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Commission

SOCIAL ENTERPRISES
AND THEIR ECOSYSTEMS
IN EUROPE

Country report
HUNGARY

Julianna Kiss
Melinda Mihály

This report is part of the study “Social enterprises and their ecosystems in Europe” and it provides an overview of the social enterprise landscape in Hungary based on available information as of February 2019. It describes the roots and drivers of social enterprises in the country as well as their conceptual and legal evolution. It includes an estimate of the number of organisations and outlines the policy framework as well as some perspectives for the future of social enterprises in the country.

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This report provides an overview of the social enterprise landscape in Hungary based on available information as of February 2019. The report updates a previous version, submitted by ICF Consulting Services to the European Commission in 2014. The current report has been prepared as part of a contract commissioned by the European Commission to the European Research Institute on Cooperative and Social Enterprises ([Euricse](#)) and the EMES International Research Network ([EMES](#)). Julianna Kiss from Corvinus University of Budapest and Melinda Mihály from the Hungarian Academy of Sciences Centre for Regional Studies were responsible for the revision of the report.

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Countries included in the three social enterprise mappings by the European Commission

No	Country	TYPE	2014	2016	2018-19
1	Albania	Fiche	-	-	✓
2	Austria	Report	✓	-	✓
3	Belgium	Report	✓	✓	-
4	Bulgaria	Report	✓	-	✓
5	Croatia	Report	✓	-	✓
6	Cyprus	Report	✓	-	✓
7	Czech Republic	Report	✓	-	✓
8	Denmark	Report	✓	-	✓
9	Estonia	Report	✓	-	✓
10	Finland	Report	✓	-	✓
11	France	Report	✓	✓	-
12	Former Yugoslav Republic of Macedonia	Fiche	-	-	✓
13	Germany	Report	✓	-	✓
14	Greece	Report	✓	-	✓
15	Hungary	Report	✓	-	✓
16	Iceland	Fiche	-	-	✓
17	Ireland	Report	✓	✓	-
18	Italy	Report	✓	✓	-
19	Latvia	Report	✓	-	✓
20	Lithuania	Report	✓	-	✓
21	Luxembourg	Report	✓	-	✓
22	Malta	Report	✓	-	✓
23	Montenegro	Fiche	-	-	✓
24	The Netherlands	Report	✓	-	✓
25	Norway	Fiche	-	-	✓
26	Poland	Report	✓	✓	-
27	Portugal	Report	✓	-	✓
28	Romania	Report	✓	-	✓
29	Serbia	Fiche	-	-	✓
30	Slovakia	Report	✓	✓	-
31	Slovenia	Report	✓	-	✓
32	Spain	Report	✓	✓	-
33	Sweden	Report	✓	-	✓
34	Switzerland	Report	✓	-	-
35	Turkey	Fiche	-	-	✓
36	United Kingdom	Report	✓	-	✓

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List of acronyms

> CT	Corporate Tax
> CSO	Civil Society Organisation
> EC	European Commission
> EDIOP	Economic Development and Innovation Operational Programme
> ESF	European Social Fund
> EAFRD	European Agricultural Fund for Rural Development
> HCSO	Hungarian Central Statistical Office (Központi Statisztikai Hivatal)
> IFKA	Public Benefit Non-Profit Ltd. for the Development of Industry (<i>Iparfejlesztési Közhasznú Non-profit Kft.</i>)
> LTD	Limited Liability Company
> NGO	Non-Governmental Organisation
> NPO	Non-Profit Organisation
> OFA	National Employment Public Benefit Non-profit Ltd. (<i>Országos Foglalkoztatási Közhasznú Non-profit Kft.</i>)
> PIT	Personal Income Tax
> SBI	Social Business Initiative
> SEFORÍS	Social Entrepreneurship as a Force for more Inclusive and Innovative Societies
> SROP	Social Renewal Operational Programme
> VAT	Value Added Tax

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Executive summary

Background

The concept and phenomenon of social enterprise and social entrepreneurship are quite new in Hungary. Their emergence and initial examples connect to the influence of international non-governmental organisations and foundations (Ashoka and NESsT). However, before these development and support organisations appeared in Hungary, certain existing traditions had already provided roots for social enterprises. These traditions include civil society and the non-profit sector (philanthropic, voluntary and associative tradition); cooperatives, especially social cooperatives (cooperative tradition); socially oriented, responsible conventional enterprises (business background); and church-based economic initiatives (philanthropic tradition of churches). Additionally, this report emphasises the role of the state in supporting the development of social enterprises (public policy driver) in two ways. First, the national state and the European Union (EU) have shaped the field through public funding programmes, which—via the national budget or EU co-financed grant schemes—have supported social economy initiatives and most recently social enterprises per se. Second, public entities, such as local governments themselves have been involved in setting up social enterprises. Aside these roots, the founders of social enterprises today are often already familiar with the concept, and intend to establish social enterprises specifically.

Concept, legal evolution and fiscal framework

Even though the term itself has become more well-known in recent years, no uniform definition encompasses the conceptual development of social enterprises in the Hungarian ecosystem. While development and support organisations employ a diverse set of definitions, the EU demonstrates its influence as public grant schemes reference the 2011 Social Business Initiative (SBI) definition. No consensus determines the possible legal forms and no specific law regulates social enterprises, which can operate in all kinds of legal forms. The present report examines foundations, associations, non-profit companies and social cooperatives as the main possible legal forms of social enterprises, as they are supported by current public funding programmes. However, other—traditional—forms of cooperatives, certain church organisations (internal church legal entities primarily providing public services) and conventional enterprises may also constitute as additional forms. Notably, legislation regarding the given legal forms and public benefit status, which can lead to different fiscal advantages (e.g. connected to taxes, duties, donations or labour costs), has significantly changed over time.

Mapping

Based on previous research, the landscape of social enterprises in Hungary embodies a diversity of legal forms, sources of income, fields of activity, labour characteristics, governance models and regional distribution. However, the lack of a shared definition or acceptable legal form complicates data collection. Researchers can rely on two types of data to estimate the number of social enterprises: (1) the database of the Hungarian Central Statistical Office (HCSO) or other data sources on certain legal forms (e.g. foundations, associations, non-profit companies and social cooperatives); and (2) data from various support programmes, development organisations, and previous research specifically focusing on social enterprises, which are probably not statistically representative. Therefore, the present research cannot determine the exact number of social enterprises in Hungary, but draws conclusions from available data on certain possible legal forms of social enterprises. When requesting data for this particular research, all functioning social cooperatives received consideration together with certain NPOs (such as associations, foundations, non-profit companies), if their revenues from sales activities measured at least 25% of the total revenue (the present research includes this criterion in the operational definition). Potential social enterprises in the database of the HCSO conforming to this set of criteria are present in various fields, especially hobby and leisure, culture, sports, education, social care, economic development and community development. Their diverse revenue structure relies on state—central or municipal—support (including statutory or grant-based funding), private support, core or public benefit activity revenue (including contracts for the provision of specific goods and/or services from the state), business activity, and other revenues. They operate most commonly in Central Hungary and in the capital (with the exception of social cooperatives). The economic relevance of these organisations qualifying as potential social enterprises as compared to the overall GDP—not including social cooperatives—measures around 2.1%. Based on the legal form and the founders of the organisations, significant differences can be observed as—though small in numbers—non-profit companies and organisations with public founders have a high share of the total revenue and total number of the employees of the sector.

Ecosystem

The ecosystem of social enterprises in Hungary has long been shaped by the support programmes of two international non-governmental organisations and foundations, NESsT and Ashoka, in addition to public funding programmes connected to work integration, social cooperatives and the social economy often co-financed by the EU. However, in recent years, various new development and support organisations with public, for-profit and non-profit backgrounds have entered the field. Several actors hence focus on different aspects of the ecosystem. Research and academic interest has increased, shown by deeper university involvement in the topic. Networks and federations established by social enterprises have appeared for advocacy, cooperation and information distribution purposes. However, strategic cooperation between the various actors has yet to develop. New funding programmes have also emerged, as the first public and EU co-funded grant scheme for social enterprises took form in 2016, and other initiatives have since followed. Social enterprises simultaneously are entitled to funding connected to their legal forms, for providing employment and serving public functions. Still, these developments are not part of a long-term, comprehensive legal and policy framework, and social enterprises continue to lack financial sustainability.

Perspectives


Though the concept of social enterprise seemed foreign for a long time to policy-makers, today a number of state initiatives support their development. Still, public services remain rarely outsourced and the role of social enterprises in the welfare system in Hungary mainly focuses on work integration. Various barriers and opportunities have shaped how social enterprises develop, which connect with the state and public policies, civil society and the non-profit sector, conventional enterprises and cooperatives, the European Union as well as international and domestic actors in the ecosystem. Today, several trends provide opportunities for growth while others pose limits: the increase in public (EU co-financed) funding, growing interest and new actors in the ecosystem seem to provide an opening for social enterprises. Meanwhile, centralisation tendencies by the state, new regulations that decrease the autonomy of social cooperatives, and the stigmatisation of independent civil society organisations that harbour criticism toward current policies may all pose challenges in the future.



1

BACKGROUND: SOCIAL ENTERPRISE ROOTS AND DRIVERS

Even though the concept of “social enterprise”, “social entrepreneur” and “social entrepreneurship” are quite new in Hungary and connect to the influence of international non-governmental organisations and foundations (Ashoka and NESsT), certain previous existing traditions have already paved the way for the phenomenon. The roots of social enterprise were present in civil society and the non-profit sector (philanthropic, voluntary and associative tradition); cooperatives, especially social cooperatives (cooperative tradition); socially oriented, responsible conventional enterprises (business background); church-based economic initiatives (philanthropic tradition of churches); and even public entities, such as local governments have been involved in setting up social enterprises (public policy driver). Additionally, the state has supported the development of the social economy and social enterprises through public funding programmes via the national budget or EU co-financed grant schemes. Today, founders of social enterprises are often already familiar with the concept and intend to establish social enterprises specifically.



16 | Background: social enterprise roots and drivers

The concept of social enterprise and social entrepreneur first appeared in Hungary in the second half of the 1990s and in the first half of the 2000s, **when US-based international non-governmental organisations and foundations (Ashoka in 1995 and NESsT in 2001) began their activities in the country.**¹ These international organisations supported the first social entrepreneurial activities specifically using these concepts, thus they play a primary role in the sector's emergence.

In spite of the work done by Ashoka and NESsT, the concepts went relatively unnoticed by policy makers, the for-profit sector, non-profit organisations (NPOs), academia or the general public (Tóth *et al.* 2011). This has changed in recent years though, as the social enterprise ecosystem starts to take form due in part to the increased interest and support from the European Union in the 2014-20 funding period. The Hungarian state funds social enterprises mainly through the European Social Fund (ESF) and the European Agricultural Fund for Rural Development (EAFRD), aligning with the Europe 2020 Strategy and according to the Partnership Agreement of Hungary for the 2014-2020 Development Period (which sets up the framework to use available EU Funds) (Miniszterelnökség 2014). In addition, a number of new development and support organisations have appeared in the field also contributing to the strengthening of the sector.

Though the term itself only recently came into use, social enterprises connect to certain traditions that had paved the way for their emergence. **The roots of social enterprises lie in voluntary, non-profit, civil society organisations, such as associations and foundations, the history of which goes back centuries.**² The evolution of associations and foundations portrays cyclical development over the centuries, alternating between rise and decline (Bartal 2005a). In the period of state socialism (1949-1989), grassroots initiatives faced very limited operation and strict control, while the state created its own social organisations (Harsányi and Széman 1999). However, as the system became less centralised in the 1980s, several spontaneously organised informal initiatives appeared in the field of education, health and community development; and emerging environmental, scientific and professional associations and movements later played an important role in the regime change in 1989 (Horváth

(1) Sections 1 to 4 were written by Julianna Kiss; section 5 was written by jointly by Julianna Kiss and Melinda Mihály.

(2) In the present research report, the term non-profit organisation (NPO) refers to all legal forms that comply with the rule of non-distribution of profits, but are not necessarily initiated by private citizens, e.g. state institutions or the local government can be their founders as well (in Hungary NPOs mainly include associations, foundations and non-profit companies). We also use the term "classical" civil society organisation (CSO) to refer to organisations that are typically initiated by citizens (associations and foundations) (following the classification of the Hungarian Central Statistical Office (HCSO), see e.g. HCSO 2018). These two concepts largely overlap in Hungary (see G. Fekete *et al.* 2017a for further clarification).

2010, Szalai and Svensson 2017). New initiatives and movements served as platforms to deal with social and economic problems unsolved by the state, to discuss issues that could not be criticised publicly, and also provided a background to the emergence of the political opposition in the end of the 1980s (Bocz 2009).

In the years directly before and after the regime change from state socialism to democracy, new pieces of legislation helped form and strengthen the non-profit sector, making it possible to establish foundations and associations freely. In a few years, the number of civil society organisations (associations and foundations) quickly grew from 16,000 organisations in 1990 to 40,000 organisations by 1994 (Bényei *et al.* 2007). Pre-existing organisations in the previous regime (mainly in the field of sports, leisure and culture) adapted to the new climate, while formerly lacking truly independent, citizen-led civil society organisations blossomed in the field of environmental protection, human rights, social services, health care, education, settlement development and economic development (Ekiert and Foa 2011). International donors, who considered civil society an essential part of democracy, also supported these new fields (Nagy and Nizák 2009). Notably, public institutions and local governments lacking resources also started to establish organisations in order to access tax benefits provided by the legal forms. In 1993, three new close-to-state non-profit legal forms – public benefit companies, public bodies and public foundations – emerged and contributed to the polarisation of the sector. Often, these new legal forms, which were usually founded by local governments and state entities, received preference (as opposed to associations and foundations) when contracting out public services (Bocz 2009).

In the second half of the 1990s and in the 2000s, the non-profit sector experienced further institutionalisation by new pieces of legislation that leaned in the direction of joining the European Union. EU policy pushed for partnership between the state and civil society as well as the further professionalisation of the sector, including bigger but more bureaucratic grant programmes (Nagy and Nizák 2009, Szabó and Márkus 2015). In 2006, the legal form of the non-profit company was introduced in order to make the operation of public benefit companies – which could convert to this form – more efficient. Thus many non-profit companies operating today are the successors of previous public benefit companies founded by public entities.

The environment for civil society organisations (associations and foundations) has deteriorated significantly since the change of government in 2010 (USAID 2018). According to Szabó and Márkus (2015), responding to the economic and social crisis after EU accession, the current government has cut funding, centralised distribution processes, and approaches the organisations in a paternalistic way excluding certain critical organisations from subsidies and partnerships. Moreover, the lack of transparency in supporting organisations and decreasing public confidence in

18 | Background: social enterprise roots and drivers

civil society through investigations and negative campaigns have furthered this decline (Nagy 2016). Attacks have recently descended primarily on advocacy, rights-based, watchdog organisations and external funding entities (Edmiston and Aro 2016). The damages on the development of the non-profit sector require long-term restoration (Kuti 2016).

In recent years, several civil society organisations, such as associations and foundations, have searched for new, alternative ways of achieving financial sustainability, and started social entrepreneurial activities. One such example of is the Blue Bird Foundation presented in illustration 1.

Illustration 1. Blue Bird (*Kék Madár*) Foundation and Ízlelő Non-profit Ltd.

The Blue Bird Foundation was founded by an elderly teacher in 1997 in Szekszárd, the region of Southern Transdanubia. The managing director is Andrea Mészáros, the members of the board of trustees include social and child protection specialists. The organisation aims to create employment opportunities and improve the quality of life for disadvantaged groups in the labour market, to foster a more optimal family life and to relieve families. It provides supported and transitional employment under special labor market services. Since 2001 they have provided daycare through a family nursery and a development playhouse. The organisation acts as the regional methodological center of the National Federation of Daycare Providers as well, and works with 38 staff members.

They have undertaken a social enterprise: a family-friendly restaurant called Ízlelő, which opened in 2007 as one of the first social enterprises in Hungary. Aside from managers, only people with disabilities and reduced working capacity work to run the restaurant. This project provides training and jobs for people with disabilities, thus promoting their social inclusion and demonstrating to the public the diversity of their abilities. It also improves the financial sustainability of the Foundation through generating sales revenues. The restaurant provides a menu meal from Monday to Saturday (with pre-order and take-away options included), creates a family-friendly environment (complete with a children's playroom, high chair, children's bed, changing room, etc.), appropriately accounts for different food allergies and health problems, organises private parties (corporate and family gatherings), provides catering services, delivers food in the city area, and participates in wine tasting organised by renowned winemakers.

<http://kek-madar.hu/> and <http://www.izleloetterem.hu>

Social enterprises can also connect to the cooperative movement, which has a long history in Hungary. The first cooperatives were founded in 1845, and after World War I the Hangya (Ant) cooperatives for the purchase and sale of agricultural and industrial products took shape, later becoming one of the largest company groups in Central Europe (Mészáros and Monostori 2007). The state socialist system significantly transformed the operation of cooperatives, subjecting them to state control through forced cooperatisation. Some informal and voluntary grassroots activities still persisted, however, assisting the local agricultural cooperatives or smaller firms (Szalai and Svensson 2017).

After the regime change, the number of cooperatives decreased, organisations often transformed into for-profit companies or ceased activity entirely. The main reason for this decline came from both citizens and decision-makers regarding these organisations as part of the former state socialist system (G. Fekete *et al.* 2017a). With neoliberal economic policy additionally in the forefront, community based economic activities suffered (G. Fekete 2017).

As a result of the accession to the EU in 2004, the concept of social economy gained importance in public policy and the legal form of social cooperatives was introduced in 2006. For a while, the state mainly regarded social cooperatives as social enterprises, thus implementing programmes for the spread of this legal form.³ However, funding programmes received criticism for only supporting this kind of legal form pointing out that new social cooperatives often surfaced mainly due to available funding rather than the efficiency or necessity of this legal form (Tóth *et al.* 2011). Thus, the emergence of social cooperatives stem primarily from EU and state policy drivers, not grassroots civic activities. Social cooperatives still remain in the focus of public policy and receive funding mainly connected to work integration. The latest pieces of legislation also limit their autonomy by making local governments, minority self-governments or charitable public benefit organisations their compulsory institutional members.

One example for the cooperative tradition of social enterprises is an initiative, which originally took the legal form of an industrial cooperative, but today operates as a foundation and a non-profit ltd. The story of the Cooperation (*Összefogás*) Industrial Cooperative and its legal successors is summarised in illustration 2.

(3) Support for social cooperatives was initially implemented through the Cooperative 2007 and 2009 programme funded by the central budget, managed by the National Employment Public Foundation (later Public Benefit Non-profit Ltd., in short OFA, a primary state institution in the field of social economy) to spread the legal form (see Petheő *et al.* 2010). Subsequently, the SROP 2.4.3 programme (Construction B and D) was implemented to increase the employment and membership of disadvantaged, unemployed groups in disadvantaged regions in social cooperatives (NGM 2013).

Illustration 2. Cooperation (Összefogás) Industrial Cooperative

The Integrated Employment and Housing Rehabilitation Center in Csömör provides work and housing for people with severe mental and physical disabilities or severe autism. The leader and founder, Tiborné Szekeres, felt motivated to start the initiative due to her son facing these conditions. This social enterprise aims to provide dignified living conditions for people with disabilities. The principles of their operation focus on family life, client-focus, openness and flexibility.

The initiative operates as the collaboration between two organisations: the Cooperation for Equal Opportunities Public Benefit Non-profit Ltd. provides job opportunities, while the For Equal Opportunities! Foundation provides institutional accommodation for its participants. The Cooperation for Equal Opportunities Public Benefit Non-profit Ltd. is the legal successor of the Cooperation Industrial Cooperative, which emerged in 1986 with 13 people with mental disabilities and two parents. It currently employs about 300 people in the Csömör branch and employs another 314 people in the country altogether. They engage in work activities like candle casting, ceramic workshops, brickwork, fabric, industrial assembling workshops, horticulture, cleaning, maintenance and farm-animal breeding. Founded in 2000, For Equal Opportunities! Foundation provides home to 111 people with disabilities: it includes two buildings of residential homes, a home for disabled people (five buildings), an integrated condominium and day care center. It provides services such as health care, development pedagogy, psychological services and recreational activities. Disabled people here find community, participate in cultural programmes, work, have their own home, and they can live more autonomous lives with the dignity to move in together and have children with their loved ones.

<http://www.egyenloeselyekert.hu>

Social enterprises also appeared in traditional legal forms used by conventional enterprises, such as Ltd-s. These private companies usually focus on environmental protection, education and social issues, and reinvest their profits in their mission (Petheő 2009). The social aims of the often family-owned SMEs remain invisible in official statistics, making it difficult to research them (Horváth 2010). Still, research focusing on social entrepreneurs from a business perspective took root in Hungary in the 1990s, when the concepts of business ethic, alternative capitalists, value-based enterprises, responsible enterprises and the so-called rainbow economy emerged in publications, courses and conferences (see Pataki and Radácsi 2000, Almássy 2001, Tóth 2006).

The number of conventional enterprises that define themselves as social enterprise has increased since 2010 (G. Fekete *et al.* 2017b). This also links

to changes in the approach of Ashoka and NESsT: as of 2009, NESsT also includes conventional enterprises in its portfolio, which previously focused on social enterprises initiated by NPOs. The issue of market-based sustainability has become more pronounced in both development organisations' approaches (Kiss 2018). Additional organisations and programmes recently have helped develop and support socially innovative start-up businesses and ideas.

One example of social enterprises taking on legal forms used by conventional enterprises is Route4U, which is summarised in illustration 3.

Illustration 3. Route4U Ltd.

Route4U presents a for-profit company, whose social mission is to enable transport with fewer challenges. To this end, it has developed the world's first road planner app, using sidewalks and pedestrian crossing information, to provide personalised, door-to-door navigation for people using wheelchairs, strollers, or any other rolling device. It also makes data concerning the accessibility of cafés, restaurants, public buildings and other public places available in the Route4U application and map.

Péter Bodó, the inventor of the idea, receives help from marketing, cartography and PR experts in his team. At the same time, Route4U represents a genuine community initiative, as the information on the map receives automatic updates from the application's users. The implementers also cooperate with local authorities and organisations to make information accessible to anyone. A number of forums have recognised the initiative, and it received the first prize in the regional finals of the American 1776 Challenge Cup Social Innovation Start-up Competition.

<https://route4u.org/>

Church initiatives also deserve mention. Turning back to the tradition of playing an important role in dealing with social problems before World War II, the increasing poverty in certain social groups after the regime change in 1989 inspired church organisations to start providing social services (Harsányi and Széman 1999). The 1997 agreement between the Vatican and the Hungarian government aimed to remedy the impact of state socialism by providing annual governmental support, and church organisations also benefit from other additional public resources and private donations, placing them in more favourable financial conditions than citizen-led associations and foundations, which struggle with their financial sustainability (Kövéér 2015).

Though little information measures the social entrepreneurial activities initiated by churches, such initiatives do exist, e.g. a number of programmes are run by the Hungarian Charity Service of the Order of Malta, which focus on social enterprises mainly involving agricultural production in disadvantaged rural areas as presented in illustration 4 (Magyar Máltai Szeretetszolgálat 2017).

Illustration 4. Hetedhét Határ Social Cooperative

The Hetedhét Határ Social Cooperative in Gyulaj—a small village in the region of Southern Transdanubia—presents a community economy initiative. It blossomed from a complex local economic and community development programme, which the local government and the Hungarian Charity Service of the Order of Malta had implemented for many years. Indeed the mayor and other developers established this community-based social cooperative in 2014; its members include the local government of Gyulaj and the Hungarian Charity Service of the Order of Malta.

The social enterprise maintains a meat processing and crop preservation plant; the local government and local farmers provide the vegetables, fruits and pork. The initiative aims to restart pig farms and home gardening in the village and to revitalize the local economy with the high-quality, family-style and uniquely seasoned products, improve the population's social and labor market environment, and indirectly foster the village's development as a whole. The social cooperative, with the continuous support of horticultural professionals and social workers, has implemented vegetable and fruit production programmes, with the help of which more and more local families can generate extra income each year. Regular activities also include community development, networking and knowledge shares.

<http://hetpecsetes.hu/>

In terms of fields of activity, recent research demonstrates that the missions of social enterprises mainly connect to work integration, improving the situation of disadvantaged groups, local development and environmental protection (G. Fekete *et al.* 2017b). These results paint a picture similar to the main fields of activity of social enterprises in Europe, which comprise mostly of work integration, social and community services (e.g. long term care for the elderly and for people with disabilities; early education and childcare, etc), while additional areas include land-based industries, the environment and community development (i.e. housing or transportation), as well as cultural, sport and recreational activities (European Commission 2015). These areas have also received funding through the Hungarian state in the past years. However,

the public—often EU co-funded—grant schemes have faced several shortcomings from posing administrative burdens, over-regulation, and delaying contracts and payments, which have all hindered the development of the sector (Nagy and Nizák 2009).

NPOs have played a strong role in the work integration of disadvantaged social groups and people with disabilities (people with reduced working capacity) since the regime change in 1989.⁴ The notion of social economy also primarily connotes the employment of disadvantaged groups, and a number of domestic and EU co-financed programmes have supported this trend (G. Fekete *et al.* 2017a)⁵. Some organisations engaging in alternative labor market programmes for people with disabilities started their activity nearly 20 years ago (FSZK 2014). Today some prominent social enterprises fall among the accredited organisations that provide employment rehabilitation services (NRSZH 2016). One example of such initiatives is Napra Forgó Non-profit Ltd. presented in illustration 5.

(4) The term "people with reduced working capacity" describes people, who are not able to perform the tasks entrusted to them in a manner or to a degree similar to that of people of comparable age, gender, or qualification due to congenital causes, accidents or illness (e.g. mental or physical disabilities and long-term illnesses).

(5) According to Horváth (2010), since 1996, with the support of OFA, the first projects were launched providing transit employment with training. A significant part of EU funds was also used to promote employment, e.g. prior to joining the EU, local economic and labor market development programmes under the PHARE. After joining the EU, in the framework of the Human Resources Development Operational Programme (HRDOP), the Regional Development Operational Programme (ROP), the Social Renewal Operational Programme (SROP) and the Equal programme non-profit employment projects in the social economy, experimental employment programmes aiming at integrating disadvantaged people into the labor market, innovative initiatives to create equal opportunities in the labor market were implemented (Kiss 2018). The priority of employment can be seen from the currently available EU and state co-financed support programmes as well as support programmes for social enterprises (EDIOP 5.1.3-16, 5.1.7-17) also have work integration purposes (see section 4).

Illustration 5. Napra Forgó Non-profit Ltd.

The founders of the Napra Forgó Public Benefit Non-profit Ltd. in Érd—Tibor Héjj, managing director of Proactive Management Consulting and Péter Orbán, a special education teacher—launched their market-based social enterprise in 2000. In later years, the number of employees rose from 4 to 150. At present, nearly 50% of the staff includes people with reduced working capacity. The initiative aims at the open labor market (re) integration of the disadvantaged and primarily disabled workers, and accompanies them back into society by means of employment, individually tailored to the multi-faceted development of their skills and competences.

Napra Forgó fundamentally supports integrated employment rehabilitation. In addition, over the years, their service range has expanded, e.g. to labor market services started under the 4M programme, IT mentor training, HR advisory service, establishing accredited sites, opening new offices in other cities, and international projects. Current services include human capacity provision, rehabilitation workforce mediation, special HR services (equal opportunities related organisational screening, rehabilitation HR consultancy, inclusive workplace training), call center service and document archiving.

<http://napra-forgo.hu>

Social and community care also inspire important activities for social enterprises. Stemming from the economic and social crisis of the early 1990s, several foundations and associations started to focus on social issues and providing welfare services; the laws regulating public benefit services provided by local governments facilitated outsourcing to these entities (Kövéér 2015). However, local governments often established and contracted their own organisations when outsourcing welfare and other public services, limiting the power of citizen-led associations and foundations in providing such services (Bocz 2009). Such grassroots organisations also encountered fundamental financial challenges since the beginning of the 2000s, as their per-capita statutory support did not cover all their costs, forcing them to rely on other sources like grants. The reduction of statutory support for social services continued under the current government after 2010, making it difficult or even impossible to maintain the services (USAID 2016). One example of social enterprises involved in social and community care is the Real Pearl (*Igazgyöngy*) Foundation presented in illustration 6.

Illustration 6. Real Pearl (*Igazgyöngy*) Foundation

Since 1999, the Foundation has operated in one of the 33 most disadvantaged micro-regions in Hungary, in and around a town named Berettyóújfalu. The founder, Nóra L. Ritók, is a teacher. The organisation aims to support the talents of children living in extreme poverty, to improve their life prospects, to give them a vision, to compensate for their disadvantages, and to help their social inclusion.

One such activity in an elementary level art school includes talent and personality development, with special regard to disadvantaged children. They have their own methodology at six locations, and work with altogether 650 children from 23 villages. In addition, they create opportunities through extensive fieldwork, with three main pillars: (1) education; (2) family care, community development; and (3) institutional cooperation. In this context, they implement a series of programmes ranging from family support to village development, which can include: crisis management, development of self-sustainability, motivation development, job creation, heating programme, electricity reconditioning programme, gardening programme, scholarship programme, day-school programme, and social roundtables. Told, a small village, serves as the main hub for this comprehensive problem-solving model; some of its elements are used in 20 more settlements.

“Szuno” (meaning Dream in Romani language) serves as the social entrepreneurial project, in which pupils’ mothers, sisters, and grandmothers embroider bags, cushions, wall paintings and blankets based on motifs of the childrens’ drawings in the foundation’s art school. Another social entrepreneurship project, “Amari” (in Romani meaning ‘ours’), produces rosehips and sloe jam, as well as various vegetable chutneys and juices. The organisation is in the process of developing a briquetting room as well. The social enterprise has operated in non-profit ltd since 2016.

<https://igazgyongyalapitvany.org>

<http://shop.igazgyongy-alapitvany.hu/>

Social enterprises sometimes participate in fields such as local economic development and environmental protection. Various local grassroots eco-conscious initiatives have provided alternatives to the mainstream economy, such as farmers’ markets, shopping communities, community gardens, eco-villages, community-supported agriculture, social farms, local currencies (money substitution tools and initiatives) and micro-credit programmes (Czene and Ritz 2010, Kajner 2017). A number of social entrepreneurship initiatives (particularly in disadvantaged areas) have

received support from state and EU programmes throughout the years.⁶ One example of a sustainability-oriented social enterprise is Cargonomia, presented in illustration 7.

Illustration 7. Cargonomia

Cargonomia in Budapest presents a collaboration initiative among an open collective that gathers three existing organisations with social and environmental goals. These organisations include Cyclonomia, which operates a 'Do It Yourself' bicycle shop; Zsámboki Biokert, producing organic vegetables and distributing it through a box system; as well as a cargo bike courier service for sustainable urban transport, Kantaa. Cargonomia's operations combine the activities of these three organisations, based on the principles of sustainable consumption and fair trade, to support and make available locally produced food for underserved communities.

In this cooperative framework, healthy food grown and produced in or near Budapest gets delivered to the different points of the city with cargo bikes. In addition to food distribution directly from the producer, Cargonomia serves as a logistics center providing rental or purchase of sustainable urban transport, trucking transportation and related advice (self-made cargo bikes). In addition, this community enterprise remains open to anyone interested, organises community events around issues of sustainability or de-growth, and seeks to create a healthy and sustainable urban lifestyle.

<http://cargonomia.hu/>


In short, though the term and concept of social enterprise seems new, it connects to previous activities and organisations. **However, one must consider that many social enterprises are created “ex novo” by founders already familiar with the concept and who specifically intend to establish a social enterprise.** Observers can perceive this phenomenon mainly in the capital and larger cities, where social innovation and enterprise development programmes, competitions or trainings also foster the creation of new initiatives.

(6) Social land programmes financed from domestic budget have been implemented in Hungary since 1992 (Ruszkai and Mike 2012). Social land programmes are a component of the social welfare system as they are based on applications and only available for certain settlements, they give an opportunity for disadvantaged families to cultivate land with preferential services and benefits (see Bartal 2005b). Regarding EU funding, besides the above-mentioned programmes for social cooperatives, the LEADER programme aimed at facilitating employment in rural areas and strengthening local communities (Horváth 2010).

2

CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK

Social enterprises do not have a uniform definition employed by all actors in the Hungarian ecosystem. While public—EU co-financed—grant schemes reference the 2011 Social Business Initiative (SBI) definition, different development and support organisations employ a diverse set of definitions. No specific law regulates social enterprises, which can operate in various legal forms. The present report examines foundations, associations, non-profit companies and social cooperatives as the main possible legal forms following the approach of current public funding programmes. However, social enterprises can appear in other legal forms, such as traditional cooperatives, certain church organisations (internal church legal entities primarily providing public services) and conventional enterprises. Social enterprises are regulated through legislation on the different legal forms they employ and the public benefit status, which can lead to different fiscal advantages (e.g. connected to taxes, duties, donations or labour costs), and has significantly changed over time.



2.1. Defining social enterprise borders

2.1.1. The EU operational definition of social enterprise

This report draws on the organisational definition included in the SBI of 2011. According to the SBI, a social enterprise is an undertaking:

- > whose primary objective is to achieve social impact rather than generating profit for owners and shareholders;
- > which uses its surpluses mainly to achieve these social goals;
- > which is managed in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity.

This definition arranges social enterprise key features along three dimensions:

- > an entrepreneurial dimension,
- > a social dimension,
- > a dimension relative to governance structure.

Provided that the pursuit of explicit social aims receive priority through economic activities, these three dimensions can combine in different ways; their balanced combination matters most when identifying the boundaries of the social enterprise.

Building upon this definition, the Commission identified a set of operational criteria during the previous stages of the Mapping Study (European Commission 2015, 2016) and refined during the current phase of the study (see appendix 1 for further details).

2.1.2. Application of the EU operational definition of social enterprise in Hungary

In Hungary, the various actors in the ecosystem of social enterprise do not employ an unanimous definition of social enterprise. The different development and support organisations use a diverse set of definitions (see G. Fekete *et al.* 2017a, Kiss 2018). In the interpretation of Ashoka, the first international organisation in Hungary focused on the topic, social entrepreneurs are “individuals with innovative solutions to society’s most pressing social, cultural, and environmental challenges. They are ambitious and persistent—tackling major issues and offering new ideas for systems-level change” (Social Entrepreneurship, n.d.). Thus Ashoka supports individual change-makers and emphasises social innovation. NESsT, the other important international development agency present in Hungary for many years, bases its philosophy on venture philanthropy, and regards social enterprise as “a deliberately designed entrepreneurial

activity, which is created to solve social problems in an innovative way” (Tóth *et al.* 2011: 6). In this interpretation, social enterprises aim at both financial sustainability and a significant social impact, which can manifest through providing high-quality products and services in a continuous, responsible way. These two organisations influenced the way the concept took shape in the beginning.

State actors connected the concept of social enterprise primarily to social cooperatives in past—mainly EU co-financed—programmes, but in 2016 a priority project launched in the framework of the Economic Development and Innovation Operational Programme (EDIOP) to create a system specifically supporting social enterprises and included its own definition (Kiss 2018). According to the call for the priority project entitled “Promotion of social enterprises - priority project EDIOP-5.1.2”: “non-profit and civil society organisations can be considered social enterprises that have business objectives besides their social objectives, reinvest their profit in order to achieve their social goals, and prioritize the principle of participatory decision-making in their budget and organisational operation” (NGM 2015: 6).⁷ Calls for application supported by the priority project aiming specifically at social enterprises (EDIOP 5.1.3-16, EDIOP-5.1.7-17) also appeared in recent years (NGM 2016; NGM 2017). **These calls receive co-funding through the Structural Funds and refer to the 2011 SBI definition.**⁸

In addition to the definitions used in the calls, a Strategic Working Group was also established in 2016 (initiated by OFA) aiming to create a definition for use as a label.⁹ Decision-makers, project promoters, representatives of federations and leaders of social enterprises participated in the working group. According to their definition, “social enterprises are mission-driven organisations: they aim to solve a social problem with business activities, in many cases using innovative ideas. Their financial sustainability is achieved to a significant degree through the provision and sale of socially responsible and marketable products and services” (OFA 2017b: 3). The employment of disadvantaged groups does not receive an explicit priority here, but it does emphasize having a circle of customers, embeddedness in the local community,

(7) The winner of the call is the National Employment Public Benefit Non-profit Ltd. (OFA) in cooperation with IFKA Public Benefit Non-Profit Ltd. for the Development of Industry. For the role of these organisations, see section 4.

(8) In order to apply for the grant, applicant organisations have to go through a pre-qualification process qualifying them as social enterprises, which operates with a set of criteria including economic sustainability (risk analysis, organisational and operational safeguards, financial plan, etc.), social impact in the area of employment and income generation of disadvantaged people, as well as democratic governance, local embeddedness, partnership, cooperation and environmental sustainability (IFKA 2016: 9-16). The main focus of the grant scheme is to create employment opportunities for disadvantaged groups.

(9) The aim of the Strategic Working group was to create the definition of social enterprise to be used nationally as well as to provide the compliance criteria of their operational standards. The organisations awarded with the compliance declaration get extra points when applying for the EDIOP-5.1.7.-17 call, and it is also an input document for the EDIOP-8.8.1-17 construct.

providing fair wages to workers, autonomy and reinvesting the profit in the social enterprise (Kiss 2018). This definition aligns well with the social enterprise concept of SBI and the operational definition of this study.

There is no consensus on the possible legal forms of social enterprises in Hungary.

The concept cannot narrow down to one single legal form, but can be identified in the simultaneous presence of social aims and business activities (Grants Europe 2018). For a number of development and support organisations, the legal form or the absence of a formal constraint limiting the distribution of profits does not explicitly matter (e.g. NESsT, Ashoka). However, the current state funding programmes (EDIOP 5.1.3-16 and 5.1.7-17) only accept applications by the following legal forms: (1) foundation; (2) association; (3) non-profit company¹⁰ (non-profit limited liability company, non-profit joint stock company, non-profit unlimited partnership, non-profit limited partnership); and (4) social cooperative. Certain church organisations (internal church legal entities primarily providing public services) were included in the EDIOP 5.1.3-16 call, but this legal form no longer applies in the call for EDIOP 5.1.7-17.

Based on recent research, the possible legal forms of Hungarian social enterprises vary more than the forms supported by the available public funding programmes.

However, the two most recent researches provide different results for the main legal forms. According to the findings of the SEFORIS research, the non-profit limited liability company (Ltd) ranks as the most common legal form of social enterprises (79%) followed by the social cooperative (9%) and the limited liability company, a type of conventional enterprise (7%) (SEFORIS 2016). Contrarily, according to the research entitled “Basic research on the operation of social enterprises” requested by OFA as a first comprehensive research analyzing the current situation of the sector, the sample of social enterprises ranked as follows: associations (30%), social cooperatives (27%), non-profit companies (20%), foundations (18%), and other (5%) (G. Fekete *et al.* 2017b). The research concludes that social enterprises can operate in all kinds of legal forms, provided that they have social aims, social impact and market-based sales revenue.

These two examples of research carried out in the social enterprise domain differ significantly in terms of main legal forms identified.¹¹ It is worth noting that, in many cases, different mixtures of legal forms operate within one initiative (for example, for-profit and non-profit entities exist together and cooperate to achieve the objectives of one social enterprise), and legal forms can change over time (for example conventional enterprises, such as ltds can become non-profit companies, local governments can establish social cooperatives). Furthermore, initiatives often operate informally or get

(10) Among social enterprises, out of all these non-profit company forms, only the non-profit limited liability company is used frequently (OFA 2017a).

(11) The researches used different approaches and methodology to define the scope of organisations regarded as social enterprises (for more details about the researches see section 3.1.)

“included” in pre-existing organisations (for-profit or non-profit), especially in the start-up phases (Kiss 2018).

The present report analyses foundations, associations, non-profit companies and social cooperatives as main possible legal forms, since public funding programmes accept them as social enterprises, they appear as common forms of social enterprises in recent research and abide more consistently with the definition used in the present research. However, one should consider that social enterprises can appear in all legal forms. The following table describes the main features of these legal forms and examines their compliance with the criteria of the SBI definition.

Table 1. Possible legal forms of sSocial eEnterprises in Hungary

Legal form	Criteria	Achievement
Foundation	Entrepreneurial / economic dimension: foundations are entitled to perform economic-entrepreneurial activities, though not as the primary objective (60% of the total revenue can come from economic activities aimed at or resulting in generating income and wealth).	Possible
Foundation	Social dimension: foundations initially could only be created to achieve a long-term goal of public interest, but since legislative changes in 2013, foundations can aim for a wider set of objectives. Still, the new law defines the potential beneficiaries, excluding the founders and people who join the organisation as well as their relatives in most cases.	Yes
Foundation	Inclusive governance-ownership dimension: Private individuals or legal personalities (one or more) can establish foundations. The decision-making body comprises of the board of trustees or one trustee. Profits must be reinvested to achieve the core goals of the organisation set in its founding document. The assets remaining after termination may be distributed among the founders, members or other donors not exceeding the value of their primary capital contribution, while assets in excess of this value allocate to other NPOs according to provisions set in the founding document, or in the absence of such, to the National Cooperation Fund.	Possible
Association	Entrepreneurial / economic dimension: associations are entitled to perform economic-entrepreneurial activities, though not as the primary objective (60% of the total revenue can come from economic activities aimed at or resulting in generating income and wealth).	Possible
Association	Social dimension: associations are legal entities established for the continuous realisation of the common, permanent goals of their members. They do not have to be of public interest, and can serve the interest of their immediate community (members).	Possible

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Legal form	Criteria	Achievement
Association	Inclusive governance-ownership dimension: created by at least 10 founding members (private individuals or legal personalities), members must pay a membership fee. The main decision-making body is the general assembly, where members have equal rights and obligations, but it is also possible to have special statuses. Profits must be reinvested to achieve the core goals of the organisation. The assets remaining after termination may be distributed among the members not exceeding the value of their primary capital contribution. Excess assets allocate to similar NPOs or to the National Cooperation Fund.	Yes
Non-profit company	Entrepreneurial / economic dimension: a special type of business company (in the form of unlimited partnership, limited partnership, limited liability company, joint stock company, etc.). They are entitled to perform business-type economic activities, but only on a supplementary basis.	Yes
Non-profit company	Social dimension: no explicit social objective is required, they merely seek to reinvest profits into the organisations. However, as continuations of activities by previously existing public benefit companies, they often have social aims.	Possible
Non-profit company	Inclusive governance-ownership dimension: can be founded by private individuals and legal personalities (one or more). The members' meeting is the main decision-making body, the degree of voting rights adjusts to the members' financial contributions. Profits must be reinvested to achieve the core goals of the organisation. The assets remaining after termination may be distributed among the members according to the percentage of their contributions to the company's capital.	Possible
Social cooperative	Entrepreneurial / economic dimension: a type of business organisation, a form of cooperative, with primarily economic aims.	Yes
Social cooperative	Social dimension: aims at job creation for its unemployed, disadvantaged members or the improvement of their social situations in other ways.	Yes
Social cooperative	Inclusive governance-ownership dimension: complies to the rules of cooperatives, including the principles of open membership, the "one member, one vote principle," and 7 founding members. The upper limit of non-natural persons as members reaches 25%. However, since 2016, they experience compulsory participation of institutional members (local governments, minority self-governments or charitable public benefit organisations). Profits can be distributed, but at least half of the profits must be divided on the basis of the members' personal contributions. A Community Fund can also cover benefits to members and their families. In case of termination without succession, the assets remaining are distributed and paid to the members in proportion to their financial contribution, while the Community Fund transfers to a cooperative under the provisions of the founding document or to a cooperative federation.	Possible

Table 1 illustrates that no current legal form fully complies with the criteria of the organisational definition included in SBI (see section 2.1.1), but all have the possibility to do so. Recent research shows that in addition to the legal forms eligible for public grant programmes (SEFORIS 2016, G. Fekete *et al.* 2017b, see details above), some social enterprises operate with different legal forms, such as: traditional (non-social) cooperatives (e.g. agricultural cooperatives, housing cooperatives or school cooperatives), conventional enterprises with traditional for-profit legal forms (e.g. Ltds), and even church organisations (e.g. internal church legal entities primarily providing public services).

Table 2. Additional possible legal forms of social enterprises in Hungary

Legal form	Criteria	Achievement
Traditional cooperative	Entrepreneurial / economic dimension: a type of business organisation, its activity directed towards sales, production and services.	Yes
Traditional cooperative	Social dimension: its activities aim to meet the economic, cultural, social, educational and medical needs of its members, does not necessarily perform public interest activities (e.g. cannot gain public benefit status).	Possible
Traditional cooperative	Inclusive governance-ownership dimension: requires at least 7 members, the proportion of non-natural persons within the membership must not exceed 20%. The general assembly composes the main decision-making body, where each member has one vote. At least half of the profits must distribute among the members in proportion to their personal contributions. A Community Fund can also be created. The process of termination mirrors that of social cooperatives.	Yes
Conventional enterprise (e.g. ltd)	Entrepreneurial / economic dimension: business entities principally engaged in the pursuit of an economic activity.	Yes
Conventional enterprise (e.g. ltd)	Social dimension: social enterprises that choose such a legal form need to set explicit social goals in their own founding documents.	Possible
Conventional enterprise (e.g. ltd)	Inclusive governance-ownership dimension: participatory decision-making is not compulsory, only if separate rules specifically aim for that. Profits can be used freely, no asset lock is present but such restriction can be included in the founding or other core documents of the organisations.	Possible

Legal form	Criteria	Achievement
Church organisation (internal church legal entity primarily providing public services)	Entrepreneurial / economic dimension: in order to achieve its social goals, the organisation is entitled to carry out economic-entrepreneurial activities (60% of total revenue can come from economic activities aimed at or resulting in generating income and wealth).	Possible
Church organisation (internal church legal entity primarily providing public services)	Social dimension: provides public services in the field of education, social care, health, charitable issues, family, child and youth protection related, cultural and sport activities.	Yes
Church organisation (internal church legal entity primarily providing public services)	Inclusive governance-ownership dimension: it is ideologically committed, not fully open. Profits have to be reinvested according to the social goals of the organisation. In the case of the termination, the asset questions are determined by the church's internal rules.	Possible

Besides available legal forms, **the public benefit status can be awarded to organisations performing public benefit tasks and covering various legal forms.** These may include associations, foundations, non-profit companies and social cooperatives, provided that they are eligible based on the set criteria (see section 2.2.). This status provides certain benefits (tax exemptions or reductions as well as the opportunity for public service contracting by a public body), while also imposing obligations (e.g. publishing the Annual Public Benefit Report). Public benefit organisations can only carry out economic-entrepreneurial activities if this does not jeopardise their core public benefit activities.

2.2. Legal evolution

No specific law acknowledges and regulates social enterprise in Hungary, therefore they make use of the regulations related to the various employed legal forms (e.g. association, foundation, nonprofit company or social cooperative) and the public benefit activities. Noteworthy is the existence of a law aimed to reform cooperatives and acknowledge social cooperatives, recognised as a type of social enterprise.

As social enterprises can employ various legal forms, one can summarise their legal evolution by looking at the development of foundations and associations, non-profit companies and cooperatives—especially social cooperatives—separately, while adding information on conventional enterprises, church organisations and the public benefit

status. The following section shortly introduces the first development of these legal forms before the 1989 regime change, then describes the main milestones from the regime change in 1989 to the change of government in 2010, and finally analyses in more detail the latest developments affecting social enterprises since 2010.

Prior to the regime change in 1989, state socialism strictly regulated the operation of associations and foundations—organisations that had functioned in Hungary for centuries—through various laws, and even completely abolished the legal form of foundations in 1959. Cooperatives that first appeared in the Act on Commerce (37/1875) also faced state control by the new Act on Cooperatives (11/1947), and later the Act on the Civil Code (4/1959) regulated the operation of state companies and cooperatives. Conventional enterprises in the legal forms of unlimited partnership, limited partnership and joint stock company—which also appeared first in the Act on Commerce (37/1875) —became nationalised and under direct control. However, in 1982 a change occurred in the framework of corporations that one could regard as an antecedent of conventional enterprises: economic working communities could be created to supplement workers' income after working hours (Soós 2015).

After the regime change in 1989, a new, favourable legal framework for foundations and associations quickly developed. In fact, the legal form of foundations had already been rehabilitated prior to the regime change through the 11st Legislative Decree of 1987, and the Right of Association Act (2/1989) ensured the legal guarantees of freedom of association in 1989. Also, the Local Taxes Act (100/1990) abolished local taxes for establishing foundations and associations, and new tax laws preferential to the legal forms were created in the same year (Nagy 2010).

The legal evolution of non-profit companies can be traced back to the Act Amending the Civil Code (92/1993) establishing public benefit companies, public bodies and public foundations: the so-called more close-to-state non-profit legal forms (Nagy 2010). Due to inefficient operation of these legal forms, the Business Associations Act (4/2006) introduced non-profit companies—which can take the form of the limited partnership, unlimited partnership, limited liability company and joint stock company. At the same time, the legal form of public benefit companies was abolished by the Act on Public Company Information, Company Registration and Winding-up Proceedings (5/2006), organisations in this legal form could become non-profit companies without changing their ownership structure. The legal form of public foundations remained, but their activities could not extend and new public foundations could not be established.

The legal form of cooperatives renewed after the regime change in 1989 by the Cooperatives Act (1/1992), which regulated the creation, operation, rights, obligations and responsibilities of its members, organisational changes and interest representation. Later, the New Cooperatives Act (141/2000) again reformed the legal form regarding

it as a special kind of business entity (Petheő *et al.* 2010). According to Petheő *et al.* (2010), in these pieces of legislation the cooperative principles were not fully enforced (e.g. the social aspect of the cooperative, which makes it part of the social economy). **This changed with the Cooperatives Act (10/2006) as well as the 141/2006 Government Decree on Social Cooperatives, which reformed all cooperatives by regulating decision-making and establishing the community fund mechanism in case of cooperative property, and also introduced the legal form of social cooperatives.** This law—based on the Italian model—intended to make this legal form a leading player in the social economy, as it embodies basic social principles, aims at satisfying unmet needs of local communities in an innovative way, and exercises democratic decision-making (Petheő *et al.* 2010).

The first pieces of legislation for conventional enterprises at the time of the regime change included the Economic Associations Act (6/1988) regulating the set-up, operation and closing of companies; and the Act on the Transformation of Organisations Carrying out Economic Activity and Economic Associations (13/1989) regulating how state companies transition to economic companies. Later the Business Associations Act (4/2006) redefined companies, and the Act on Individual Companies and Proprietorship regulated individual proprietorship (115/2009) (see Soós 2015).

The churches' economic activities (including internal church legal entities primarily providing public services) since the regime change underwent regulation by the Act on the Right to Freedom of Conscience and Religion, and the Churches (4/1990). Later existing legislation was replaced by the two Acts on the Right to Freedom of Conscience and Religion and on the Status of Churches, Confessions and Religious Communities (100 and 206/2011), as well as their modifications (Sweitzer 2014).

The public benefit status, established by the Public Benefit Organisations Act (156/1997), facilitated the creation of two new categories of organisations with various legal forms based on their activities: the public benefit and the eminently public benefit organisation. **According to the law, organisations with certain legal forms (e.g. associations, foundations, public foundations, public benefit companies and public bodies) could receive public benefit status, if their founding documents contained what constituted their public benefit activity—that is, an activity that met the public interests of society and individuals.**¹² These organisations could not focus only on their members and exclude people from their public benefit services. In order to register an eminently public benefit organisation, the organisation's founding document had to include the public function it provides: a public task regulated by law. The act resulted in approximately half of the non-profit sector receiving public benefit status and a further 5-6% eminently public benefit status in the upcoming years (HCSO 2018).

(12) The scope of potential public benefit organisations has changed over time, today non-profit companies and social cooperatives can also be granted such status.

Since 2010, relevant changes have affected the sector. New pieces of legislation modified the operation of foundations, associations, non-profit companies and social cooperatives, and the acquisition of the public benefit status as well.

After the change of government in 2010, the Right of Association, Non-profit Status, the Operation and Funding of Civil Society Organisations Act (175/2011) (also called the Civil Law) as well as the Court Registration of Non-Governmental Organisations and the Related Rules of Proceeding Act (181/2011) intended to resolve the previously contradictory regulations of CSOs. However, **the Civil Law, which was intended to provide a solution for the existing issues of the sector, consisted of several contradictions.** Later numerous modifications intended to correct these deficiencies, leading to long lasting insecurity of civil society organisations (Sebestyén 2016).

One major change concerns the notion of the public benefit status. **Under the new regulation of 2011, only one level of public benefit remained, which connects to performing public functions (as in the case of eminently public benefit organisations before).** According to Sebestény (2016), the focus on performing a public function shows the institutionalisation of civil society. In addition to the required obligations, the conditions for obtaining public benefit status list as follows:

- > The organisation has to be registered in Hungary, in a legal form enabling the acquisition of public benefit status (e.g. foundation, association, non-profit company, social cooperative).
- > It must carry out a public function—any public or municipal task defined and regulated by law executed in the public interest without aiming at gaining profits, e.g. settlement development, community services, health, social services, environment, education, culture, etc.—directly or indirectly (not only for its own members, but for the wider community) specified in its founding document.
- > It must have adequate resources, which can be demonstrated in the following ways: its average annual income exceeds 1 million Hungarian Forints (HUF) (3,100 EUR); its two-year after-tax profit is not negative; or its personal (staff) costs reach one quarter of all expenditures.
- > It must have adequate public support, which can be demonstrated in the following ways: the designation of the 1% personal income tax (PIT) support (see section 4) received by the organisation reaches 2% of the total revenue; the costs and expenditures incurred for public benefit activities reach half of the total costs of the two-year average; or the public benefit activities are sustained on a permanent basis (over two years, by involving at least 10 volunteers of public interest).

The statistical impact of this law demonstrates a drastic downturn: while in 2013, 55% of organisations had public benefit status, this rate reached only 30% by the end of 2015 and 19% by the end of 2016. The public benefit rate of non-profit companies remained higher (42%) (HCSO 2018).

Another new piece of legislation, the Act on the Civil Code (5/2013) acted as a modification package for harmonising the Civil Law and other laws with the new Civil Code, addressing a number of issues. For example, it introduced a new sanction to settle debts in the event of the termination of associations, clarified the decision-making bodies, and ended the condition of pursuing a public interest objective when establishing foundations (see EMMI 2014).

The latest pieces of legislation affecting civil society organisations have triggered domestic and international protest. **The Act on the Transparency of Organisations Receiving Support from Abroad (76/2017) stipulates that associations and foundations with international support of more than 22,200 EUR annually (excluding EU grants) must register and communicate as an “organisation receiving support from abroad”.**¹³ The Act Amending Certain Acts with Measures Against Illegal Immigration (6/2018) planted difficulties for civil society organisations addressing migration issues; under the new rules, private individuals and organisations face criminal offense if promoting and facilitating “illegal immigration”, that is organising activities that help asylum seekers, who are not persecuted in their home country or in a country, which they arrived from to ask for asylum, or people unlawfully entering and staying in the country obtain a residence permit.¹⁴

New regulations also changed the legal form of social cooperatives. Act 41/2013 Amending Various Laws Related to Social Cooperatives and Public Employment allowed institutional members (local governments, minority self-governments or charitable public benefit organisations) to participate in social cooperatives. **Most recently Act 145/2016 on Modifying Certain Employment Related Laws made these institutional members’ participation compulsory for social cooperatives.** Social cooperatives that do not hold an institutional member can transition into for-profit companies or—if they have public benefit status—non-profit companies. According to Edmiston and Aro (2016), this legislation allowed local governments to lease assets and resources to the social cooperatives of whom they are members, providing an opportunity for public workers to “exit” the public employment programmes. However,

(13) Based on the exchange rate at the time of writing the report (1 EUR = 323 HUF).

(14) These pieces of legislation are also mentioned as discrediting organisations dedicated to the protection of human rights in the Report (4 July 2018) on a proposal calling on the Council to determine, pursuant to Article 7(1) of the Treaty on European Union, the existence of a clear risk of a serious breach by Hungary of the values on which the Union is founded (2017/2131(INL)) by the Committee on Civil Liberties, Justice and Home Affairs (see Sargentini 2018).

the law can also lead to undermining the democratic governance and autonomy of the organisations (Edmiston and Aro 2016). G. Fekete and Lipták (2014) criticise the membership of local governments in social cooperatives; they believe that forcing their role could significantly obstruct the development of the social economy in rural areas.

Public employment or public work constitutes a special kind of employment relationship coordinated and provided mainly by local governments, which aims to decrease the unemployment of disadvantaged people excluded from the labor market. Public employment programmes have formed part of social policy since the 1990s, but the current administration extended their use since 2010 (Edmiston and Aro 2016). Such programmes have received severe criticism for several issues: payment below the minimum wage, poor job security, clientelism, working conditions leading to poor living standards, and low exit rate to the primary labour market (for detailed analysis see Bakó *et al.* 2014, Edmiston and Aro 2016, Molnár *et al.* 2017). Connecting social cooperatives to public work proves problematic according to recent research results (Molnár *et al.* 2017). Social cooperatives might even further marginalise their members due to high levels of vulnerability and consolidation of power (Edmiston and Aro 2016).

The law has triggered objections by professional organisations (see Szószöv 2016). Out of the 2,490 social cooperatives, in 2014 only 105 organised on the basis of public employment with local government members (Soltész 2015). However, this is now the norm for all organisations due to the legislative changes.

Table 3. Legal evolution of possible legal forms of social enterprise in Hungary

Social enterprise type	Relevant legal text
Association and foundation (CSO)	<ul style="list-style-type: none"> > 11st Legislative Decree of 1987: rehabilitated the legal form of foundations > Right of Association Act (2/1989): made the freedom of association possible > Right of Association, Non-profit Status, and the Operation and Funding of Civil Society Organisations Act (175/2011): merging the previously separate pieces of legislation created new rules for the operation of CSOs > Court Registration of Non-Governmental Organisations and the Related Rules of Proceeding Act (181/2011): reformed the registration and operation of CSOs > Civil Code Act (5/2013): harmonised the new Civil Law and other laws with the new Civil Code > Transparency of Organisations Receiving Foreign Funds Act (76/2017): made it compulsory for CSOs with foreign donors to register as foreign funded organisations

Social enterprise type	Relevant legal text
Non-profit company	<ul style="list-style-type: none"> > Act amending the Civil Code (92/1993): established public benefit companies > Business Associations Act (4/2006): established non-profit companies > Public Company Information, Company Registration and Winding-up Proceedings (5/2006): ordered the dissolution of public benefit companies > Civil Code Act (5/2013): reformed the operation of non-profit companies
Cooperative and social cooperative	<ul style="list-style-type: none"> > Cooperatives Act (1/1992): reformed the legal form making them more closely resemble for-profit companies > New Cooperatives Act (141/2000): reformed the legal form again > Cooperatives Act (10/2006): established social cooperatives > Act Amending Various Laws Related to Social Cooperatives and Public Employment (41/2013): made the membership of local governments, minority self-governments or certain charitable organisations possible > Act on Modifying Certain Employment Related Laws (145/2016): made the membership of local governments, minority self-governments or certain charitable organisations compulsory
Conventional enterprise	<ul style="list-style-type: none"> > Economic Associations Act (6/1988): regulated the setting up, operation and closing of companies > Act On the Transformation of Organisations Carrying on Economic Activity and Economic Associations (13/1989): regulated the transitioning of state companies to economic companies > Business Associations Act (4/2006): redefined companies > 115/2009 Act on Individual Companies and Proprietorship: regulates individual proprietorship
Church organisation (internal church legal entity primarily providing public services)	<ul style="list-style-type: none"> > Act on the Right to Freedom of Conscience and Religion, and the Churches (4/1990): regulated the operation of churches > Acts on the Right of Freedom of Conscience and Religion and on the Status of Churches, Confessions and Religious Communities (100 and 206/2011) replaced the previous regulation
Public benefit status	<ul style="list-style-type: none"> > Public Benefit Organisations Act (156/1997): established public benefit and eminently public benefit status > Right of Association, Non-profit Status, and the Operation and Funding of Civil Society Organisations Act (175/2011): reformed public benefit status eliminating eminently public benefit status

2.3. Fiscal framework

Similarly to their legal framework, the fiscal framework for social enterprises in Hungary remains fragmented: **different fiscal benefits, advantages or exemptions apply for operating as a public benefit organisation and can also connect to different legal forms.** Hereinafter, the report lists the relevant information for the different categories (focusing on foundations, associations, non-profit companies and social cooperatives, and then discussing the public benefit status).¹⁵

Associations and foundations (CSOs) have certain tax and duties benefits and exemptions available. Like all organisations irrespective of their legal forms, associations and foundations receive exemption from paying value added tax (VAT) for some activities, e.g. sports, exercise, social care, applied arts, nursery care, adult training, etc. (VAT exemption based on activity, according to the Value Added Tax Act - 127/2007).¹⁶ If an organisation has no public benefit status and its business income in the tax year measures 10 million HUF or less (around 31,000 EUR), but does not exceed 10% of the total revenue, it receives exemption from corporate tax (CT - Corporate Tax and Dividend Tax Act 81/1996). Associations and foundations also receive “duties exempt status” (by subjective right), meaning they do not have to pay duties in case they do not have business activities (Duties Act 93/1990). Further, they are exempt from local business tax (for business activities in the municipality where their main seat is located). Neither do they need supply a minimum financial contribution at the time of their founding specified by the Civil Law (though in case of foundations, the founder must provide the necessary amount to start operating). The court registration of foundations and associations is free. Additionally, associations and foundations receive exemption from vehicle tax, local taxes (Local Taxes Act – 100/1990), and building and land taxes in case they use these resources for core activities as defined in their founding documents.

Associations and foundations also enjoy advantages regarding certain kinds of costs. Regarding labour costs, foundations or associations need only pay taxes and contributions for executive officers if their income from the organisation reaches 30% of the minimum wage or if they utilise employment contracts (this way they become eligible for social insurance). They also do not have to pay vocational training contributions.

(15) This section is based on information from NIOK (2012); Tóth (2012); EMMI (2014); Drahos *et al.* (2017); OFA (2017a), NAV (2017) and Grants Europe (2018).

(16) VAT exempt status (by subjective right) is optional if the organisation's annual sales revenue does not reach the statutory limit (currently 8 million HUF, that is, around 25,000 EUR) (Grants Europe 2018). This is true for all organisations, not just potential social enterprises.

Associations and foundations can have volunteers according to the Act on Voluntary Activities in the Public Interest (88/2005). Non-remunerated benefits to volunteers—intended to cover the costs incurred from voluntary activity and which represent the minimum financial recognition of volunteering (e.g. work clothes, travel, accommodation, insurance, training, etc.)—are exempt from personal income tax (Personal Income Tax Act – 117/1995).

The costs of representation and business gifts for the core purpose or public benefit of the organisation receive exemption from PIT on the following conditions: they do not exceed 10% of the total expenditures and 10% of the total annual revenue. However, only business gifts that do not exceed 25 % of the minimum wage can be considered. In the case of associations, member services aligned with the organisation’s purpose and social assistance provided by self-help associations are tax-free.

Social cooperatives are also subject to certain tax benefits and exemptions. Organisations employing this legal form benefit from VAT exemption based on activity. They do not have to pay corporate tax after non-business-related income according to the Corporate Tax and Dividend Tax Act (e.g. connected to certain public benefit activities). All social cooperatives can set up a Community Fund from their profits to cover costs of payments to their members and their families, especially social contributions, food contributions, educational support, and more. Social cooperatives can access 6.5% of this Community Fund as tax benefit. The relevant legislation does not outline a minimum financial contribution specified for their foundation either. It is free to register social cooperatives in court.

Regarding labour costs, the social cooperatives’ executive officers do interact with social insurance and pay taxes if their income reaches 30% of the minimum wage, and if they utilise employment contracts. **A member of a social cooperative can establish a *sui generis* type of employment relationship (membership work)**, if he or she had been registered for at least three months as a job seeker, or had been a public worker for at least three months. In such a case, employees can collect wages in cash, with 15% personal income tax and 10% pension contributions paid. In-kind work compensation is tax-free (when workers receive the goods produced jointly by the members). Vouchers for ready meals are also tax-free (the voucher cannot exceed 25% of the minimum wage per month). A social cooperative must pay a monthly healthcare contribution for the members, though is granted a 4-year (decreasing) exemption. The social cooperative does not need to pay vocational training contributions.

Non-profit companies have certain tax benefits and exemptions connected to their legal form. They also benefit from VAT exemption based on activity. They do not have to pay corporate tax after non-business-related income according to the Corporate Tax and Dividend Tax Act (e.g. connected to certain public benefit activities). However, for one type of non-profit companies (non-profit ltd.-s) the minimum share capital for

founding an organisation measures 3 million HUF (9,300 EUR), and for non-profit joint stock companies this measures 5 million HUF (15,500 EUR). The court registration of non-profit companies (except for non-profit joint stock companies) is free. Public benefit provisions govern these companies if they have public benefit status. In this case, non-profit companies do not need to pay taxes after their public benefit activities and remain exempt from local business tax.

Public benefit organisations are entitled to several fiscal benefits. Associations, foundations, non-profit companies, and social cooperatives can all achieve this eligibility status based on following the criteria listed above (in section 2.2).

Public benefit organisations are exempt from paying VAT in cases listed by the law, when providing some types of welfare services. They do not pay corporate tax if business revenues rank less than 15% of the total revenue and do not exceed 10 million HUF (around 31,000 EUR). They also have full duties exemption if they did not pay corporate tax the previous year.

Public benefit organisations also benefit when making certain payments towards individuals, as the following are free from PIT: income given in kind to an individual connected with the core public benefit objective (e.g. cultural and internet voucher, school start-up support, local charter, holiday check, school-based training, health fund and self-help fund, voluntary pension fund); income in cash up to 50% of the minimum wage in accordance with the public benefit mission; scholarships for studies, research, and foreign study trips to an individual, or social assistance to disadvantaged people in case of public benefit foundations. Public benefit organisations can also host volunteers in connection with their public benefit activities. They need not pay any vocational training contributions.

The corporate tax act defines donations as support given to public benefit organisations and church organisations. In practice, donating specifically to public benefit organisations qualifies donors for corporate tax advantages. The supported public benefit organisations give out donation receipts, ensuring a 20% reduction of the corporate tax base for a single donation, and an additional 20% reduction for a permanent donation contract. The donation of goods and services for public benefit purposes also receive VAT exemption.


Table 4. Fiscal benefits/advantages/exemptions of possible legal forms of social enterprises

Benefits/advantages/exemptions	Association	Foundation	Non-profit company	Social cooperative
Public benefit status	After operating > 2 years	After operating > 2 years	Can seek status at the time of founding	Can seek status at the time of founding
PIT exemption for certain payments	Yes	Yes	If public benefit organisation	If public benefit organisation
CT exemption	Yes	Yes	If public benefit organisation	After certain public benefit income
Local tax exemption	Yes	Yes	If public benefit organisation	No
Vehicle tax exemption	Yes	Yes	No	No
Business tax exemption	Yes	Yes	If public benefit organisation	If public benefit organisation
Building and Land Tax exemption	Yes	Yes	No	No
Duties exemption	Yes	Yes	If public benefit organisation	If public benefit organisation
Duties exemption for founding	Yes	Yes	Yes	Yes
Exemption from vocational training contribution	Yes	Yes	If public benefit organisation	Yes
Can accept volunteers	Yes	Yes	If public benefit organisation	If public benefit organisation
Can provide <i>sui generis</i> employment	No	No	No	Yes

3

MAPPING

In Hungary, no single definition, legal form or official database encompasses social enterprises. Therefore, the present research cannot determine the size of the sector, though it may estimate conclusions from available data. Based on previous research, social enterprises have diverse legal forms, fields of activity, regional distribution, sources of income, labour characteristics or governance models. Statistical data analysed for this research confirms that potential social enterprises in the database of the Hungarian Central Statistical Office (HCSO) are present in various fields—especially hobby and leisure, culture, sports, education, social care, economic development and community development. Their diverse revenue structure relies on central or municipal state support, private support, core or public benefit activity revenue, business revenue, and other revenues. They operate most commonly in Central Hungary and in the capital, and their economic relevance as compared to the overall GDP—not including social cooperatives—measures around 2.1%.



3.1. Measuring social enterprises

In the absence of an official database, researchers rely on two types of data to estimate the number of social enterprises: (1) the database of HCSO and other data sources (e.g. OPTEN Ltd.) on certain legal forms, e.g. foundations, associations, non-profit companies and social cooperatives; and (2) data from various support programmes, development organisations, and previous research specifically focused on social enterprises (Kiss 2018).¹⁷ Previous research and administrative registers have enabled several estimations on the size of the social enterprise sector. However, the data from the various sources also differ from each other due to different definitions and sets of criteria.

The first related research (G. Fekete and Solymár 2004) estimated that in 2002, 150-200 social or community enterprise related projects functioned in Hungary. Petheő (2009) considered 500-600 organisations on the basis of an analysis of the HCSO's non-profit register belonging to the category of social enterprise. The 2016 SEFORIS research surveyed 122 social enterprises in Hungary (Huysentrut and Stephan 2017). **In connection with the SEFORIS research, researchers estimated the number of social enterprises between 300-400 organisations (Etchart *et al.* 2014).**¹⁸

Until now, the most recent comprehensive research focusing specifically on social enterprises (entitled “Basic research on the operation of social enterprises”) took place in 2017 through the Faculty of Economics of the University of Miskolc, requested by OFA (G. Fekete *et al.* 2017b). The total number of foundations, associations and non-profit companies considered as social enterprise (based on having minimum 500,000 HUF (1,550 EUR) annual total revenue and at least 1 employee), reached 9,716 in 2015 based on HCSO data. The research also considers social cooperatives (2,681 organisations in 2015) and certain church organisations (617 internal church legal entity primarily providing public services in 2015) as possible forms of social enterprises. The research covered 220 organisations in a questionnaire survey.

As of 2018, 212 organisations (110 social cooperatives, 40 non-profit companies, 35 associations, 26 foundations and 1 church organisation) already qualified as social enterprises in the PiacTárs (MarketPartner) Online Pre-qualification, managed by IFKA Public Benefit Non-Profit Ltd. for the Development

(17) The company information database of OPTEN Ltd. is based on several data sources: the Company Gazette, National Accountancy and Company Information System (OCCR), NAV Data, Ministry of Justice. See: <https://www.opten.hu/ceginformacios-szolgaltatasok/cegtar-alap>

(18) The SEFORIS research regards organisations social enterprises provided that they fulfil the following criteria: (1) the organisation has to engage in some revenue generating activity that involves sales of products/services; (2) the organisation has to have a social mission; (3) the organisation has to employ at least one full-time equivalent employee (Huysentrut and Stephan 2017).

of Industry—see section 4. IFKA qualifies project plans for organisations (associations, foundations, non-profit companies, social cooperatives, and church organisations) applying for the EDIOP 5.1.3-16 and 5.1.7-17 calls for supporting social enterprises. The applicant organisations must conform to these conditions: the organisation's social aims meet the conditions (employment and possibly solving other social problems); the business objectives help strengthen the organisation's long-term sustainability and reinvest their profits; and aim to serve registered jobseekers, disadvantaged people or those with reduced working capacity.¹⁹

The data from the Hungarian Central Statistical Office considering NPOs and social cooperatives provide different figures.²⁰ While all active²¹ social cooperatives can be considered social enterprises by definition, this is not true for all NPOs included in the database of the HCSO, as not all NPOs conduct business activities or pursue explicit social aims. Out of all non-profit legal forms, mainly foundations, associations and non-profit companies can qualify as social enterprises— as the state founds public foundations, while interest representation organisations have different functions (HCSO 2018). In the economic dimension, NPOs qualified as social enterprises if their revenues from sales measured at least 25% of the total revenue.²²

It is impossible to determine the exact number of NPOs with an explicit social aim with the data sources available. However, looking at the types of activities carried out can offer a solution. According to the SEFORIS (2016) research based on 122 organisations, one social enterprise in Hungary typically belongs to certain social sectors, namely in the fields of social services (27%), development and housing (24%), health (12%), environment (9%), culture and recreation (9%), education and research (7%), law, advocacy and politics (5%), and business and professional associations, unions (4%), and other (3%).²³ At the same time, in the most recent research based on

(19) The data from the prequalification system is based on an interview with Áron Jakab, senior social enterprise expert at IFKA, who was very supportive in providing us with the information.

(20) Data presented in this report from HCSO are not available to the public, only upon request. Data for the research was requested from István Sebestény, Chief Counselor, Department of Life Quality Statistics, Hungarian Central Statistical Office (HCSO), who was very supportive in providing us with data about the main topics of this section from the database of NPOs (regarding foundations, associations and nonprofit companies) and the registry of economic organisations (regarding social cooperatives).

(21) Data received from HCSO considered social cooperatives active in a given year (e.g. in 2016) provided that they were established in that given year or before, and that they either did not have a termination year or that year was after the given year.

(22) Sales revenue means—based on the classification of the HCSO—basic and public benefit activity revenue, that is (1) service or commission fees, prizes and sales revenues from the central state or local governments; (2) service or commission fees, prizes and sales revenues from other legal entities or private persons; and (3) business revenues, rent, and property sales.

(23) The SEFORIS (2016) research uses the international ICNPO classification, which includes the following categories: culture and recreation; education and research; health; social services; environment;

HCSO data (G. Fekete *et al.* 2017b) social enterprises can also appear in all fields, with most organisations in the 220 organisation questionnaire sample (one organisation could choose several areas in the questionnaire) perform in the field of education (36%), social care (34%), culture (34%), hobby and leisure (27%), community development (27%) economic development (24%) and environment protection (23%).²⁴ Comparing NPOs in HCSO's database with data emerging from previous research illustrates how social enterprises can fit in all sectors. Therefore the estimates discussed in the following pages consider all the sectors of activities covered by the HCSO database.²⁵

All in all, 15,855 organisations operated in 2016, which one could regard as potential social enterprises based on the economic criteria (its revenues from sales activities reached at least 25% of the total revenue), including 2,980 social cooperatives, 2,495 foundations (12.7% of all foundations), 8,226 associations (23.9% of all associations) and 2,154 non-profit companies (66.9% of all non-profit companies).²⁶ Without considering core activity revenues such as service or commission fees, prizes and sales revenues from the central state or local governments²⁷ as part of the 25% sales revenue, the number lowers slightly. This way, 2,313 foundations (11.8% of all foundations), 7,641 associations (23.9% of all associations) and 2009 non-profit

development and housing; law, advocacy and politics; philanthropic intermediaries and voluntarism promotion; international; religion; business and professional associations, unions; not elsewhere classified.

(24) In HCSO data, NPOs are classified by primary area of activity according to the International Classification of NPOs (ICNPO) using a key to translation: instead of the 12 categories of ICNPO, HCSO has 18 categories, which can all be included in the categories of ICNPO: hobby and leisure; culture; sport; education; social care; economic development; community development; research; environment protection; health care; religion; international relations; civil protection, disaster prevention; advocacy and legal services; protection of public safety; general grant giving and donation; politics; and entrepreneurial, professional and employee representation. For the translation key available in Hungarian, see: http://www.ksh.hu/docs/osztalyozasok/nszor/icnpo_nszor16_forditokulcs.pdf

(25) Considering the different research results, one cannot claim that social enterprises exist in only certain fields of activity; such a restriction does not show the actual number of social enterprises. Besides, public benefit organisations—which by definition have relevant social objectives—also appear in all fields of activity. Therefore the data were not filtered according to fields of activity. Because of this, the analysis may overestimate the number of potential social enterprises as it only considers the economic dimension as criterion, does not take into consideration the social and governance dimension, and excludes conventional enterprises, traditional cooperatives and informal social enterprises altogether—readers should keep the limits of this data data in mind throughout the section.

(26) Regarding all NPOs, in 2016 there were 19,545 foundations, 34,470 associations or other social organisations (e.g. federations), and the number of non-profit companies was 3,220. The number of NPOs altogether was around 61,600 in 2016 (HCSO 2018).

(27) It should be mentioned that service or commission fees, prizes and sales revenues from the central state or local governments (included in statistics as belonging to core activity revenues) are often from services provided by organisations, which otherwise would provide the same services by applying for grants (included in statistics as belonging to public support), thus the line between contracting and supporting by the state is blurred.

companies (66.9% of all non-profit companies) remained in the database, posing an insignificant decrease.

Table 5. Number and rate of potential social enterprises based on various sets of economic criteria (N, %) (2016)

Social enterprise form	All organisations		25% sales revenue		25% sales revenue excluding central and local state sources	
	N	%	N	%	N	%
Foundation	19,545	32.5%	2,495	15.7%	2,313	15.5%
Association	34,470	57.2%	8,226	51.9%	7,641	51.1%
Non-profit company	3,220	5.3%	2,154	13.6%	2,009	13.4%
Social cooperative	2,980	4.9%	2,980	18.8%	2,980	19.9%
Total	60,215	100%	15,855	100%	14,943	100%

Source: data provided by HCSO.

Potential social enterprises with non-profit legal forms have altogether 72,642 employees²⁸ and a turnover of 2,328.3 million EUR, reaching 2.1% of the GDP in 2016. Looking at the different legal forms, the 2,154 non-profit companies have 57,435 employees and a turnover of 1,563.4 million EUR, while the 2,495 foundations have 5,197 employees and a turnover of 181.6 million EUR, and the 8,226 associations only have 10,010 employees and a turnover of 583.3 million EUR. Thus non-profit companies – though are smaller in numbers – have significantly more employees and a greater amount of total revenue, than foundations or associations. These data underline the polarisation of the sector to grassroots civil society organisations and close-to-state NPOs in terms of human and financial resources (described in section 1.1). Regarding social cooperatives, the OPTEN database provides employment data, where in 2016 only 2,238 social cooperatives were included. The total number of employees according to this database fell at 4,094 (however, available data only considered 1,612 organisations, thus constructing an incomplete picture).

(28) The number of people employed in the non-profit sector in general was 154,000 in 2016, of which 90,000 were full-time employees; 41,000 part-time and not full-time employees and 23,000 people were public workers. 66% of full-time employees were employed by non-profit companies, others in associations or foundations. In addition, in 2016, the number of volunteers was estimated at 419,000 (see HCSO 2018 for data).

Looking at data from 2012 to 2016, altogether the number of organisations and total annual revenues/turnover increased, while the number of employees remained the same. However, access to this type of data for social cooperatives might change the picture. The number of foundations, associations and non-profit companies remained stable from 2012-2016, but the number of social cooperatives experienced a sharp increase from 349 organisations in 2012 to 2,980 organisations in 2016, most probably due to extensive public funding opportunities. The number of employees shows a decrease in the case of foundations, and a slight increase for associations and non-profit companies. As for revenues over the years, the total has somewhat declined for foundations while increasing for associations, though the most spectacular change has been a big increase for non-profit companies.

Table 6. Number of organisations, employees and annual revenues / turnover of potential social enterprises based on 25% sales revenue criteria (2012-2016)

Foundation

Year	Number of SE	Number of Employees	Annual revenues (million HUF)	Annual revenues (million EUR)
2012	2,818	6,721	61,664	190.5
2013	2,623	5,416	55,954	172.9
2014	2,565	6,114	58,121	179.5
2015	2,581	5,549	54,236	167.5
2016	2,495	5,197	58,788	181.6

Association

Year	Number of SE	Number of Employees	Annual revenues (million HUF)	Annual revenues (million EUR)
2012	8,304	9,311	144,421	446.1
2013	7,945	9,630	139,534	431.0
2014	8,154	10,395	145,330	449.0
2015	8,095	9,670	151,472	467.9
2016	8,226	10,010	188,815	583.3

Non-profit company

Year	Number of SE	Number of Employees	Annual revenues (million HUF)	Annual revenues (million EUR)
2012	1,815	56,712	284,558	879.1
2013	1,874	50,672	339,849	1,049.9
2014	2,053	64,608	566,780	1,750.9
2015	2,118	62,169	576,267	1,780.2
2016	2,154	57,435	506,084	1,563.4

Social cooperative

Year	Number of SE	Number of Employees	Annual revenues (million HUF)	Annual revenues (million EUR)
2012	349	no data	no data	no data
2013	1,561	no data	no data	no data
2014	2,057	no data	no data	no data
2015	2,550	no data	no data	no data
2016	2,980	no data	no data	no data

Total (not including social cooperatives for # employees and annual revenues)

Year	Number of SE	Number of Employees	Annual revenues (million HUF)	Annual revenues (million EUR)
2012	13,286	72,744	490,642	1,515.7
2013	14,003	65,718	535,337	1,653.8
2014	14,829	81,117	770,231	2,379.4
2015	15,344	77,388	781,974	2,415.7
2016	15,855	72,642	753,686	2,328.3

Source: data provided by HCSO.

3.2. Social enterprise characteristics

The diverse landscape of social enterprises in Hungary concerns legal forms, fields of activity, geographical and labour characteristics, revenues or governance models. Though truly representative data remain unavailable, one can still deduce a picture of organisations qualifying as social enterprises based on the available data sources. The following section displays data concerning all social cooperatives and NPOs with at least 25% sales revenue.

3.2.1. Fields of activity

The potentially qualifying NPOs in HCSO's database (foundations, associations and non-profit companies with 25% sales revenue), most commonly focus on activities like hobby and leisure (25%), culture (19.3%) and sport (14.4%). Foundations tend to focus more on culture, education and social care; associations deal mainly with culture, sports, hobby and leisure; and non-profit companies prioritise culture, education, social care, community development and economic development.²⁹

Table 7. Fields of activity of potential social enterprises with non-profit legal forms (%) (2016)

Field of activity	Foundation	Association	Non-profit company	Total (N)	Total (%)
Hobby and leisure	3.1%	37.5%	2.8%	3,223	25.0%
Culture	25.9%	18.1%	16.3%	2,487	19.3%
Sport	3.4%	20.5%	3.8%	1,849	14.4%
Education	24.0%	3.3%	10.2%	1,090	8.5%
Social care	15.2%	3.5%	14.4%	979	7.6%
Economic development	2.3%	2.1%	20.8%	675	5.2%
Community development	2.6%	2.8%	14.0%	602	4.7%
Research	4.2%	2.7%	8.3%	508	3.9%

(29) In general among NPOs, hobby and leisure, culture, sports and education are the most common fields of activity. Foundations are most active in the field of education (33.2%), social care (16%) and culture (14.8%), while associations are most active in the field of hobby and leisure (22.5%), sports (19.7%) and culture (14.7%) (HCSO 2018).

Field of activity	Foundation	Association	Non-profit company	Total (N)	Total (%)
Environmental protection	4.5%	2.7%	5.2%	447	3.5%
Health care	8.4%	1.6%	3.3%	415	3.2%
Religion	2.5%	0.5%	0.1%	112	0.9%
International relations	1.5%	0.9%	0.1%	110	0.9%
Civil protection, disaster prevention	0.3%	1.1%	-	98	0.8%
Protection of public safety	0.8%	0.8%	-	94	0.7%
Advocacy and legal services	0.5%	0.9%	0.3%	88	0.7%
General grant giving and donation	0.5%	0.4%	0.0%	50	0.4%
Politics	0.0%	0.4%	0.1%	38	0.3%
Entrepreneurial, professional and employee representation	0.3%	-	0.1%	10	0.1%
Total	100%	100%	100%	12,875	100%

Source: data provided by HCSO.

The data provided by HCSO paint a different picture about primary fields of activity in social enterprises operating in non-profit legal forms than previous research (e.g. SEFORIS 2016, G. Fekete *et al.* 2017b, see in section 3.1). Social care, education and health care rank more relevantly in existing research; while culture, sports, hobby and leisure have higher percentages in HCSO statistics.³⁰

In case of social cooperatives,³¹ the most relevant fields of activities include manufacturing (17.5%); agriculture, forestry and fishing (15.4%); wholesale and retail trade, motor vehicle and motorcycle repair (13.2%); administrative and support service activities (11.7%) and other service activities (10.3%).

(30) This disparity might signal that statistical data from certain legal forms based on the rate of sales revenue inaccurately measures potential social enterprises as it only considers the economic dimension as criterion and does not restrict the social dimension. However, research can also underestimate the phenomenon.

(31) Data on the fields of activity based on ICNPO is not available. Data about their Standard Industrial Classification of All Economic Activities (TEÁOR), harmonised with NACE - Classification of Economic Activities in the European Community can be accessed.

Table 8. Fields of activity of social cooperatives (N, %) (2016)

Field of activity	N	%
Manufacturing	531	17.8%
Agriculture, forestry and fishing	459	15.4%
Wholesale and retail trade; repair of motor vehicles and motorcycles	392	13.2%
Administrative and support service activities	349	11.7%
Other service activities	308	10.3%
Professional, scientific and technical activities	176	5.9%
Construction	169	5.7%
Accommodation and food service activities	154	5.2%
Education	108	3.6%
Human health and social work activities	88	3.0%
Arts, entertainment and recreation	65	2.2%
Information and communication	54	1.8%
Water supply, sewerage, waste management and remediation activities	47	1.6%
Transportation and storage	33	1.1%
Real estate activities	25	0.8%
Public administration and defence; compulsory social security	10	0.3%
Financial and insurance activities	6	0.2%
Electricity, gas, steam and air conditioning supply	3	0.1%
Household activities, self-sustaining	2	0.1%
Mining and quarrying	1	0.0%
Total	2,980	100%

Source: data provided by HCSO.

One way to analyse the social dimension of organisations is to consider their public benefit status. However, the regulations of public benefit organisations changed in 2011 in the new Civil Law; this status no longer reflects the social aim of the organisations, but refers to the fact that they serve public functions. One can clearly detect the impact of the law through the significant decrease in public benefit status in all legal forms (no data considers the case of social cooperatives). **Whereas in 2012 more than half of the potential social enterprises had public benefit status (53.8%), in 2016 this rate fell to around 24%.** In terms of legal forms, associations have a significantly lower rate of public benefit status than foundations and non-profit companies.

Table 9. The rate of public benefit organisations among potential social enterprises with non-profit legal forms (%) (2012-2016)

Year	Public benefit foundations	Public benefit associations	Public benefit non-profit companies	Public benefit non-profit organisations (N)	Public benefit organisations (%)
2012	70.7%	44.2%	71.5%	6,964	53.8%
2013	78.8%	45.9%	65.7%	6,947	55.8%
2014	58.0%	33.4%	51.5%	5,265	41.2%
2015	34.5%	16.8%	41.7%	3,134	24.5%
2016	35.5%	16.1%	39.1%	3,055	23.7%

Source: data provided by HCSO.

3.2.2. Geographical differences

According to the potential social enterprise sample of the HCSO, relevant geographical differences come into play. Though all potential social enterprises together can be found in all community types to a similar degree (between 22.3% and 28.8%), foundations more likely operate in the capital and larger towns of a county, associations tend to form in towns and villages, non-profit companies function in the capital and other towns, and social cooperatives take root in other towns and villages.

Table 10. Distribution of potential social enterprises by community type (%) (2016)

Community type	Foundation	Association	Non-profit company	Social cooperative	Total (N)	Total (%)
Capital	37.0%	21.9%	27.5%	7.4%	3,539	22.3%
Chief town of a county	25.2%	22.6%	21.6%	21.1%	3,583	22.6%
Other towns	24.0%	30.0%	29.9%	28.5%	4,563	28.8%
Village	13.7%	25.4%	21.0%	43.0%	4,170	26.3%
Total	100%	100%	100%	100%	15,855	100%

Source: data provided by HCSO.

Hungary has seven regions (Central Hungary, Central Transdanubia, Western Transdanubia, Southern Transdanubia, Northern Hungary, Northern Great Plain and Southern Great Plain). Central Hungary (including the capital, Budapest) contains the highest proportion of each legal form, though social cooperatives provide the only exception, as they appear in highest numbers in Northern Hungary, the Northern Great Plain and Southern Great Plain. This might be due to state support, as grants for social cooperatives have mainly focused on disadvantaged regions.

Table 11. Regional distribution of potential social enterprises (%) (2016)

Region	Foundation	Association	Non-profit company	Social cooperative	Total (N)	Total (%)
Central Hungary	47.6%	31.6%	40.1%	13.3%	5,044	31.8%
Central Transdanubia	6.9%	10.3%	9.3%	7.4%	1,439	9.0%
Western Transdanubia	7.0%	11.0%	7.0%	4.6%	1,368	8.6%
Southern Transdanubia	8.8%	12.0%	8.9%	11.3%	1,736	10.9%
Northern Hungary	9.0%	9.9%	12.0%	23.0%	1,985	12.5%
Northern Great Plain	9.9%	12.6%	11.7%	20.5%	2,147	13.5%
Southern Great Plain	10.8%	12.6%	11.1%	19.8%	2,136	13.4%
Total	100%	100%	100%	100%	15,855	100%

Source: data provided by HCSO.

The existing data demonstrate a non-uniform geographical distribution of the organisations. Based on G. Fekete *et al.* (2017b), most organisations (27.1%) operate in Central Hungary, including the capital. Northern Hungary (19.8%) also contains a high proportion.

3.2.3. Labour characteristics

As highlighted in section 3.1, potential social enterprises with non-profit legal forms have altogether 72,642 employees, most of whom work in non-profit companies (57,435 employees). Women comprise the slight majority of employees, especially in foundations, while men more likely work in associations, and both men and women work equally in non-profit companies. Employees mostly work full-time.

People with reduced working capacity and with disabilities most often find employment with non-profit companies. Volunteers more likely participate with foundations and associations, both when considering occasional, regular, and legal-status volunteers.³²

Table 12. Human resources of potential social enterprises with non-profit legal forms (N) (2016)

Type of worker	Foundation	Association	Non-profit company	Total
Full-time employee	3,655	6,070	35,781	45,506
Part-time employee	1,036	2,076	14,870	17,982
Non-main job holder employee	281	1,259	1,028	2,568
Public worker	225	605	5,756	6,586
Total number of employees	5,197	10,010	57,435	72,642
Men	1,351	5,071	25,765	32,187
Women	3,621	4,334	25,914	33,869
Persons with reduced working capacity	184	444	11,476	12,104
Persons with disability	89	221	1,021	1,331
Occasional volunteer	7,683	39,789	966	48,438
Regular volunteer	4,149	26,477	639	31,265
Legal-status volunteer	6,968	14,730	2,132	23,830
Total number of volunteers	18,800	80,996	3,737	103,533

Source: data provided by HCSO.

Looking at changes throughout the years, the overall number of employees remained the same (though with high fluctuations), and the number of volunteers decreased.

(32) Volunteer legal status means the legal status defined in the Voluntary Activities in the Public Interest Act (88/2005), institutionalizing volunteering, also providing benefits, guarantees for the status. Volunteer legal status comes into being through volunteer contact.

Table 13. Changes in the human resources of potential social enterprises with non-profit legal forms (N) (2012-2016)

Year	Full-time employee	Part-time employee	Non-main job holder employee	Public worker	Total number of employees	Occasional volunteer	Regular volunteer	Legal-status Volunteer	Total number of volunteers
2012	40,332	29,178	3,234	n.a.	72,744	96,268	48,711	n.a.	144,979
2013	40,978	22,868	1,872	n.a.	65,718	83,825	43,597	21,038	148,460
2014	57,081	21,648	2,388	n.a.	81,117	81,225	40,854	20,403	142,482
2015	55,780	19,400	2,208	n.a.	77,388	43,896	31,903	23,758	99,557
2016	45,506	17,982	2,568	6,586	72,642	48,438	31,265	23,830	103,533

Source: data provided by HCSO.

Based on additional data sources, social enterprises typically function as micro and small enterprises. According to the data from *Piactárs* (MarketPartner), organisations that passed the pre-qualification system for social enterprises generally employed between 5 and 10 people in 2015. 82% of organisations in the SEFORIS research employ less than 50 full-time employees. According to G. Fekete *et al.* (2017b), most social enterprises employ 1-10 people.

3.2.4. Revenues

According to the HCSO database, potential social enterprises in general (and associations and foundations in particular) most often have an average total revenue between 501,000 and 5,000,000 HUF (1,550 and 15,500 EUR) or between 5,000,000 and 50,000,000 HUF (15,500 and 155,000 EUR). Non-profit companies have an average total revenue between 5,000,000 and 50,000,000 HUF (15,500 and 155,000 EUR) or over 50,000,000 HUF (155,000 EUR), thus they have higher revenues (for the differences in total revenues among legal forms see also table 6).

Table 14. Income classes of potential social enterprises with non-profit legal forms (%) (2016)

HUF (thousand)	EUR	Foundation	Association	Non-profit company	Total %	Total N
0–50	0–155	2.0%	1.3%	1.2%	1.4%	180
51–500	155–1,550	15.8%	13.9%	4.8%	12.7%	1,637
501–5,000	1,550–15,500	45.1%	49.6%	17.8%	43.4%	5,592
5,001–50,000	15,500– 155,000	28.6%	31.5%	36.9%	31.8%	4,096
50,001 +	155,000+	8.6%	3.7%	39.3%	10.6%	1,370
Total	Total	100%	100%	100%	100%	12,875

Source: data provided by HCSO.

The following funding sources may be included in the revenue structure of NPOs (HCSO classification):³³

- > State support (statutory or non-statutory support from the central budget or from the local government, central funds, social security funds, the National Cooperation Fund, designation of the 1% personal income tax, funding by local budgetary institutions, VAT refund, etc.)
- > Private domestic or foreign support (foreign state institutions, EU funds, foreign or domestic private foundations, businesses, individuals, etc.)
- > Core or public benefit activity revenue (service or commission fee, price and sales revenue, membership fees both from the central state and municipalities, as well as other legal entities and private individuals)
- > Business activity revenue (entrepreneurial revenue, rent, sale of tangible property, interest revenue, financial investment revenue)
- > Other revenue (e.g. loan, credit, other, etc.)

(33) In revenue distribution of the overall non-profit sector, state support is 40%, private support 15%, core activity revenue is 24%, business revenue is 20% (HCSO 2018). The distribution of revenues is unequal: within the different fields of activities, hobby and leisure organisations have a much smaller share of the resources than their weight, but the financial situation of the organisations operating in the economy and community development is more favourable than the average. Regarding community type, the majority of the funds are concentrated in the capital and at the regional level in Central Hungary. Classical civil society organisations have slightly less state support, significantly less business revenue, more private support and more core activity revenue when compared to non-profit companies. The total revenue of the non-profit sector, according to the most recent figures of the Central Statistical Office, was more than 1655 billion HUF in 2016, which is slightly less than 5% of the country's GDP.

The main sources of income for potential social enterprises with non-profit legal forms come from core activity revenue and business revenue; the rate of state support, private support and other revenue measures significantly lower.³⁴

Core activity revenues are most relevant in case of foundations and associations, and business income in the case of non-profit companies. The rate of private support is higher in case of foundations and associations, which might signal higher levels of community involvement.

Table 15. Main sources of income of potential social enterprises with non-profit legal forms (% , N) (2016)

Type of support	Foundation	Association	Non-profit company	Total %	Total N (million HUF)	Total N (million EUR)
State support	22.8%	19.7%	21.3%	21.0%	158,592	489.9
Private support	9.9%	6.2%	2.3%	3.9%	29,221	90.3
Core activity revenue	48.1%	54.6%	27.7%	36.0%	271,683	839.3
Business revenue	19.1%	14.1%	48.4%	37.5%	282,949	874.1
Other revenue	0.1%	5.4%	0.2%	1.5%	11,242	34.7

Source: data provided by HCSO.

With regard to the evolution of revenue sources, the level of state support, business revenue and other revenues increased, the rate of private support decreased, while core activity revenue varied.

Table 16. Changes in revenue types of potential social enterprises with non-profit legal forms (million HUF) (2012-2016)

Year	State support	Private support	Core activity revenue	Business activity revenue	Other activity revenue	Total (million HUF)	Total (million EUR)
2012	107,715.7	42,078.1	179,636.0	158,583.9	2,628.1	490,642	1,515.7
2013	107,357.4	44,129.5	207,653.4	172,099.9	4,096.7	535,337	1,653.8
2014	121,812.1	49,884.1	313,201.1	277,873.1	7,460.3	770,231	2,379.4

(34) Core activity revenues include fees and revenues from the central state or municipalities this way it can be connected to state support. However, the rate of core activity revenues from the central state or municipalities is not high (only 21.5% altogether with only 4.3% for associations, 19.8% for foundations and 34.5% for non-profit companies).

Year	State support	Private support	Core activity revenue	Business activity revenue	Other activity revenue	Total (million HUF)	Total (million EUR)
2015	154,954.1	74,202.1	260,160.0	286,164.2	6,493.7	781,974	2,415.7
2016	158,592.2	29,220.5	271,682.6	282,948.5	11,242.4	753,686	2,328.3

Source: data provided by HCSO.

According to the data on social cooperatives, most acquire less than 20 million HUF (62,000 EUR) in revenue. Thus the total revenue of this legal form is a generally small amount.

Table 17. Income classes of social cooperatives (million HUF) (2012-2016)

Income range	2012	2013	2014	2015	2016
n.d.	24	167	202	248	293
0 –20	303	1,282	1,687	2,089	2,445
21–50	14	68	94	113	132
51–300	8	35	57	81	90
301–500	0	4	6	8	8
501–700	0	2	4	4	4
701–1,000	0	1	3	3	3
1,001– 2,500	0	0	1	1	1
2,501– 4,000	0	0	0	0	0
4,001– 7,000	0	0	1	1	2
7,001–10,000	0	1	1	1	1
10,001–	0	1	1	1	1
Total	349	1,561	2,057	2,550	2,980

Source: data provided by HCSO.

The OPTEN database has data on the annual sales revenues and other income of social cooperatives, which can be added up to calculate the total annual turnover. However, data is only available for 1,633 social cooperatives. The sales revenues of these organisations amounted to 19.94 billion HUF (61.7 million EUR), while the other

revenues amounted to 2.54 billion HUF (7.9 million EUR), that is altogether 22.49 billion HUF (69.6 million EUR).

Based on SEFORİS (2016), slightly more than 25% of the Hungarian social enterprises reported at least 154,355,000 HUF (500,000 EUR) or less than 24,696,800 HUF (80,000 EUR) as their annual total revenue; while almost 25% earned between 24,700,000-61,742,000 HUF (80,000-200,000 EUR) and between 61,742,000-154,355,000 HUF (200,000 EUR-500,000 EUR) as an annual income. Thus, here the average income shows higher than the HCSO database, most probably due to the high rate of non-profit companies in the sample.³⁵ At the same time, according to G. Fekete *et al.* (2017b), **social enterprises had an average of HUF 45 million (139,000 EUR) in 2015 in total revenue, which sits more consistently with HCSO data.**

3.2.5. Governance models

Legal forms and internal decision-making mechanisms influence the governance models of social enterprises. As internal decision-making mechanisms can only be revealed through qualitative research, the following section expands on governance models implied by legal forms, acknowledging that decision-making praxis may differ from *de facto* frameworks.

In case of foundations, the board of trustees or one trustee forms the decision-making body, which appoints the managing director. The general assembly forms the main decision-making body of associations (with at least 10 founding members), where members are entitled to equal rights according to the “one member one vote” principle and can also appoint a managing director or a board, which oversees the organisation’s function. For non-profit companies, the members’ meeting makes most decisions, where the degree of voting rights adjusts to the members’ financial contribution. Social cooperatives also make decisions through general assembly according to the “one member one vote” principle (with at least seven founding members), where the upper limit of non-natural persons is 25%.

As mentioned in Table 1 (section 2.1.2), foundations, associations and non-profit companies can be founded by private individuals or legal personalities (one or more). For social cooperatives, since 2016, the participation of certain legal personalities (institutional members, such as local governments or charitable public benefit organisations) is compulsory. Thus in the present database, not only grassroots, bottom-up initiatives founded by private individuals are present, but also organisations founded by public entities or private companies.

(35) The amounts were calculated by SEFORİS (2016) based on the 2014 exchange rate.

Until 2016, the database of HCSO did not have data about the founders/founding members of the entities. **However, for 2016, a question was included in the annual statistical report, which serves as the basis of the data collection, thus for this year it is possible to analyze data on the founders/founding members for foundations, associations and non-profit companies.** One organisation could give multiple answers indicating multiple types of founders, choosing from the following founder categories: domestic private individual, domestic company, domestic public institution (e.g. public hospital, school, etc.), local government, government body, non-profit and civil society organisation, foreign private individual, foreign company, foreign (EU) institution, other founder. The data analyzed here considering the types of founders provides a more detailed picture of the potential social enterprise sector.

According to the data, most organisations have one type of founder in case of all legal forms (this is true for 92.6% of all organisations). Non-profit companies are the ones that are most likely to have more founder types at the same time as in their case 86.2% of organisations have one founder type, the rest have more, while 91.5% of the foundations and 94.6% of the associations have one founder type. The founders of the organisations are mainly domestic private individuals in case of foundations (85.6% of foundations have them as founders) and associations (96.0%), but for non-profit companies, this rate is only 51.6%. Among non-profit companies, local governments (29.7%), domestic companies (17.9%) and even NPOs (9.9%) are common founders as well.

A distinction should be made between the organisations based on the types of founders they have. Some organisations are set up by public founders, that is, a government body, a local government or a public institution—in most cases this means a local government as founder—thus such organisations can be regarded more close-to-state. Besides these public founders, in some cases they might have other types of founders as well, e.g. a company or a private individual (category named organisations with public founders). Another group can be formed from organisations, which only have founders that belong to the non-profit sector or civil society, that is, domestic or foreign private individuals and NPOs (category named organisations only having civil society founders). The third group can be formed from all other organisations, that is, organisations that do not have public founders, but have other types of founders, which do not belong to the civil society, e.g. domestic or foreign companies, foreign institutions or other founders (category named organisations with other types of founders). This category in most cases means domestic companies as founders. Based on these three categories, different characteristics can be found, when analysing the database.

Regarding the number of organisations, organisations with public founders only take up 8.2% of all organisations, while organisations with founders only from civil society are the majority (85.8%), and organisations with other types

of founders are only 6%. As for the legal forms, organisations with public founders usually take on the legal form of the non-profit company (67.8%), while foundations (13.9%) and associations (18.3%) are less common. Organisations with founders only from civil society are mainly associations (70.7%), here foundations (19.3%) and non-profit companies (10.0%) are lower in numbers. The most common legal form for organisations with other types of founders is also the non-profit company (42.7%), but here foundations and associations are also common (28.0% and 29.3% respectively).

Table 18. Number and rate of different types of founders of potential social enterprises with non-profit legal forms (%) (2016)

Type of founder	Number of organisations	% among organisations according to founder type	% among all organisations
Organisations with public founders	1,058	100.0%	8.2%
Foundation	147	13.9%	1.1%
Association	194	18.3%	1.5%
Non-profit company	717	67.8%	5.6%
Organisations only having civil society founders	11,046	100.0%	85.8%
Foundation	2,132	19.3%	16.6%
Association	7,806	70.7%	60.6%
Non-profit company	1,108	10.0%	8.6%
Organisations with other types of founders	771	100.0%	6.0%
Foundation	216	28.0%	1.7%
Association	226	29.3%	1.8%
Non-profit company	329	42.7%	2.6%
Total	12,875	–	100.0%

There are differences among the organisations with different types of founders regarding the field of activities: organisations having only civil society founders are most involved in culture, sport, hobby and leisure, education and social care, while organisations with public founders are most active in the field of culture, community

development and economic development; and organisations with other founders are most active in culture, education, research and economic development. Interestingly, regarding regional differences, organisations with public founders are more likely to occur in regions other than Central Hungary and in smaller settlements (towns and villages), which might signal the important role of local governments in these areas.

The number of organisations is not reflected by the amount of their revenues.

Even though organisations with public founders only take up 8.2% of the sector, they have 46.8% of the total revenue of the sector. At the same time, organisations with civil society founders only have 36% of the total revenue, even though they take up most of the sector. Organisations with other founders (mainly with domestic private companies) have 17.3% of the total income. This means that the average annual revenue for 2016 for an organisation that only has civil society founders was 13 times smaller, than the average annual revenue of organisations with public founders. The types of revenues are similar for all organisations as the main sources of income are core activity revenue and business revenue. Organisations with public founders have higher percentages of business income (as is common for non-profit companies, which are in higher numbers in case of such organisations).

Table 19. Total revenues of different types of founders of potential social enterprises with non-profit legal forms (thousand N, %) (2016)

Type of founder	Total revenues (million HUF)	Total revenues (million EUR)	Average total revenues per organisation (thousand HUF)	Average total revenues per organisation (thousand EUR)	% of total revenues among organisations according to founder type	% of total revenues of all organisations
Organisations with public founders	352,478	1,089	333,156	1,029	100.0%	46.8%
Foundation	9,207	28	62,632	193	2.6%	1.2%
Association	3,225	10	16,621	51	0.9%	0.4%
Non-profit company	340,047	1,051	474,264	1,465	96.5%	45.1%
Organisations only having civil society founders	270,978	837	24,532	76	100.0%	36.0%
Foundation	37,220	110	17,458	54	13.7%	4.9%
Association	142,514	440	18,257	56	52.6%	18.9%
Non-profit company	91,244	282	82,350	254	33.7%	12.1%

Type of founder	Total revenues (million HUF)	Total revenues (million EUR)	Average total revenues per organisation (thousand HUF)	Average total revenues per organisation (thousand EUR)	% of total revenues among organisations according to founder type	% of total revenues of all organisations
Organisations with other types of founders	130,229	402	168,910	522	100.0%	17.3%
Foundation	12,361	38	57,227	177	9.5%	1.6%
Association	43,076	133	190,601	589	33.1%	5.7%
Non-profit company	74,793	231	227,333	702	57.4%	9.9%
Total	753,686	2,328	58,539	181	–	100.0%

The same tendency can be seen regarding the number of employees. **Organisations with public founders have 51.2% of all employees, while organisations with only civil society related founders only have 31.4% of all employees.** This means that the average number of employees for 2016 for an organisation that only has civil society related founders was 17 times smaller than the average number of employees of organisations with public founders.

Table 20. Human resources of different types of founders of potential social enterprises with non-profit legal forms (N, %) (2016)

Type of founder	Total number of employees	Average number of employees per organisation	% of total number of employees among organisations according to founder type	% of total number of employees of all organisations
Organisations with public founders	37,158	35.1	100.0%	51.2%
Foundation	518	3.5	1.4%	0.7%
Association	364	1.9	1.0%	0.5%
Non-profit company	36,276	50.6	97.6%	49.9%
Organisations only having civil society founders	22,791	2.1	100.0%	31.4%
Foundation	4,006	1.9	17.6%	5.5%
Association	8,949	1.2	39.3%	12.3%

Type of founder	Total number of employees	Average number of employees per organisation	% of total number of employees among organisations according to founder type	% of total number of employees of all organisations
Non-profit company	9,836	8.9	43.2%	13.5%
Organisations with other types of founders	12,693	16.5	100.0%	17.5%
Foundation	673	3.1	5.3%	0.9%
Association	697	3.1	5.5%	1.0%
Non-profit company	11,323	34.4	89.2%	15.6%
Total	72,642	5.6	–	100.0%


Based on available data, significant differences are detectable, as **the small number of organisations with public founders has significantly higher levels of total revenue and number of employees than organisations only having civil society founders, which take up the vast majority of the sample.** However, the number of volunteers is more evenly distributed among organisations funded by different actors. Foundations and associations have more volunteers than non-profit companies in all founder type categories, signalling that these legal forms are more connected to civil society (see the number of volunteers in table 12).

4

ECOSYSTEM

For a while, the ecosystem of social enterprises in Hungary based itself on the support programmes of two international development organisations (NESsT and Ashoka), and state initiatives connected to employment and the social economy managed by a public background institution (National Employment Public Benefit Non-profit Ltd. or OFA). It has grown over time though, and currently several actors from public, private and non-profit backgrounds focus on different aspects of the ecosystem. Networks and federations established by social enterprises have appeared for advocacy and information distribution purposes. Research and academic interest has also increased in universities. Still, strategic cooperation among this diverse set of actors has yet to develop.

Funding specifically for social enterprises arrived only through Ashoka and NESsT until recently, while the state focused on the social economy and social cooperatives in particular. In 2016 the first public—EU co-funded—grant scheme for social enterprises emerged and other state and non-state initiatives have appeared as well. Besides, social enterprises in the form of NPOs or social cooperatives have the right to specific funding as well as financial support for providing employment or serving public functions. Still, long-term, comprehensive legal and policy framework lacks, and social enterprises often face financial challenges.



4.1. Key actors

No official governmental department or institution focuses specifically on social enterprises. However, in recent years, certain ministries have started to engage in the topic.³⁶ The Ministry of Finance—before May 2018 called Ministry of National Economy—developed the EU co-funded operational programme (EDIOP), which includes grants and loans for social enterprises (EDIOP 5.1.3-16, 5.1.7-17, 8.8.1-17) in order to increase their employment potential as set out in the Partnership Agreement of Hungary for the 2014-2020 Development Period (Miniszterelnökség 2014). Besides, the Ministry of Interior operates the Social Cooperatives Coordination Department, which oversees grant schemes from the domestic budget targeting social cooperatives organised on the basis of public employment with focus on local government membership. Other ministries also touch social enterprises through related topics. The Ministry of Human Capacities addresses social inclusion related grants and public functions, the Prime Minister's Office oversees the Structural Funds, while the Ministry of Agriculture develops initiatives for agricultural activities. Regional and local authorities, due to current centralisation processes, have fewer responsibilities than before, but still can play an important role for contracting social enterprises (see Kövér 2015).

The main authority, the Public Procurement Authority, designs and enforces public procurement legislation, which ensures the achievement of the goals set out in the Act on Public Procurement (143/2015). In addition, the Directorate-General for Public Procurement and Supply deals with tasks related to centralised public procurement. On a ministerial level, the Ministry for Innovation and Technology—before May 2018 the Ministry for National Development—supervises the procedures conducted within the framework of centralised public procurement, the public procurement of central government bodies and majority state-owned companies, while the Prime Minister's Office (Deputy State Secretariat for Public Procurement) carries out tasks related to legislation and regulation on public procurement.

A diverse set of public authorities design and enforce legal, fiscal, and regulatory frameworks for all organisations, including social enterprises. The National Tax and Customs Office conducts tax audits; the State Audit Office supervises the use of state budget support. The Prosecutor's Office requests organisations to restore legitimate operations, and may turn to the court if unsuccessful. Meanwhile, courts call on organisations to restore legitimate operations, and can terminate the organisations if they fail to do so, while they simultaneously have the responsibility of registering

(36) The author of sections 1-5 described the conceptual, legal and institutional development of social enterprises in Hungary as well as the main actors and programmes in the ecosystem in her doctoral dissertation (Kiss 2018). The current list of important actors and funding schemes is largely based on this doctoral dissertation completed and updated for the purposes of the present research.

organisations or any changes to founding documents and classifying public benefit organisations. The Supreme Court accepts and publishes decisions and resolution to facilitate uniform interpretation and law enforcement of different courts.

Public background institutions manage state funding mechanisms. The main public background institution, the National Employment Public Benefit Non-profit Ltd. (OFA), is responsible for the professional management of the PiacTárs (MarketPartner) (EDIOP-5.1.2) priority project for social enterprises in consortium with IFKA and the Ministry of Finance. The tasks of OFA include consultancy, mentoring, organizing professional and networking events, raising awareness, conducting research, creating connections with the business sector, and developing online services to strengthen the market presence of social enterprises in relation to the grant programmes initiated for social enterprises (EDIOP 5.1.3.-16, 5.1.7.-17, 8.8.1.-17). In the framework of this priority project, OFA has established a social enterprise compliance check mechanism, a standardised conceptual framework and a compliance criteria system (which functions as a label—see section 2.1.2), in order to determine, whether a particular organisation can be considered a social enterprise (PiacTárs 2017). It also manages related grant programmes (e.g. In Focus programme for social cooperatives with local government members organised on the basis of public employment). In addition, since 2015, OFA has organised the Added Local Value Award for exemplary social enterprises. The organisation has participated in employment and social economy related projects since 1996.

Recently, the IFKA Public Benefit Non-Profit Ltd. for the Development of Industry has worked on projects connected to social enterprises as well, as it manages the pre-qualification system that evaluates the project ideas of social enterprises based on the social and business aspects in the EDIOP-5.1.3.-16 and 5.1.7.-17 calls for proposals—also providing professional development for the organisations not reaching the required points to receive pre-qualification. IFKA acts as a partner in several international programmes focusing on social enterprises as well, e.g. SOCIAL SEEDS, SENSES, RaiSE.

Besides, the Foundation for Small Enterprise Economic Development (SEED)—a promoter of sustainable economy and equal opportunities through ethical, conscious and effective entrepreneurial behaviour—has created programmes for developing enterprises for disadvantaged social groups (e.g. focusing on women).

Development and support organisations continue to play a primary role in developing the social enterprise sector. Besides Ashoka and NESsT, several new domestic and international organisations currently focus on social enterprises.

Ashoka forms the largest global network of social entrepreneurs in the world. It financially and professionally supports selected social entrepreneurs for three years

covering their expenditures for living, making it possible for them to focus on developing their projects. Active in Hungary since 1995, Ashoka has focused on change-makers and innovators in the field of education, health, human rights, environment protection, economic development and civic engagement. Ashoka has selected 36 fellows so far from Hungary.

Initially, NESsT—an international organisation focusing on CEE and Latin-American countries and active in Hungary since 2001—supported social enterprises run by NPOs, but since 2009 has also included conventional enterprises in its portfolio. Currently it focuses “on social enterprises that connect people most in need with training and jobs to earn income to support their families.” (Visegrad Region, n.d.). NESsT has invested in 48 social enterprises in the Visegrad Region. Organisations included in their portfolio receive assistance for a number of years with financial support, capacity development, and strengthening business relationships.

Badur Foundation supports projects based on complex intervention to improve the livelihoods of communities affected by deep poverty, focusing especially on settlements represented by the Roma minority through the fields of education, employment creation through social enterprises and energy poverty. The Springboard (*Ugródeszka*) social enterprise development programme, a joint programme of Badur Foundation and its professional partner NESsT, developed a competition whereby the winning organisation receives five months of free skills development, professional and financial support (with a budget of 10 million HUF or 31,000 EUR awarded to two social enterprises) (Badur Foundation 2018).

Civil Support Nonprofit Ltd. aims to develop social organisations, link civil society and the business sector, and increase the impact of social organisations through the development of sectoral cooperation. In 2014, it established an impact-measurement working group to support social impact measurement, which no longer functions. It also managed Impact Accelerator, a six to nine month development programme for social enterprises whose sales revenue measures at least 5 million HUF (15,500 EUR) for the next 6 months and which recruits an investor (30-50 million HUF investment or 93,000–155,000 EUR). The programme launched in 2016 with 50 participating teams, out of which 11 received the opportunity to meet seven investors at the end of 2016. Finally, with one team and two investors, in April 2017 the acceleration process started. Currently, Civil Support in cooperation with Ashoka runs Impact Academy, a six-month-long programme about impact assessment providing interactive workshops by international and local experts, community events and multi-media resources.

The Association for Social Impact Investors (THBE), founded by Portus Buda Group in 2016 promotes social impact investment in Hungary. Most recently, in September 2018 THBE together with the Hungarian Development Bank and European

Investment Fund announced the creation of an equity fund, the Social Impact Fund, with 6.25 billion HUF (19.3 million EUR) to invest in enterprises with both social and economic impact.

Some actors also initiate alternative sources of funding. NIOK Foundation, aimed at strengthening civil society since 1993, manages the adjukossze.hu crowd-funding portal. Kiútprogramme Public Benefit Non-profit Limited Partnership is a Hungarian adaptation of the Yunus Micro-loan Initiative to provide financial education and lifestyle counselling for disadvantaged (primarily Roma) groups. Members can receive loans for up to 1 million HUF (3,100 EUR) for start-ups (Ruszkai and Mike 2012).

Certain funding and development organisations use the term and concept of social innovation in their programmes. SocialMarie since 2005 has awarded projects in Hungary that met its social innovation criteria. The first three winners receive 15,000 EUR, 10,000 EUR and 5,000 EUR, while 2,000 EUR get distributed for another 12 awarded prizes. Kreater Social Agency and Yes Association used to offer a three-month training programme (competition) on social innovation for young people under the age of 30, the programme launched in 2013 and served more than 250 participants. The Democratic Youth Foundation focuses on democracy education for young people and in the framework of the youth2youth social innovation competition, where groups work on solving problems concerning the future of young people, and three members of the winning team can take part in a Berlin study trip. The Foundation for the Development of Democratic Rights (DemNet) is responsible for the EU Erasmus Social Entrepreneurs Programme (Kiss 2018).

Social enterprises can also access professional development from a few sources. IFUA Non-profit Partner and SIMPACT act as advisory, consulting firms mentoring civil society organisations and social enterprises. The student organisation GloBono provides a platform for teams of volunteer students working for ten weeks on solving a problem of an NGO supervised by mentors. Impact Hub Budapest displays a community of social innovators, a co-working office, event venue, innovation lab and social enterprise community centre.

Other civil society development organisations have also recently started programmes focusing on social enterprises, e.g. Community Development Association, Védegylet, Foundation for Social Inclusion or Cromo Foundation (Kiss 2018). The Hungarian Charity Service of the Order of Malta, as part of an international Catholic charity service, has engaged with the topic of social enterprises for years, and currently conducts research.

Banks, financial and consulting companies have started to pay attention to this blooming ecosystem and the possible contributions of social enterprises in recent years. They usually offer pro-bono financial consulting and occasionally offer financial support.

Erste Bank manages the Erste SEEDS (Social Enterprise Establishment and Development Support) programme, a 1.5-year incubation programme started in 2017, where the 68 participating social enterprises received customised, multi-stage development and professional assistance. The most promising social enterprises got non-refundable support for altogether 30 million HUF (93,000 EUR), could build investor relations, and prepared for financing from a bank loan (see Erste Bank 2017). UniCredit Bank operates a corporate social responsibility project called the “Social Innovation” and “Step With Us” competitions—with the help of NESsT as professional partner—and supports projects since 2013 that sustainably improve the living conditions of disadvantaged groups (maximum funding is 25,000 EUR with a budget of 60,000 EUR altogether) (see UniCredit Bank 2017). Magnet Bank, within the framework of the Community Donation Programme, provides its clients with 10% of bank profits to support CSOs and social enterprises important to them. Regarding the credit opportunities of banks, refer below to section 4.6.

KPMG, one of the leading auditing, tax and business consultancy companies in Hungary, launched its Responsible Society Programme in 2009, providing pro bono professional consultancy support to help NPOs or social enterprises active in education, health care and the environment—in 2018 they focused on health support. The pro bono support for one year can be complemented by operating grants (250,000–1,000,000 HUF or 770–3,100 EUR) and the use of second-hand laptops (KPMG 2018). PwC Hungary, a leading audit and advisory firm launched a Civil Mentoring Programme from 2017 to provide tailor-made, long-term counselling and mentoring for CSOs. Besides, McKinsey, a business advisor and counselling company is involved in a project together with students of the Corvinus University of Budapest, who in a 12-week process research Ashoka members' business issues and envision solutions to their challenges.

Table 21. Key actors in the social enterprise ecosystem in Hungary

Actor category	Name
Governmental departments/ institutions	<ul style="list-style-type: none"> > Ministry of National Economy – now Ministry of Finance > Ministry of Interior > Ministry of Human Capacities > Prime Minister’s Office > Ministry of Agriculture > Regional and local authorities
Authorities designing and enforcing public procurement legislation	<ul style="list-style-type: none"> > Public Procurement Authority > Directorate-General for Public Procurement and Supply > Ministry for National Development > Prime Minister’s Office

Actor category	Name
Public background institutions	<ul style="list-style-type: none"> > National Employment Public Benefit Non-profit Ltd. (OFA) > IFKA Public Benefit Non-Profit Ltd. for the Development of Industry > Foundation for Small Enterprise Economic Development (SEED)
Development and support organisations	<ul style="list-style-type: none"> > Ashoka > NESsT > Badur Foundation > Civil Support > Association for Social Impact Investors (THBE) > NIOK Foundation > Kiútprogramme > SocialMarie > Kreater Social Agency and Yes Association > Democratic Youth Foundation > Foundation for the Development of Democratic Rights (DemNet) > IFUA Non-profit Partner > SIMPACT > GloBono > Impact Hub Budapest
Banks, financial and consulting companies	<ul style="list-style-type: none"> > Erste Bank > UniCredit Bank > Magnet Bank > KPMG > McKinsey > PwC Hungary

4.2. Policy schemes and support measures for social enterprises

4.2.1. Support measures addressed to all enterprises that fulfil specific criteria (and may benefit social enterprises)

This report primarily addresses support for employment and public functions (welfare services) in regard to support measures addressed to all organisations and that fulfil specific criteria. NPOs typically access public functions subsidies, while employment subsidies specifically remain accessible to conventional enterprises as well (Grants Europe 2018).

NPOs can request statutory state support from the central budget if they carry out certain public functions and have the necessary permits (e.g. low-threshold care for addicts, temporary housing for families, public education, social and child welfare, child protection providers, etc). The Public Finances Act (195/2011) defines a public function as a state or municipal task determined by law. The new Civil Law does not list specific activities as public functions. Municipalities may outsource the provision of public services by selecting private service providers in the framework of a public service contract with the local government based on public procurement rules (Grants Europe 2018).³⁷ Only public benefit organisations can be contracted by state, administrative bodies through public service contracts.

In general, organisations can claim statutory support for costs incurred in connection with the public function (Gottgeisl and Láng 2013). The funding amount of the statutory support changes according to the annual budget and has steadily declined in recent years. This poses several problems, as usually such support cannot sustain the organisations. Despite the opportunity provided by this legislation, a low number of organisations performs these outsourced tasks under public service contracts (Grants Europe 2018).

In the realm of work integration, organisations can apply for subsidies from the central budget in order to employ people with singular or multiple disadvantages and disabilities (see Nemzeti Foglalkoztatási Szolgálat n.d.):

- > In the case of a person with a disability or reduced working capacity: the support reaches up to 60% of the wage and the social contribution tax paid for up to one year; for a multiply disadvantaged job-seeker, a maximum of two years.
- > In case of a disadvantaged job-seeker: support reaches up to 50% of the wage and the social contribution tax transferred up to a maximum of one year, for a seriously disadvantaged job-seeker, a maximum of two years.

For social cooperatives, support measures up to 70% of the wage and the social contributions tax actually transferred (Nemzeti Foglalkoztatási Szolgálat, n.d.). Social cooperatives can also start *sui generis* employment relationships (membership work),

(37) Regarding statutory support from local governments, outsourcing public services was regulated by the Local Governments Act (65/1990), which listed the public benefit obligations and tasks of local governments and the forms of services that could be subcontracted (to private companies, non-profits, church organisations), and the Social Governance and Social Benefits Act (3/1993), which defined the conditions of eligibility and the institutional system of social care. Additionally, public service provision is based on 191/2008. Government Decree (VII.30.) on the Order of the Financing of Support and Community Services; 190/2011 Act on National Public Education and 229/2012 Government Decree (VIII.28.) On the Implementation of the Law on National Public Education, and 489/2013. (XII.18.) on the State Aid for Churches and Non-State Social, Child Welfare and Child Protection Service Providers, Institutions and Networks (see Grants Europe 2018).

and the National Employment Fund gives a degressive four-year subsidy paying for new members' health services contribution (see section 2.3).

The very controversial public employment programme provides one way to get jobs for people facing long-term unemployment (see section 2.2). These public workers—disadvantaged people excluded from the labour market—can find jobs with public benefit organisations, civil society organisations and social cooperatives, among others.³⁸ Public work cannot aim at profit generation. The level of support from the central budget can reach up to 100% of the wage cost (and the related social contribution tax), as well as support for direct costs (and in special cases for organisational costs), a maximum 5-20% of the wage cost support (Közfoglalkoztatási portal n.d.).

For people with reduced working capacity or disabilities, other support mechanisms come into play (see Kajner and Jakubinyi 2015):

- > Exemption from the rehabilitation allowance: if the number of employees exceeds 25 persons, people with reduced working capacity need to account for 5% of the total number of employees, otherwise the government expects a contribution of 965,400 HUF/person/year (3,000 EUR).
- > Rehabilitation card: provides employers full exemption from paying worker contributions while employing a disabled person up to 27% of double the minimum wage.
- > State support for social employment (also available for people facing addictions and homelessness): social employer institutions become eligible for state support from the annual central budget after the people with reduced working capacity they employ and support.
- > State support for the employment of people with reduced working capacity by accredited employers: subsidies from the state budget through a contract which supports a disabled worker's wage and the extra costs of the employment.

One should note that the amount of the pre-tax profit can decrease to a certain extent based on wages paid to an employee with reduced working capacity. Also, the Directorate-General for Social Welfare and Child Protection can support occupational rehabilitation training for a person receiving such services (Grants Europe 2018).

(38) Act on Public Employment and on Modifying Public Employment Related and Other Legislation (106/2011), and 375/2010 Government Decree (31.12.) On the Subsidies Related to Public Employment (see Grants Europe 2018).

4.2.2. Support measures addressed to social economy/non-profit organisations (whether or not they are social enterprises)

The National Cooperation Fund (previously National Civil Fund), created by the National Civil Fund Act (50/2003), provides a source to which associations, federations, foundations (civil society organisations) can apply. It aims to strengthen the social participation of civil society organisations, primarily to support the organisation, development and implementation of their activities. It provides operational and project based funding. In 2011, the Civil Law transformed the National Civil Fund into the National Cooperation Fund, where instead of collective decision-making mechanisms, a centralised, less autonomous presidential system formed, and its resources for CSOs decreased (Szabó and Márkus 2015). By 2014, the Fund's performance fell by about half (Sebestény 2016). The Fund has also received constant criticism for the small amounts of grants not really helping bigger organisations (see Márkus and Szabó 2015, Sebestény 2016). Aside from this, the National Cultural Fund grants support for various cultural activities, while the National Employment Fund awards employment and training support (Grants Europe 2018).

Designation of 1% from Personal Income Tax created by the Act on the Use of Specified Amount of Personal Income Tax for Public Purposes in Accordance with the Taxpayers Instruction (126/1996) (also called the 1% Act) provided citizens with the opportunity to support civil society organisations through deciding to designate 1% of their personal income tax to these organisations. This provides a funding mechanism for associations, foundations and public foundations (or other non-civil society actors named in the law, e.g. museums, libraries, higher education institutions) registered by a court at least two years earlier. Individual taxpayers can give 1% of their paid personal income tax to the organisations of their choice. According to Szalai and Svensson (2017), in 2015, 45% of the registered civil society organisations met the requirements to receive such funding, and more than half of taxpayers did offer their 1 % to them, altogether raising 83 billion HUF (257 million EUR). However, this resource usually benefits bigger, more well-known organisations, while smaller CSOs often do not receive much income from it (Kövéér 2015). Receiving the 1% personal income tax proves a difficult task for many organisations; most get only a very small amount, and this amount has strongly declined (partly due to the reduction of the PIT tax rate and partly because of the dwindling willingness to offer e-income) (G. Fekete *et al.* 2017b, Grants Europe 2018). Besides the 1% for CSOs, another 1% of the PIT can be offered to official churches listed as such in the Act 206/2011.

Széchenyi 2020 grants and tenders (EU funding) provide development funds of the European Union supplemented by domestic budget. Hungary can use 12,000

billion HUF (37 billion EUR) by 2020, within a total of 10 operational programmes.³⁹ While writing this report, 58 functioning tenders could accept applications from non-profit and other types of organisations (e.g. in the field of labour market services, housing, environment protection, tourism, nursery opportunities, child-care programmes, volunteering, community development, etc.). The number of already closed calls for application relevant to NPOs in the framework of the Széchenyi 2020 programme fell at 176 (as of June 2018).⁴⁰ One should mention, though, that even if many calls seem available, CSOs often do not comply with the conditions as EU grants have had a long history of strict and sometimes unrealistic conditions and scope, excessive bureaucracy and administrative tasks, and favouring bigger, more established organisations rather than small local CSOs (see Nagy and Nizák 2009). Recent calls for applications are in most cases not available for civil society organisations on their own but as partners of local governments or churches (USAID 2018).

In addition to EU funds, the Norway/EEA Grants were also available in Hungary until 2016, with a budget of more than 150 million EUR (NPOs could apply for calls). From the **Swiss Grants**, over 130 million Swiss Francs (114 million EUR) were additionally available for support until 2016 (NPOs could apply for calls). Interestingly, a consortium of independent CSOs managed the role of the EEA/Norwegian NGO Fund and Swiss-Hungarian NGO and Scholarship Funds. The Swiss NGO Fund (2012-2015) supported projects of CSOs in many disadvantaged areas of Northern Hungary and the Great Plain. The EEA/Norwegian NGO Fund (2013-2016) aimed to develop civil society

(39) NPOs (including social enterprises with the appropriate legal forms) mainly make use of the Human Resource Development Operational Programme (HDROP), along with the Rural Development Programme (RDP); Territorial and Settlement Development Operational Programme (TOP); the Competitive Central Hungary Operational Programme (CCHOP); The Environmental and Energy Efficiency Operational Programme (EEOP) and the Economic Development and Innovation Operational Programme (EDIOP) which contain calls for proposals.

(40) Applications connected to social enterprises are (see <http://palyazat.gov.hu/>):

- > EDIOP-5.1.4-17 - Support for Transit Employment Programmes (for-profits can also apply);
- > EDIOP-5.1.5-16 - Support for labor market services of non-governmental organisations (church organisations may apply),
- > EDIOP-5.1.9-17 - Encouraging jobseekers and young people to become entrepreneurs - training and mentoring (chambers and public foundations may apply);
- > EDIOP-5.2.3-16 - Entrepreneurship of young people - Supporting start-up costs for entrepreneurs
- > HRDOP-5.2.4-17 - Social innovations - Adaptations, extension of new methods;
- > HRDOP-1.11.1-17 - Pilot programmes for strengthening the social economy and the location of the most disadvantaged groups through the cooperation of NPOs and for-profit businesses.
- > RDP3-16.4.1-16 - Supporting cooperation for the design, development and promotion of short supply chains and local markets (local governments may apply);
- > RDP6-16.9.1-17 - Solidarity economy and community-supported agriculture

and strengthen participation in shaping social justice, democracy and sustainable development (Kiss 2018).⁴¹

A further source for social cooperatives with local government members (refer to criticism in section 2.2 and 5.2) comes from the support programme entitled “In Focus programme for social cooperatives with local government members organised on the basis of public employment”. During the programme’s implementation, projects can call for support in creating at least five new jobs for 36 months (for public workers or job-seekers) in disadvantaged areas (OFA 2016). The National Employment Fund backs this, with 10 billion HUF (31 million EUR) in available funds. A single applicant can receive a maximum of 200,000 EUR. OFA coordinates professionally with the Ministry of Interior to implement this programme.

4.2.3. Support measures specifically addressed to social enterprises

Currently, the Promotion of Social Enterprises (EDIOP-5.1.3-16) constitutes the main grant programme for social enterprises. The funding framework totalled 6 billion HUF (18,5 million EUR), which supported altogether 178 organisations (one organisation could apply for maximum 250 million HUF, equivalent to 774,000 EUR). The programme supports activities related to the dynamism and stabilisation of already existing and active social enterprises to create lasting employment opportunities. Among the required activities it includes the employment of new employees from a target group (job-seekers or public workers, 50% of which must face disadvantages or reduced working capacity), and must be implemented in disadvantaged regions (NGM 2016).

The continuation of the call—EDIOP-5.1.7-17—also focuses on already active social enterprises as well as facilitating the development of new initiatives, supporting employment of target groups and developing market access (NGM 2017). The amount of funding available for the grant totals 15 billion HUF (46,4 million EUR) and the expected number of supported applications lies between 300 and 600. The pre-qualification system of social enterprises connects to these support programmes.

Within the framework of the Loan Programme for the Promotion of Employment (EDIOP 8.8.1.-17), micro, small and medium-sized social enterprises can connect to the programme, implementing investments that incite employment and receiving a favourable interest-free loan with a total sum of 29.63 billion HUF (92 million EUR) (MFB 2017). This investment loan can last over one year with a minimum 1 million HUF (3,100 EUR), maximum 50 million HUF (155,000 EUR).

(41) The Hungarian government made efforts to gain control over the allocation of the Fund and attacked the operator and beneficiary civil society organisations of the Fund (Kuti 2017).

As shown, significant amounts of state and EU funding are currently available for social enterprises. **However, the structure and conditions of these grants have received criticism for their inflexible operation and unrealistic requirements** (e.g. regarding sustaining the activities after the grant period). The narrow scope shows by the fact that the grants primarily aim at fostering employment—which might not qualify as a primary goal for many social enterprises (Kiss 2018). The difficult pre-qualification system and the strict conditions for the EDIOP 8.8.1-17 loan programme make it difficult even for the largest organisations to access it. Also, the enticing funds risk that newer and less committed organisations will enter the field just for funding, thus diluting the concept of social enterprise (see G. Fekete *et al.* 2017b, Grants Europe 2018).

4.3. Public procurement framework

One must account for EU legislation in the development of Hungarian public procurement legislation. **The Act on Public Procurement (143/2015) has environmental and social objectives, and supports local small and medium-size enterprises.**

While awarding public procurement, the contracting organisation may require compliance with social, environmental and innovative requirements for the duration of the contract, which must be named in the original call. The law also transposes the social aspects by giving the opportunity to reserve procedures for sheltered workplaces (Kovács 2017). The contracting authority may reserve the right of organisations to participate in a public procurement procedure or, in the case ordered by the Government, must keep the right of organisations classified as sheltered workplaces (which include social and social security employers, with more than 30% employees with reduced working capacity or disadvantages).

Certain organisations can reserve the right to participate in public procurement procedures of health, social and cultural services, if they serve public functions in these fields. These companies must not operate for profit, and must employ a management or ownership structure that ensures the employees' active participation (Kovács 2017).

Thus national rules allow, but do not require, the use of social clauses in public procurement (Ruszkai and Mike 2012). **In most cases, the practical application of these rules ignores the opportunities offered by public procurement legislation (Grants Europe 2018).** The number of procedures applying social criteria remained below 100 in 2016 with altogether 5.2 billion HUF (16 million EUR), showing a downward trend compared to previous years (Közbeszerzési Hatóság 2016).

4.4. Networks and mutual support mechanisms

Social enterprises usually cooperate within the same fields of activity (e.g. between accredited employers). They have also established certain federations advocating for legal forms.

The National Federation of Social Cooperatives (SzoSzöv), founded in 2010, contains 44 member organisations and aims to represent social cooperatives, provide networking opportunities, and promote the model. The National Federation of Charity Shops (ADSZ), founded in 2014, contains 10 organisations that work on the legal background for charity shops and help organisations wishing to open a charity shop. The Hungarian Social Farm Federation, established in 2016, provides social farms with a legally recognised status in Hungary.

Directly aiming to represent social enterprises, the National Federation of Social Enterprises (TAVOSZ) was founded in 2015 to assist its members primarily through the joint enforcement of common professional interests, the development of a common strategy and the promotion of their market access. The federation currently has 67 members (68% social cooperative, 12% association, 7% foundation, 13% other non-profit company).

Additionally, some professional workshops, conferences and other programmes have promoted networking activities. Also, certain social cooperatives intend to connect and sell the products of other social cooperatives and small producers. Still, some reports consider the low levels of cooperation between social enterprises a challenge (see SENSES 2017).

4.5. Research, education and skills development

Research and academic interest in social enterprises has historically remained sparse. The Corvinus University of Budapest (CUB), the only university involved in the topic for a long time, launched the first university course for a few years on social enterprises and social economy starting in 2006. The first Ph.D. dissertation about social enterprises was published here in 2009.

However, recently numerous programmes and research have emerged. The University of Debrecen (UD) in 2014 started a social work and social economy master programme (SOWOSEC). The University of Miskolc (UM) has a distance learning specialisation programme in local employment development. Pannon University (PU) organises the I-SICS International Social Innovation Competition. Community and Civil

Studies Master's Degree students at Eötvös Loránd Science University (ELTE) study community economy. The Simonyi Business and Economic Development Centre at the University of Pécs (UP) organises an international summer university, where students can learn about social enterprises. The Central European University (CEU) has delved into social economy at several summer universities (SENSES 2017).

The increase in university and research interest has become more visible. And although certain educational programmes by development and support organisations have also taken root, more comprehensive training programmes directed at social entrepreneurs must complement these academic advances.

4.6. Financing

Social enterprises in Hungary rarely achieve financial sustainability. They base their revenue structure on multiple resources like sales revenue, state support and private support. Due to limited income generation as well as the extra costs connected to their social missions (e.g. working with the most disadvantaged groups), external financial resources become crucial for their survival.

The demand for finance by social enterprises, based on the questionnaire research conducted by Grants Europe (2018), while apparent in the start-up phases, is also needed for more mature organisations to cover operational costs and to make investments. Based on the research, external funding necessarily helps develop the idea and build the social enterprise (mainly through non-refundable sources, pro-bono professional support and volunteer work), while also proving crucial to the start-up phase (mainly non-refundable sources or capital investment). For the continuous operation of the core activity, mostly state or municipal statutory support and tax benefits play an important role along with non-refundable resources. Complementary economic, entrepreneurial activities need refundable or combined sources, commercial bank loans, tax benefits, capital investment, etc. For a significant investment, organisations demand both non-refundable and refundable resources such as bank loans and capital investments (see Grants Europe 2018).

Statutory and grant-based public support schemes do provide an available supply of finances (described in section 4.2). However, statutory support (e.g. for performing a public function) does not cover operational costs sufficiently, while grants only offer short-term funding for innovative, pilot projects and often do not cover operational costs and regular service provision (e.g. GINOP 5.1.3-16 and 5.1.7.-17 mainly support the employment of new people from the target group, product/service expansion and development of market access).

In addition to public support, several private organisations provide programmes (e.g. NESsT, Ashoka, Badur Foundation, ERSTE SEEDS, see section 4.1). However, these mainly grant-type programmes face various limits, such as short duration, low funding, few beneficiaries, while their requirements can distort the original objectives, and do not account for heterogeneity of the sector (e.g. legal form, maturity, activity scope or target group) (Grant Europe 2018).

So far, little impact investment has shown—only one programme, Impact Accelerator, has launched. At the same time, according to SENSES (2017) many social enterprises are not ready for investment due to uncertain business plans, limited sustainability and lack of business skills—all of which limit the ability to absorb repayable funding. The report also points out that the inability to measure and demonstrate the social impact created also poses a major obstacle for potential investors. This lack of skills partly stems from the scarce training in business and management for social entrepreneurs. Besides, the size of the investment required by social enterprises currently measures very small, causing investors to question their commercial viability (SENSES 2017).

As social enterprises often have NPO backgrounds and lack financial information, they cannot take advantage of certain opportunities offered by financial institutions (OFA 2017a). Difficult relationships with traditional banks emerge as the resources required by social enterprises do not typically reach banks' lending limits, and banks perceive high risk with low capital (Grants Europe 2018). **A limited number of banks provide preferential loans for non-profits or social enterprises, and they usually use the same conditions as mainstream for-profit enterprises.** Erste Bank and Erste Foundation launched the good.bee programme in 2011 to provide financial advice and services for CSOs and social enterprises. Since 2016, the bank has introduced a programme especially for social organisations entitled "From One to Two" aiming to introduce social banking (OFA 2017a). Magnet Bank offers credit opportunities and account management programmes favourable to social enterprises and NPOs, gives them credit rating preference, and sets up a CSO account package. This provides organisations with discounted account management and offers personalised loans for their CSO partners, providing liquidity and investment loans. The GINOP 8.8.1.-17 loan construction also moves in this direction, providing a loan for employment purposes and investment.


The most recent research (based on G. Fekete et al. 2017b, Grants Europe 2018) illustrates additional challenges. According to the findings, social enterprises face a competitive disadvantage in the market due to low social inclusion and consciousness levels of the general public, as well as negative stereotypes towards the sector. At the same time, weak competition and marketing of the products/services, low business skills hamper the growth of the organisations. Social enterprises often lack connections

and networks with the public and the for-profit sector. In addition, the financial crisis had a negative impact on the CSR budget of large corporations thus reducing the financial assistance that those sources can provide. Meanwhile, the unpredictability of legal changes and high tax burdens make it difficult to operate social enterprises. **All in all, despite the launch of numerous development and support programmes, a more comprehensive and advanced financing ecosystem has yet to develop (Grants Europe 2018).**

5

PERSPECTIVES

The social enterprise field has emerged under specific circumstances in Hungary, its development has been shaped by various barriers and opportunities connected to civil society and the non-profit sector, conventional enterprises and cooperatives, the state and public policies, the European Union and various international and domestic actors. Today, trends show an increase in state—EU co-financed—funding with a primary focus on work integration of disadvantaged groups, growing interest and new actors in the ecosystem, while also centralisation tendencies, decreasing autonomy of social cooperatives and stigmatizing certain civil society organisations that critique public policies. The following section discusses the perceptions about social enterprises' roles in the welfare system, key opportunities and barriers, and promising or threatening trends in the present and future.



5.1. Overview of the social enterprise debate at the national level

The concept of social enterprise remained relatively unknown for a long time to policy-makers. State support programmes targeted the social economy and especially social cooperatives, mainly in order to support the work integration of disadvantaged social groups (often linked to rural development), and did not necessarily connect with wider public service provision. Even though outsourcing welfare services has been possible since 1993, the rate of civil society organisations providing such services has remained low (Bocz 2009). Public funding programmes oriented at the social economy demonstrated a lack of long-term strategic approach, project-based financing and bureaucratic operation resulting in difficulties for applicants in accessing the grants (Frey 2007, Számadó 2011).⁴²

Today, a number of state programmes and measures support the development of social enterprises. This previously unprecedented policy interest primarily results from the increased interest of the European Union. However, these programmes still lack a long-term perspective, are rather bureaucratic and provide only project-based funding, resulting in a high level of insecurity for social enterprises (G. Fekete *et al.* 2017b). Their restrictive scope in terms of legal forms excludes conventional enterprises, and focuses primarily on employment generation and the work integration of disadvantaged groups—an approach consistent with the EU Commission Guidelines.

At the same time, the wider context of current centralisation tendencies, eliminating checks and balances, and increasing levels of corruption hinder the sector's development (Kolosi and Tóth 2016, Kuti 2017, Ligeti *et al.* 2017). In recent years, major roles and tasks from the local level of governance were detracted (e.g. maintaining schools; running local social services; health services), thus non-profits lost their major contracting source (Kövér 2015). The provision of welfare services remains predominantly a state task (USAID 2018); outsourcing activities to social enterprises remains scarce and the socially responsible public procurement lacks. The role of social enterprises in the welfare system therefore remains quite limited in Hungary.

A deeper role of social enterprises in welfare service provision faces barriers due to public perception, too. According to Györi (2010), as a heritage of socialism, people think that social protection and care are the responsibility of the state and not of civil society. Citizens seem to commonly reject the economic activities of

(42) This section is based on literature review, the results of the questionnaires conducted in the spring of 2018 in the framework of the present research (altogether 35 answers by different stakeholders – public sector representatives, academics, researches, practitioners and supporters), and a stakeholder meeting (September 2018) in which 12 stakeholders from diverse backgrounds participated.

associations and foundations, though this rejection has decreased in recent years (Etchart *et al.* 2014).

When stakeholders responded to a research questionnaire, certain respondents considered the important historical legacy behind the low levels of local autonomy, high dependence on the state, and its paternalistic behaviour, which is further accelerated by current processes of centralisation. These historical and current tendencies hinder the development of the sector, as democratically organised social enterprises may not exist without autonomous actors. Several responses also pointed out that the general public as well as decision-makers contain limited information and knowledge about social enterprises, and they emphasised that the lack of a clear definition and use of the term weakens the image of the sector. Some respondents also pointed to the low levels of trust, social consciousness and activism of the general public as a hindering issue.

5.2. Constraining factors and opportunities

Several realms have directly influenced the development of social enterprises: civil society and the non-profit sector, conventional enterprises and cooperatives, the state and public policies, the European Union and various international and domestic actors (detailed in section 4) (G. Fekete 2017, Kiss 2018).

The non-profit sector experienced considerable growth in the last three decades in the number of organisations, the real value of revenues and the number of employees (HCSO 2018). However, when compared to Western Europe, the size of the sector still falls low in Central and Eastern Europe and it does not coincide with the same increase in civic activity, civic participation and volunteering (Salamon *et al.* 1999, CIRIEC 2012, Perpék 2017).

The financial situation of associations and foundations has also posed challenges; a high level of resource dependency combined with the bureaucratic and sometimes non-transparent nature of grant provisions (including EU grants) (Kövéér 2015). The polarisation of the sector manifested through low levels of overall state funding, which disproportionately focused on close-to-state organisations instead of grassroots civil society organisations. In recent years, the context around associations and foundations has further deteriorated due to dwindling state and EU support; low levels of local, corporate and individual donors; and the few other resources (USAID 2015). At present, though a number of funding sources exist for NPOs, the system of grants division excludes certain organisations (see Szabó and Márkus 2015). The

relationship of the state with certain segments of civil society has proved problematic, especially with watchdog and human rights organisations.

Responders to the questionnaire often mentioned how the development of civil society and the non-profit sector erupted and grew rapidly after the regime change in 1989. Some stakeholders highlighted the role of organisations in work integration and public service provision. However, some respondents also stressed the weakness of the sector, the low levels in advocacy and dependence from the state, connected to the historic legacy of state socialism.

Regarding conventional enterprises, neoliberal economic approach and policies that deregulated and liberated markets certainly influenced society after the regime change in 1989 (G. Fekete 2011), though these tactics proved ill-adapted to the national context (Leś and Jeliaskova 2007). The country continues to experience a low level of business and management knowledge, skills, experience connected to entrepreneurship, and an unsupportive institutional environment (Horváth and Szerb 2016). Peripheral rural areas in particular face a low level of purchasing power, inadequate market potential and a lack of business investors. According to Győri (2010), people also hold a negative image and low level of trust towards entrepreneurs.

The concept of corporate social responsibility (CSR) emerged in Hungary in the 1990s, though for a long time was not a common phenomenon. Economic and social actors remained unaware of how to achieve environmental and social goals while still producing profits (Győri 2010). As of today, more and more businesses declare to pay close attention to their social responsibilities, though still few companies actually put long-term strategies or commitment to a particular social issue in place (OFA 2017c).

Cooperatives and other community based market-oriented organisations did not take the forefront of economic policy in the first years after the regime change, and cooperatives—regarded as part of the state socialist system—declined in numbers. However, today the increase in the number of social cooperatives shows interest in market-based solutions to social problems. Still, this increase is primarily due to EU and state policy, not bottom-up processes.

Some responders to the questionnaire stressed that the negative memories about cooperatives under state socialism hindered the set-up of new cooperatives. Other respondents also pointed out that the negative image of the “entrepreneur” survived the state socialist period. Further, responders commented that the usually small social enterprises often lack professional knowledge and skills in marketing or business, and pointed to the small number of business partnerships with for-profit actors as well.

When looking at the role of the state and the European Union, (as summarised in section 5.1), several programmes have aimed at promoting the social economy.

Currently, the main support programmes for social enterprises receive co-financing by the European Union, thus the development of public policy in this field strongly connects to EU priorities. Public policies explicitly support social enterprises with relevant funding and professional support. However, this support has several shortcomings. Respondents in the questionnaire pointed to two main barriers for developing the social enterprise field: (1) the legal and fiscal environment; and (2) financing and public policy.

The legal and fiscal framework according to several respondents hinders the development of social enterprises. Hindering factors raised concerning the unpredictable, rapidly changing legal and fiscal environment included the recently accepted regulation about social cooperatives, high employment taxes and VAT, the lack of tax benefits for social enterprises, and administrative burdens.

Many respondents similarly considered the financial and policy situation of social enterprises important. While acknowledging that significant funding is available for social enterprises, the stakeholders illustrated several problems in connection with financing, such as: the high dependency on EU co-funded public grants; the lack of long-term strategy for financing; the low levels of cooperation among the responsible actors; and the current unpredictable, bureaucratic and scarce funding programmes, which often set inadequate goals. Some respondents further lamented that funds are not easily accessible for small social enterprises, and perceive a shortage of alternative funding sources (e.g. statutory support, loans or socially conscious public procurement). Certain stakeholders also mentioned the problem of corruption and lack of transparency together with inadequately administered grants that can drive “rent seeking” behaviour, that is, examples of grant applicants aiming at obtaining financial benefits through the manipulation of the distribution of funding resources. Some respondents pointed to the absence of a comprehensive policy strategy, while others felt that public policy does not consider social enterprises as a tool for empowering their stakeholders, but rather as a mechanism to provide work integration on a project basis.

The stakeholder meeting organised in the framework of this research also reinforced these opinions. Some participants greatly appreciated the widening scope of public policy from social cooperatives to social enterprises, the pre-qualification system focusing on social and economic components, professional mentoring, focusing on disadvantaged groups and regions, and the introduction of a loan construct as an innovative tool. However, some stakeholders also criticised current EU funding sources for their narrow focus on employment and certain legal forms, short-term project duration, unrealistic indicators and requirements for sustainability, and not providing a long-term solution to complex social problems (e.g. to improve the situation of people living in deep poverty).

Various non-state actors have significantly influenced the sector since the second half of the 1990s. International development and support organisations (NESsT, Ashoka) focusing on social enterprises and supporting social entrepreneurs appeared even before the EU accession in 2004. Their role is of primary importance in introducing the concept and supporting the first social enterprises. They largely popularised the term “social enterprise,” and their approaches significantly shaped the way the concept was understood in Hungary. Today, one perceives a more diverse set of international and domestic support and development organisations, more networks and in general an increase in the number of organisations identifying themselves as social enterprises. Additionally, one must reflect on the growing role of the academic sphere. While under-researched for a long time, currently a number of reseraches focus on social enterprises and several universities offer courses on social entrepreneurship, social enterprise and the social economy (though less courses and trainings are designed for practicing social entrepreneurs themselves). In recent years, various EU-funded investigations have emerged, with many new publications available. However, systematic data collection of social enterprises and representative research is still missing and is hindered by a clear, widely accepted definition of social enterprises.

The questionnaire respondents remarked that motivated and dedicated people truly drive the field, knowledge about and interest in the sector has grown, and professional support and financial resources have increased in availability. Some respondents stress the importance of alternative sources of funding coming outside the public sector (e.g from international donors, banks, multinational companies, social investors). Still, they mentioned the damage of inefficient cooperation – sometimes due to lack of trust – with the public sector, the for-profit sector and the academic sphere. The low levels of cooperation, networking and interest representation among social enterprises also poses a problem. In addition, the geographical fragmentation of social enterprises influences access to incubation programmes, skilled workforce, financial resources or markets. Those factors that would support the emergence of social enterprises are concentrated in the capital, but the most pressing needs for social enterprises emerge in peripheral rural areas.

When describing enabling factors, respondents mainly focused on factors that could contribute to the development of a more supportive environment, such as the legal and fiscal framework (e.g. common regulatory framework, substantial tax benefits), the better availability and flexibility of financial resources (e.g. grants, statutory support, loans, socially responsible public procurement), increasing professional support (e.g. training, mentoring, networking, support infrastructure and technical assistance), growing cooperation among social enterprises and the different actors of the ecosystem, and increasing visibility. Some also considered the importance of supporting the sector’s emergence as a partner for the state in work integration or public service provision.

The role of social enterprises could increase through certain initiatives according to the stakeholder meeting participants. They proposed the following recommendations:

- > long-term, complex strategies connecting social enterprises to different branches of public policy (e.g. economic development, regional development);
- > taking into account the hybrid nature of social enterprises in legislation;
- > tax and duties benefits to cover the extra cost connected to the social objectives;
- > increasing tax or other incentives for individuals and companies to support social enterprises and volunteering;
- > making social enterprises capable of accessing the benefits conventional enterprises can (e.g. investments);
- > promoting socially responsible public procurement;
- > further support to the ecosystem;
- > facilitating social impact measurement;
- > continuous dialogue among stakeholders;
- > knowledge sharing including about international examples.

5.3. Trends and future challenges

Currently, besides the influence of historical development, new contextual factors explain social enterprise dynamics. The questionnaires of the present research listed several promising and threatening trends influencing the development of social enterprises in Hungary, summarised below.

Respondents mainly referred to promising trends like the availability of EU-based funding and other financial resources, and emphasised the increasing number of different actors of the social enterprise ecosystem (detailed in section 4). Participants also pointed out several times that the number of social enterprises and initiatives with good practices continues to increase, while the interest in, knowledge and information about social enterprises continues to grow both among the general public, supporters from the public and for-profit sector and potential social entrepreneurs. Some respondents highlighted that business skills have improved among social entrepreneurs, while others praised the younger generation's engagement in the field.

The questionnaires also pointed out several issues as threatening trends. Some respondents worried about the current legislative changes regarding social cooperatives, which reduce their autonomy, and connect them to the widely criticised public work

programmes (see section 2.2). Overemphasising the work integration role of social enterprises and pushing market-based sustainability through public policies also poses a threat according to some respondents as people living in underprivileged regions, socialised in deep poverty and affected by generational unemployment, need a different, capability-based approach from social enterprises, such as capacity or community development. Another worrying issue pointed out in more questionnaires is the current approach towards civil society and centralisation tendencies by the state (see section 1 and 2.2). Grassroots social enterprises that have no access to stable financial support might rely on international funding, for which they may become stigmatised. Finally, **though the existence of available EU funds was regarded a promising trend, several stakeholders perceive a threat in the high dependency of the sector on external, dominantly EU-based funding, as well as the problems related to accessing such funding and the scarcity of alternative sources.** Some respondents pondered the drying of EU-based funds and how social enterprises could survive without such resources.

6

APPENDICES

Appendix 1. The EU operational definition of social enterprise

The following table represents an attempt to operationalise the definition of “social enterprises” based on the Social Business Initiative (SBI) promoted by the European Commission.

Main dimension	General definition	Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Entrepreneurial/ economic dimension	Social enterprises (SEs) are engaged in the carrying out of stable and continuous economic activities, and hence show the typical characteristics that are shared by all enterprises ⁴³ .	<ul style="list-style-type: none"> > Whether the organisation is or is not incorporated (it is included in specific registers). > Whether the organisation is or is not autonomous (it is controlled or not by public authorities or other for-profit/non-profits) and the degree of such autonomy (total or partial). > Whether members/owners contribute with risk capital (how much) and whether the enterprise relies on paid workers. > Whether there is an established procedure in case of SE bankruptcy. > Incidence of income generated by private demand, public contracting, and grants (incidence over total sources of income). > Whether and to what extent SEs contribute to delivering new products and/or services that are not delivered by any other provider. > Whether and to what extent SEs contribute to developing new processes for producing or delivering products and/or services. 	SEs must be market-oriented (incidence of trading should be ideally above 25%).	<ul style="list-style-type: none"> > We suggest that attention is paid to the development dynamic of SEs (i.e. SEs at an embryonic stage of development may rely only on volunteers and mainly on grants).

(43) In accordance with Articles 48, 81 and 82 of the Treaty, as interpreted by the Court of Justice of the European Communities, “**an enterprise should be considered to be any entity, regardless of its legal form, engaged in economic activities, including in particular entities engaged in a craft activity and other activities on an individual or family basis, partnerships or associations regularly engaged in economic activities.**”

Main dimension	General definition	Relevant Indicators <i>(not exhaustive list)</i> (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Social dimension (social aim)	<p>The social dimension is defined by the aim and/or products delivered.</p> <p>Aim: SEs pursue the explicit social aim of serving the community or a specific group of people that shares a specific need. “Social” shall be intended in a broad sense so as to include the provision of cultural, health, educational and environmental services. By promoting the general-interest, SEs overcome the traditional owner-orientation that typically distinguishes traditional cooperatives.</p> <p>Product: when not specifically aimed at facilitating social and work integration of disadvantaged people, SEs must deliver goods/services that have a social connotation.</p>	<ul style="list-style-type: none"> > Whether the explicit social aim is defined at statutory/legal level or voluntarily by the SE’s members. > Whether the product/ activity carried out by the SE is aimed at promoting the substantial recognition of rights enshrined in the national legislation/ constitutions. > Whether SEs’ action has induced changes in legislation. > Whether the product delivered - while not contributing to fulfilling fundamental rights - contributes to improving societal wellbeing. 	<p>Primacy of social aim must be clearly established by national legislations, by the statutes of SEs or other relevant documents.</p>	<ul style="list-style-type: none"> > The goods/services to be supplied may include social and community services, services for the poor, environmental services up to public utilities depending on the specific needs emerging at the local level. > In EU-15 countries (and especially in Italy, France and the UK) SEs have been traditionally engaged in the provision of welfare services; in new Member States, SEs have proved to play a key role in the provision of a much wider set of general-interest services (e.g. educational services up to water supply). > What is conceived to be of meritorial/general-interest nature depends on contextual specificities. Each national expert should provide a definition of what “public benefit” means in her/his country.

Main dimension	General definition	Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Inclusive governance-ownership dimension (social means)	<p>To identify needs and involve the stakeholders concerned in designing adequate solutions, SEs require specific ownership structures and governance models that are meant to enhance at various extents the participation of stakeholders affected by the enterprise. SEs explicitly limit the distribution of profits and have an asset lock. The non-profit distribution constraint is meant to ensure that the general-interest is safeguarded. The non-profit distribution constraint can be operationalised in different ways.</p>	<ul style="list-style-type: none"> > Whether SEs are open to the participation and/or involvement of new stakeholders. > Whether SEs are required by law or do adopt (in practice) decision-making processes that allow for a well-balanced representation of the various interests at play (if yes, through formal membership or informal channels -give voice to users and workers in special committees?). > Whether a multi-stakeholder ownership structure is imposed by law (e.g. France). > Whether SEs are required to adopt social accounting procedures by law or they do it in practice without being obliged to. > Degree of social embeddedness (awareness of the local population of the key societal role played by the SE versus isolation of the SE). > Whether the non-profit distribution constraint is applied to owners or to stakeholders other than owners (workers and users): whether it is short-term (profits cannot/are not distributed or they are capped) or long-term (asset lock); or both short and long term. > Whether the cap is regulated externally (by law or defined by a regulator) or it is defined by the SE by-laws. > Whether limitations to workers' and/or managers' remunerations are also imposed (avoid indirect distribution of profits). 	<p>SEs must ensure that the interests of relevant stakeholders are duly represented in the decision-making processes implemented.</p>	<ul style="list-style-type: none"> > Ownership rights and control power can be assigned to one single category of stakeholders (users, workers or donors) or to more than one category at a time – hence giving ground to a multi-stakeholder ownership asset. > SE can be the result of collective dynamics or be created by a charismatic leader (in principle a sole owner is admitted by some national legislations provided that the participation of stakeholders is enhanced through inclusive governance) or public agency. > Different combinations concerning limitations to profit distribution envisaged (e.g. most successful solution: capped dividends supported by total asset lock – Italian social coops, CIC, SCICs).

Appendix 2. Data availability report

Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	N° of organisations	N° of workers	Turnover	Degree of reliability (1 to 4) and explanation
Associations, Foundations, Non-profit companies	Non-profit register Statistical register	Hungarian Central Statistical Office (HCSO) National Institute of Statistics (NSO)	2016 Yearly	✓	✓	✓	4 - Data for organizations with 25% sales activity are not publicly available and were provided by the HCSO upon request. Data are available by legal type.
Social cooperatives	Economic register Statistical register	HCSO NSO	2016 Yearly	✓	✓	✓	4 - Data refer to organizations that were active (not only registered) in 2016. Data are not publicly available and were provided by the HCSO upon request.
Social enterprises	Register for pre-qualification system in the GINOP-5.1.3.-16 and 5.1.7 calls for proposals for social enterprises Administrative register	IFKA Industry Development Public Benefit Nonprofit Ltd. Government institution	2015 Una tantum	✓	✓	✓	3 - The database includes only 212 organizations. Data are not representative, as applications can be submitted by organizations with specific legal forms (associations, foundations, non-profit companies, social cooperatives, church organizations) whose social aims meet the conditions of the call (employment and possibly solving other social problems); their business objectives correspond to the call (strengthening the organization's long-term sustainability, reinvesting their profits, etc.), their target groups are registered jobseekers, disadvantaged or people with reduced working ability and in less developed regions. Data are not publicly available and were provided upon request.

Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	N° of organisations	N° of workers	Turnover	Degree of reliability (1 to 4) and explanation
Social enterprises	Basic Research on the operation of social enterprises (Alap kutatás a társadalmi vállalkozások működéséről) Research project	University of Miskolc Research institution	2015 Una tantum	✓	✓	✓	3 - The database includes only 220 organizations, not representative of the HCSO database they used to write about the overall population.
Social enterprises	SEFORIS Country Report Hungary (SEFORIS Országjelentés: Magyarország) Research project	NESsT International development and support agency	2014 Una tantum	✓	✓	✓	3 - The database includes only 122 organizations, not aiming at providing a representative sample, but a qualitative mapping of the field.
Social enterprises	Members of National Federation of Social Enterprises (TAVOSZ) Members of representative body	National Federation of Social Enterprises (TAVOSZ) Representative body	2017 Una tantum	✓	N.A.	N.A.	2 - The database includes only 68 member organizations. Data are not publicly available and were provided upon request.
Social cooperatives, Associations, Foundations, Non-profit companies	Company register (Cégtár) Administrative register Combination of several data sources, e.g. Company Gazette, National Accountancy and Company Information System (OCCR), NAV Data, Ministry of Justice	OPTEN Ltd. Company offering services connected to database of legal entities	2016 Yearly	✓	✓	✓	3 - Data not publicly available. They can be provided upon request (paid service).

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- > Civil Code Act (5/2013)
- > Act Amending Various Laws Related to Social Cooperatives and Public Employment (41/2013)

- > Government Decree (XII.18.) on the State Aid for Churches and Non-State Social, Child Welfare and Child Protection Service Providers, Institutions and Networks (489/2013)
- > Public Procurement Act (143/2015)
- > Act on Modifying Certain Employment Related Laws (145/2016)
- > Act on the Transparency of Organisations Receiving Foreign Funds (76/2017)

Appendix 4. List of stakeholders engaged at national level

The set of 21 Country Reports updated in 2018 and 2019 included a “stakeholders engagement strategy” to ensure that key input from national stakeholders was incorporated. Four categories of stakeholders were set up: academic (ACA), policy maker (POL), practitioner (PRAC) and supporter (SUP). The stakeholders’ engagement strategy followed a structured approach consisting of a questionnaire, one or two stakeholders’ meeting (depending on the country) and one core follow-up group. Such structure enabled a sustained, diverse and committed participation of stakeholders throughout the mapping update process. The full names, organisations and positions of key stakeholders who accepted to have their names published are included in the table below.

Full name	Organisation	Role	Stakeholder category
Mária Baracsi	IFKA Public Benefit Non-Profit Ltd. for the Development of Industry	Head of Department	POL/SUP
Márta Bálint	CoGoodwill	Founder and CEO	PRAC
Beatrix Bedő	Impact Hub Budapest	Co-founder, CFO, Mentor	SUP
János Czafrangó Dr.	-	Independent Consultant and Network Builder	SUP
Barbara Erős	Magnet Bank	Head of Civil and Community Relations	SUP
Ágnes Herpainé Márkus	-	Independent Consultant, Expert	SUP
Olga Horváth	-	Independent Consultant, Mentor	SUP

Full name	Organisation	Role	Stakeholder category
László Hubai	Eötvös Loránd Science University Faculty of Social Sciences	University Instructor, Researcher	ACA
Áron Jakab	IFKA Public Benefit Non-Profit Ltd. for the Development of Industry	Leading Social Enterprise Expert	PRAC/SUP
László Jakubinyi	Szimbiózis Foundation	President, Managing Director	PRAC
Judit Katonáné Kovács Dr.	University of Debrecen	Adjunct, Coach	ACA
Ágnes Kádárné Horváth Dr.	University of Miskolc	Researcher, Docent	ACA
László Kovács	FIX Social Cooperative	Managing Director	PRAC
Zsuzsa Laczkó	NESsT	Senior Expert	SUP
Orsolya Lazányi	Cargonomia Corvinus University of Budapest	Member, Researcher	PRAC/ACA
Marietta Le	Járókelő Association	Founder, Product Manager	PRAC
Gábor Lévai	Civil Support	CEO, Founder	SUP
Réka Matolay Dr.	Corvinus University of Budapest	Associate Professor	ACA
Felícia Menyhárt	National Employment Public Benefit Non-profit Ltd. (OFA)	Chief Professional Coordinator	POL/SUP
Andrea Mészáros	Ízlelő Non-profit Ltd. and Kék Madár Foundation	Managing Director	PRAC
Zsuzsanna Mészáros	Kunbábonyi Tízek Social cooperative	President, Managing Director	PRAC
György Molnár Dr.	Hungarian Academy of Sciences and Kiútprogramme	Researcher, Senior Research Fellow, Developer	ACA
Lajos Gábor Nagy	SIMPACT Non-profit Ltd.	Founder, Managing Director	SUP
László Németh	National Federation of Social Cooperatives	President	SUP
György Pataki Dr.	Corvinus University of Budapest	Associate Professor	ACA
Veronika Pataki	Zöld-Aktív Social Cooperative	Trainer, Project Manager	PRAC

Full name	Organisation	Role	Stakeholder category
Antal Radvánszky	Lápastó Social Cooperative	Project Coordinator, Manager	PRAC
Éva Révész Dr.	IFUA Non-profit Ltd.	Senior Consultant	SUP
Nóra L. Ritók	Igazgyöngy Foundation	Managing Director, Headmaster	PRAC
Zsolt Ruzskai	Ministry of Finance, member of GECES	Senior Expert	POL
Anikó Soltész	Foundation for Small Enterprise Economic Development (SEED)	Managing Director, Mentor	SUP
Laura Tóth	NESsT	Portfolio Manager	SUP
Erika Varga	Romani Design Social Cooperative	Managing Director, Founder	PRAC
László Weninger	Badur Foundation	Social Enterprise Development Manager	SUP

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