustainable employment, generating incomes, improved access to services and infrastructure, as well as building up capacities among communities for defining priorities and governance of investments and activities of local importance. The microprojects are targeted first of all at the necessities of socially vulnerable and isolated groups of the population, that have lost their place at the labour market as a result of the restructuring of the economy, that have been harmed by the process of impoverishment and experience difficulties in their access to social services.

The grants for financing the microprojects for development of small communities are inseparable part of the strategy of the Fund to create sustainable employment and to provide for sustainable employment and contribute for poverty alleviation and social inclusion. These microprojects have improved the access to economic and social infrastructure, to create reproducing models of flexible market mechanisms for re-integrating of socially vulnerable groups by stimulating of the activities of the small communities and the support of local initiatives. The purposes of accomplishment of the microprojects are wide in scope:

- Creating capacities of small communities to learn to formulate and effectively govern socially important development projects;
- Creation of models of organizational culture, which may allow the small communities to be partners of the local and central Government authorities in the implementation of development projects;
- Creation of partners' relations with the local economic, political and non-governmental organizations, including the presented at national level organizations of workers and employees and of employers, and their divisions at regional level;
- Encouragement of employment at local level through the means of improving the professional qualification of the labour force and its competitiveness at the labour market;
- Stimulating the entrepreneurial activity among groups with inequalities at the labour market;
- The development of effective and active measures at the labour market aimed at the reduction of the level of unemployment;
- Reintegration of the groups in disadvantaged status through improved access to employment and social services, stimulating the entrepreneurship and raising the qualification.

The microprojects make possible to undertake investments for public goods and services as:

- Investments in technical and social infrastructure;

- Investments in production activities;
- Financing of services as soft measures at the labour market /training, building up organisational and governing structure, diversification of the provision of social services/ ;
- Investments in projects which include elements of the above mentioned targets.

For the financing of microcredits a set of uniform requirements are applied as for instance:

1. The total value of the project is to be from 6 000 Euros up to 60 000 euros.

2. The Social and Investment Fund finances 89 per cent of the value of the project and the co-financing on the side of the candidate has to be not less than 20 per cent of the value of the project;

3. The agreement for financing may not be signed in the case when the value of the project amounts much higher than 20 per cent of the value declared.

The Social Investment Fund finances microprojects in two broad areas: **1)** Initiatives for development of the public infrastructure and **2)** Active services at the labour market.

***In the first area*** projects are considered with the goal to raise the quality of life in the eligible for funding options for investments in infrastructure projects. The short term employment helps the social integration of unemployed and supports them in the efforts to avoid long-term unemployment. The initiatives give the possibilities to disadvantaged socially people to get temporary jobs and income. As a result of achieving the goals the formation of positive social capital is encouraged in communities and municipalities with limited potential for economic growth and undeveloped infrastructure. The projects may be tailored according the needs of the beneficiaries and the stages of their accomplishment are adjusted to the goals set under the condition of keeping the targets of the priority of the communities' initiatives. For each microproject a minimal share of co-financing is necessary on the side of the candidates within the limit of 20 per cent of the total value of the microproject.

***In the second area*** involving „Active services at the labour market” the projects are targeted at increasing the capacities of the human capital and reduction of unemployment among the socially disadvantaged groups in the changing economic environment and labour market. The grants are provided with the purpose of: creating of sufficient and reliable information for the labour market with the purpose to raise the effectiveness of the governance, the provision of training services for professional qualification and requalification, creation of business centres and incubators for stimulating entrepreneurship. The projects in this area are undertaken by the Agency for employment and its regional divisions in Bulgaria.

The microprojects which are considered for funding by the Social Investment Fund are submitted by the municipalities or communities which take interest in solving a definite problem of the local infrastructure, the provision of

access to social services in compliance with the project "Social Investments and encouragement of the employment". The applicants for microcredits are municipalities or communities that may be presented by juridical bodies with ideal purpose acting as intermediaries. The resources of the Social Investment Fund are allocated to the selected microprojects upon evaluation of the candidates. Each microproject is competing with microprojects of the same type. The application of the microprojects depends not only on its quality and parameters but also on the features of the communities and the environment where it is to be implemented.

On the basis of the applications received for project funding by the Social Investment Fund quotes are defined for the different types of microcredits and the Annual Investment Programme of the Fund is approved. The microprojects receive social, institutional and technical-economical evaluations and they are ranked according to the rules of the Programme "Social investments and encouragement of employment" at the Ministry of Labour and Social Policy. The microprojects evaluated and ranked are presented at the Governing Board of the Socio-Investment Fund to be selected and approved for funding within the limits of the annual budget of the Fund. Following the specific targets of the Fund investments there are limitations set to the potential candidates to apply for funding as regards some areas of investments. In the case of infrastructure microfinancing projects the following are targets not eligible for funding: first class, second class and third class roads, transformers, cables for high voltage, big recycling cleaning stations, specialized equipment, specialized medical and high-tech equipment.

*At the second institutional level* it is necessary to consider all programmes and initiatives for poverty alleviation which are carried out under project funding by official national institutions and international organizations and official programmes, including the EU funds and programmes in the pre-accession period and after Bulgaria has joined the EU since 2007. The analysis of the impact of these programmes and projects for microfinancing may give examples of successful implementation and sustainable achievements in social policy improvement. There are also some results which show lower return and a number of risks and threats because of lack of sustainability of the outcomes. From the viewpoint of the positive and strong results of the microfinancing from these sources of funding it is a fact that they have contributed to change considerably the social environment and to compensate for the lack of adequate public and private investments for the overcoming of serious social problems as well as for improving the social reintegration of the poor. The most important feature of these programmes and project funding has been their business orientation. Through the activities funded in Bulgaria the creation of economically viable enterprises for small and medium sized business have been created and non governmental organizations have received support in order to take a special "niche" in the development of social measures for poverty alleviation and better social integration. The main risk and challenge of the implementation of this

type of projects through microfinancing poverty alleviation concerns the problem of sustainability of the results achieved and the long term impact of investments made. The real change in the behavioral characteristics, the social status and social environment of the targeted socially weak groups not always could have been completed but just given a good start up.

When analyzing the impact of the funds and programmes as grant schemes and investments for reintegration of the Roma population it becomes clear that the efficiency of the funds spent is extremely unsatisfactory if the sustainability of the results is taken into consideration. On the basis of this analysis a number of questions are to be raised as regards the inadequate choice of beneficiaries and target groups, irregularities in involvement of private investors, lack of proper choice of social measures, etc. The mistakes and failures in the design of the projects or the choice of the profile of the beneficiaries are also an important aspect of „learning by doing” and this is an important aspect of the impact assessment of these projects.

*At the third institutional level* the microfinancing is organized and provided by non banking institutions including consumer cooperatives, mutual savings institutions and credit unions. The progress of the activities of mutual savings and credit unions has been supported by project funding provided also by international official and private donors in favour of business promotion, job creation, etc.

### **Conclusion**

The current global financial crisis has more serious implications for low-income social groups and the state of poverty in Bulgaria than previously thought. The reasons for this are in the complexity of combination of the fall of demand at the domestic and foreign markets and the fall of incomes with the rising unemployment. The considerable fall of the GDP growth of Bulgaria in 2009 nearly by 6 per cent worsens greatly the government budget revenues and thus the government expenditures’ policies encounter difficulties in maintaining the balance between the social safety nets and the active measures for the business support and social inclusion policies. At the same time, it is also clear that the availability of microfinancing sources has been greatly reduced. Moreover, the channels of transmission of the global crisis have more rapid and unexpectedly strong effects on the Bulgarian economy since the end of 2008 onwards by the reduction of export demand and the fall of foreign financial inflows in the form of portfolio and direct foreign investments as well as private transfers from abroad. In the face of declining availability of microfinancing schemes and sources for social inclusion finance, it is self-evident that policy makers need to focus much more attention on domestic resource mobilisation to prevent the rising unemployment and to support safety nets as antipoverty measures. The need to enlarge the lending capacity and resource availability for microfinancing will remain a challenge for the public and private institutions in the expected post crisis economic revival.