



Social Enterprise in Hungary

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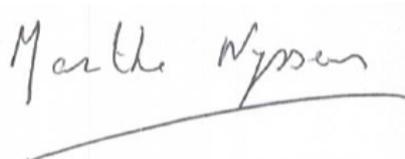
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First and foremost, the production of these Working Papers relies on the efforts and commitment of Local ICSEM Research Partners. They are also enriched through discussion in the framework of Local ICSEM Talks in various countries, Regional ICSEM Symposiums and Global Meetings held alongside EMES International Conferences on Social Enterprise. We are grateful to all those who contribute in a way or another to these various events and achievements of the Project.

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Table of contents

Introduction	4
1. The concept of social enterprise in Hungary	5
1.1. Concepts connected to social enterprise	5
1.2. Definitions of social enterprise.....	7
2. Social enterprise models	10
2.1. Public service provision social enterprises	10
2.2. Enterprising CSOs	11
2.3. Work integration CSOs.....	12
2.4. Local development community enterprises	13
2.5. Social start-up enterprises	14
2.6. Solidarity economy initiatives	14
3. Institutional development	16
3.1. Legal framework.....	17
3.2. Possible legal forms	21
3.3. Public support schemes and programmes.....	25
3.4. Non-governmental financial and professional support	28
4. Main characteristics and challenges	31
References	33
ICSEM Working Papers Series.....	36

Tribute to Éva G. Fekete

In April 2017, our beloved colleague, mentor and one of the authors of the present paper, Prof. dr. Éva G. Fekete passed away. Prof. G. Fekete was a respected and recognized researcher and practitioner of Hungarian rural development, a professor at the University of Miskolc and former head of the Northern Hungarian Department of the Centre of Regional Studies at the Hungarian Academy of Sciences. Throughout her work, Éva stood for the advocacy of the socially and spatially marginalized. Her passing is an incredible loss and she will be greatly missed. We will do our best to continue her work and keep up her legacy.

Julianna, László and Melinda

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INTRODUCTION

The concept of social entrepreneurship is not particularly widespread in Hungary yet. The term itself was initially introduced in the second half of the 1990s by a few key international development organizations focusing on social enterprises and social entrepreneurs. Relevant actors in the non-profit, private and public sector did not take much notice until recently. However, at present, the expressions “social enterprise” or “social entrepreneur” are becoming better known in the country and there is a growing interest for these concepts among development professionals, academics, leaders of non-profit organizations, public officials and even representatives of the business sector.

In the *non-profit sector*, the concept remained little known and seldom used for a long time. However, mostly because of a decline in their income from traditional sources, non-profit organizations have recently started seeking for alternative ways to diversify their resources. Non-profits now increasingly look at social entrepreneurship as a potential source of income and have thus starting expressing an interest in this topic.

The *private sector*, until recently, did not use the concept either. According to Tóth et al. (2011), one of the main reasons for this was the clear separation and the lack of connections between the private sector and the non-profit sector: indeed, traditionally, “non-profit organisations were thought to have a role in dealing with and easing social problems, while the for-profit sector was expected to serve market needs and produce a profit” (Tóth et al. 2011: 6, our translation). However, some market organizations interested in supporting the development of the social enterprise sector—e.g. some consultancy firms and financial institutions—have appeared recently, and the concept of corporate social responsibility has also been gaining more ground. Social enterprises have also been created under for-profit legal forms.

For a long time, the *public sector* did not include the social enterprise concept in official documents either. The focus was on the social economy, but one particular form of social enterprise—that of social cooperative—was supported within EU-funded programmes. In the new Hungarian Partnership Agreement for the 2014-2020 programming period, however, the term “social enterprise” is explicitly used, and an official definition was also provided for the first time in 2015. Public sector interest shows through the rules enacted by the central government to regulate social enterprises, but it can also be observed in the emergence of some local governmental initiatives that consider themselves as social enterprises.

Regarding the *scientific discourse* and the situation in higher educational institutions, the first university course on social enterprise was launched in 2006; for several years, it remained the only course on the subject in the country. The first doctoral dissertation on the topic was finalized in 2009. At present, however, several universities offer courses and training and conduct research projects on social enterprise.

The social enterprise concept is currently becoming more and more relevant in Hungary. A number of social enterprises have already been established and are in operation. Furthermore, support to the social economy and to social enterprises is expected to play an increasingly important role in the future, especially as part of the Europe 2020 strategy.

In the following pages, the notion of social entrepreneurship will first be discussed by presenting connected concepts (e.g. the non-profit sector, civil society and social economy) and summarizing the most relevant definitions available in Hungary (section 1). Secondly, the social enterprise models proposed in the framework of the ICSEM project will be presented (section 2). Then the past development of social enterprise will be summarized, focusing on the changing regulatory framework and the main support programmes (section 3). Finally, the paper will provide a brief analysis of the situation by showing the current characteristics of social enterprises as well as the challenges ahead (section 4). Through these various sections, the paper intends to provide a summary of the past development and present situation of the concept and context of social enterprises in Hungary.¹

1. THE CONCEPT OF SOCIAL ENTERPRISE IN HUNGARY

The concept of social enterprise has been discussed in recent years in Hungary but remains relatively new in the country. Other concepts have had a longer history and are more widely understood in the Hungarian context. In this chapter, we will first look at related concepts (such as the non-profit sector, civil society and the social economy) to provide perspective to our analysis; we will then present the different approaches to the definition of the term, discussing the adaptability of the concept in Hungary.

1.1. Concepts connected to social enterprise

In scientific and public discourse, the terms that have been most widely used to describe socio-economic organizations that are not specifically connected either to the for-profit or to the public sector have been those of “non-profit sector”, “civil society” (both concepts gained recognition after the regime change) and “social economy” (which entered public discourse at the time of EU accession). “Community enterprise” and “community development” (which are often related to local or rural development) and “corporate social responsibility” (CSR) have also been used to a certain extent. There are often no or only minor differences between the Hungarian and international definitions of these concepts. In the following, we will give an overview of the dominant terms and their Hungarian definition.

Non-profit organizations (NPOs) are organizations in the non-profit sector that, according to Kuti (1998: 17), must meet three main criteria: (1) they must not distribute profit; (2) they must enjoy operational autonomy and be organizationally distinct from the state sector; (3) they must be institutionalized as independent legal entities. In addition to these three key criteria, Kuti (1998: 8) lists additional indicators, such as the presence of volunteering; the existence of

¹ Prof. Éva G. Fekete was responsible for writing section 2 (“Social enterprises models”), László Hubai for writing section 3.2 (“Possible legal forms”), Julianna Kiss and Melinda Mihály for writing all other sections, taking into account the comments and suggestions from the other researchers.

philanthropic support; the fact that civil initiatives play a role; the fact that an activity serves the public good—i.e. the organisation carries out an activity that serves, either directly or indirectly, the interests of the wider community or society as a whole; the exclusion of party or political activity; and the exclusion of church-based, religious activities. Still, the most important characteristic here is the prohibition of profit distribution. The term “non-profit sector” is frequently used by researchers and policy makers; the reason for this widespread use can be accounted for by the fact that, in the early 1990s, leading Hungarian researchers participated in the international research of the Johns Hopkins University led by Lester Salamon and Helmut Anheier, which was the first comparative study of the non-profit sector using scientifically-based definitions and methodologies. The research used this term, and it was regarded as the most appropriate by the Hungarian researchers as well, due to the fact that—even though it does not reflect the diversity or the complexity of the sector—it does capture the most common and most widely agreed-upon element: the prohibition of profit distribution (Kuti 1998: 9).

Civil sector and *civil society organizations (CSOs)* are other widespread terms, and perhaps those most commonly used by experts and traditional civil society organizations themselves. The concept of civil society (re)emerged in the 1990s; since it has a meaning similar to the concept of the non-profit sector, both terms were often used interchangeably in public discourse and policy documents. However, though there are definitely overlaps, there are also important differences. For instance, Tóth (2012: 19) emphasizes the fact that, in addition to registered non-profit organizations, civil society also includes spontaneous, informal groups or organizations and even protest movements. Another difference is linked to the role of the state: a number of registered non-profit organizations essentially play a role of service provision or redistribution, were founded and are financed by the state, and should thus not be regarded as civil society organizations, since the most crucial element in CSOs is serving the common good through the active involvement of citizens and democratic participation. Traditional civil society organizations are essentially autonomous associations and foundations founded by private individuals, while non-traditional non-profit organizations are usually non-profit companies founded by state institutions.

The concept of *social economy* emerged in Hungary from 2000 onwards, mainly in connection to Hungary’s accession to the European Union; it is used by policy makers and researchers in the field. According to Frey (2007a: 23, our translation), initiatives belonging to the social economy are “non-profit organizations aiming to integrate people who experience difficulties in finding a job by offering them employment, development of their professional knowledge and counselling”. In addition, the following features are listed: “social economy organisations operate on a local level, between the public and the market sector; they react to local needs left unsatisfied by private companies and public institutions; they provide employment; they generate income and intend to become self-financing over time; part of their revenues comes from non-public sources (such as private philanthropy or market income); and their target groups include the long-term unemployed, early school leavers with employment difficulties, women responsible for caring for children, the elderly, people with disabilities and persons with social integration disorders” (Frey 2007a: 23, our translation). This concept thus focuses on the presence of economic elements beside the social parts, as well as on the issue of employment generation. The main motivation of social economy organizations is to overcome deficiencies of social policy.

Community enterprises and *community development* also appear in Hungarian discourse. A small number of civil society actors that find both environmental sustainability and community development crucial tend to use the term of community enterprise instead of that of social enterprise. Vágvölgyi (2012) defines the community enterprise as an organizational model that has a function of local, community-based (self-)empowerment. The term “community enterprise” is used to highlight the democratic character of an organization. To talk about economic organizations with a democratic character, Mészáros (2013) uses the term of *social cooperatives*, and she prefers to talk about *community-led local development*. Rural and local economy development experts also talk about *community economy*, thus highlighting the importance of strengthening the bottom-up character of initiatives.

Researchers in the field of *business ethics*, *responsible enterprises* or *corporate social responsibility (CSR)* have also contributed to the conceptualization of social enterprise in Hungary. Pataki and Radácsi (2000) were among the first scholars to introduce social entrepreneurship in Hungarian discourse. Based on international examples, they aimed to determine whether a “green capitalism” might exist, and if it were the case, how social enterprises might contribute to it. These researchers put the emphasis on ethical decision making in their CSR definition (Pataki and Radácsi 2000, Matolay et al. 2007). The term CSR is also used, besides researchers, by for-profit—mainly multinational—organizations developing CSR strategies.

The primary characteristics differentiating the different types of organizations discussed above in Hungary have been the non-profit distribution element (in the case of non-profit organizations); the active involvement of citizens and democratic participation (in the case of civil society organizations); the presence of economic elements next to social ones, and the relevance of employment generation (in the case of the social economy); and, to a limited extent, the importance of participative governance within the organization (in the case of community enterprises) and the process of ethical decision making (in the case of business ethics). The third sector concept (focusing on the independence of the sector) or the solidarity economy concept (providing an alternative to and thus challenging the dominance of the market economy) have only had so far limited influence in Hungary.

1.2. Definitions of social enterprise

There is no single and widely accepted definition of social enterprise in Hungary, nor is there a unified regulatory framework. It is also common to use the term without defining it (G. Fekete et al. 2014a: 22). Moreover, the word “social” can be translated in two different ways in Hungarian: as *szociális* or as *társadalmi*; the term “social enterprise” can thus have different translations. *Szociális* has a somewhat narrower meaning, referring to social mostly in connection with financial and welfare-related issues, while *társadalmi* means “connected to society”. Though the narrower term (*szociális*) was often used in the past, experts have recently started using the wider term (*társadalmi*), thus emphasizing that the phenomenon does not only have a focus on employment and welfare-related challenges. But despite the confusion, Hungarian definitions do exist and can be connected to different international schools of

thought—such as the European EMES school, or the earned income and social innovation schools, originating in the United States.

G. Fekete emphasizes the *economic, social and civic dimensions* of the organizations—three dimensions which are also highlighted by EMES—and stresses in particular their role in employment generation. She regards community enterprises (which she also later referred to as “social and community enterprises”) as: “(1) private enterprises, because they produce new products or provide new services and they are characterized by strong market dependence and capital needs, so that an entrepreneurial approach needs to prevail in their management; (2) social institutions, as social awareness and responsibility are essential elements in these organisations, they take part in the provision of public services and they have strong local governmental connections; and (3) civil society organizations—a character that is reflected in their democratic operation, involving members in the decision-making processes, as well as in the involvement of volunteers. These organizations intend to meet unsatisfied needs in a given community, as well as increase employment capacity and social capital” (G. Fekete 2007: 64, our translation). G. Fekete refers to social and community enterprises as the main actors of the social economy, playing a central role in the employment of marginalized people and marginalized communities (G. Fekete 2007: 150).

In the first academic work defining social enterprises in particular, Petheő (2009) uses the *CONSCISE definition* of social enterprises, developed partially by EMES researchers, and which establishes the following criteria: social enterprises “(1) are not-for-profit organizations; (2) seek to meet social aims by engaging in economic activities; (3) have legal structures which ensure that all assets and accumulated wealth are not in the ownership of individuals but are held in trust and for the benefit of those persons and/or areas that are the intended beneficiaries of the enterprise’s social aims; (4) have organizational structures in which the participation of members is voluntary; and (5) encourage mutual cooperation with other organizations” (Petheő 2009: 10, our translation).² The author also describes the concept of the social entrepreneur in his work,³ but the use of this term is rather limited in Hungarian public discourse, and it is used interchangeably with that of social enterprise.

Financial sustainability and *innovation* are emphasised in the definition put forward by the social enterprise development agency, NESsT, which describes social enterprises as having consciously organized and operated entrepreneurial activity in order to solve societal challenges in an innovative way. According to NESsT, “social enterprises thus have a dual goal: to stay financially sustainable and to have a social impact” (Tóth et al. 2011: 5, our translation). These two goals are reached through the continuous production or provision of high quality goods and/or services in a responsible way, which leads to real value creation

² *The Contribution of Social Capital in the Social Economy to Local Economic Development in Western Europe*, Report 3: Social Audits of Social Enterprise: Methodology (www.conscise.mdx.ac.uk), 2001.

³ Defourny and Nyssens (2008) pointed out that while American foundations and organizations, like Ashoka from the mid-1990s onward, focused on the people behind a social enterprise (social entrepreneurs), European researchers focused more on the organizations (social enterprises). While U.S.-based researchers highlight the importance of leadership, European researchers put an emphasis on participative decision-making processes. When analysing social enterprises and social entrepreneurs, it is thus important to keep in mind this conceptual diversity.

through high quality and competitive products and services, as well as through a sound business plan (Tóth et al. 2011: 6). NESsT places a strong emphasis on earned income strategies of non-profit organizations, underlining the importance of innovation, but it does not highlight the relevance of participatory decision-making—it could thus be considered to represent both the earned income school of thought and, to some extent, the social innovation school of thought in Hungary.

Ashoka, another international social entrepreneurship development agency present in Hungary, focuses on social entrepreneurs, i.e. individuals who implement solutions that are changing systems, putting forward solutions to the world's most urgent social problems. Social entrepreneurs, according to Ashoka, are “extremely talented, creative and innovative personalities who are working with exceptional strength and determination, dedicating their talents to a wide range of solutions to social problems, taking on an active role in society” (Ashoka 2015, our translation). Ashoka represents the social innovation school of thought in Hungary.

The definition most widely used by public authorities and programme managers is that of the European Commission (G. Fekete et al. 2014b: 1), which highlights—besides social aims and economic activities—the importance of both democratic and responsible governance as well as social innovation.⁴ In the new Hungarian Partnership Agreement for the 2014-2020 Programme Period, support to social enterprises is explicitly mentioned, and a first official definition is also given in a relevant policy document (a call for applications for developing the social enterprise sector), according to which organizations that can be considered as social enterprises are “those non-profit and civil society organizations that have viable economic goals in addition to their social objectives; the profit of their business activities is reinvested for social objectives; and they implement the principle of participatory decision-making in their budgets and organizational functioning” (Ministry for National Economy 2015: 6; our translation). The programme intends to support non-profit organizations and social cooperatives that contribute to the employment of disadvantaged, unemployed and inactive people through their activities—traditionally expected to be carried out by the state.

We can see that as far as the definition of social enterprises in Hungary is concerned, different approaches coexist. Some authors put more emphasis on social and civic dimensions, highlighting the importance of the non-profit character (Petheő 2009), inclusive decision-making processes (G. Fekete 2007) and a strong employment focus, while others rather focus on economic sustainability (Tóth et al. 2011) and social innovation (Ashoka). In current public policy, the issue of employment is of central importance; restrictions based on legal forms are

⁴ The Ministry for National Economy (NGM), responsible for drafting the EU-co-financed operational programmes, refers to the Commission's Social Business Initiative communication and the Social Europe Guide (Volume 4: “Social economy and social entrepreneurship”) as the main sources of definition (Fekete et al. 2014). According to the definition, “a social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities.” (European Commission 2011: 2)

also present: social enterprises under for-profit legal forms (e.g. Ltds) are not supported. However, the definitions available in Hungary are adopted from Western-European (EU-related) or US schools of thought and their adaptability to the specific situation of Hungary has not yet been discussed. Critical debates about the concept of social entrepreneurship, for instance comparing the positive and negative aspects of the different definitions or providing an overall criticism of the concept (some consider e.g. that the emphasis put on market-based income in many social entrepreneurship literature leads to a commercialization of the state or non-profit sector, or criticize the fact that, among the three sustainability dimensions—economic, social and environmental—, only the economic or financial sustainability dimension is unilaterally emphasized in SE literature) have been limited in Hungarian academic or public policy spheres so far.

2. SOCIAL ENTERPRISE MODELS

Six major models of social enterprise in Hungary can be distinguished on the basis of the following five main characteristics:

- a. the *legal form* of the organization;
- b. its *sectoral affiliation*, i.e. the dominant sectors and interests at play in the creation of the organization and the degree of hybridity;
- c. its main social *aims*;
- d. its main *field* of economic activity;
- e. the scale and form of *employment*.

The complex types presented here represent the different combinations of these characteristics.

2.1. Public service provision social enterprises

Public service provision social enterprises provide services that were formerly state or municipal responsibilities. Therefore, they receive statutory state support,⁵ but they also finance their operation from market income. These social enterprises operate mainly within the social and public utility sectors. Characteristic examples are non-profit organizations that employ people with altered working abilities, financed through statutory state support, and which conduct trading activities at the same time, as well as foundations that operate family day-care centres or old people's homes. Other examples include non-profit companies in the field of waste management, maintenance of public places and public transportation. Public work projects transformed into social cooperatives can be included in this category too. Typical legal forms are non-profit companies (previous public benefit companies) and foundations. These organizations often have a high degree of connectedness to the public sector, which can manifest itself not just in their financial dependency on the central state or local government but also through the involvement of the municipality as one of the founders of the foundation/association or one of the members of the social cooperative. Given the low level of autonomy of these initiatives, the fact that they are not launched by a group of citizens or CSOs, and their hierarchic organizational structure (which provides space for participatory

⁵ By "statutory", we mean that such support is not project-based, and that the right to this support is granted by law to all organizations providing a given service (e.g. employment of disabled persons).

decision making only to a limited extent), this type of SE is rather far from the EMES ideal typical social enterprise.

Legal form:	organizations not founded by citizens but by the state or by organizations close to the state. They can be public sector entities—mostly non-profit companies (public benefit companies in the past)—but also foundations founded by the local government or social cooperatives with members from the public sector
Sectoral affiliation:	close ties to the public sector
Aim:	public service provision
Field:	social welfare, public utilities, employment of people with altered working abilities/with disabilities
Employment:	employment in these organizations can pursue a social aim; the number of disadvantaged employees is determined by public funding

2.2. Enterprising CSOs

In order to ensure their sustainability and reach their social goals, traditional civil society organizations (CSOs—i.e. mainly foundations and associations) with social, cultural and environmental aims have recently started to increasingly engage in economic activities. Their business activity is intended to complement private donations and grant-based public funding. A tendency towards a constant reduction of available statutory funding for traditional CSOs pushes these organizations to build up and implement earned-income strategies. The economic activity (e.g. book publishing, training, consultancy, charity shop, organic products, child care, event organization) is mainly a financial tool to reach the original social aims; in many cases, such activity only generates a small amount of additional income, covering costs only to a limited extent. Therefore, enterprising CSOs do not necessarily bear a significant level of economic risk. Paid employment is very limited; most tasks are performed by volunteers and a small number of paid managers. Dependence on the state—though to a lesser extent than in service public provision SEs—can be observed here as well. It often happens that a traditional CSO (a foundation or an association) sets up a separate legal entity (non-profit Ltd.), as this legal form is better suited for carrying out an entrepreneurial activity (selling goods or services); indeed, due to their legal form, a non-profit character is expected from enterprising CSOs. Though these organizations do not necessarily consider themselves as social enterprises, they meet most of the indicators of the ideal type of SE defined by EMES: they have a continuous activity producing goods and/or selling services, they have a minimum amount of paid work, their decision-making process is participative, their profit distribution is limited and although they display some dependence on the state, they aim to be autonomous.

Legal form:	association, foundation, non-profit company founded by citizens
Sectoral affiliation:	close ties to civil society
Aim:	gaining extra income to support the sustainability of the organization (to reach social aims)
Field:	social welfare, culture, environmental protection
Employment:	not the main goal; the number of employees is low, the number of volunteers is high

2.3. Work integration CSOs

Some CSOs can be considered as work integration social enterprises (WISEs); they are often non-profit legal entities characterized by a bottom-up approach. However, the term “work integration” is not used in Hungary. Among these enterprises’ target groups, different disadvantaged social groups are present—e.g. young people, women, ethnic minorities (especially the Roma), people with large families, people with a low educational level, people living in poverty or disabled people. Consequently, these organizations can also receive statutory support for the employment of people with altered working abilities. Part of these enterprises aim at the employment of their target groups; others facilitate income generation and self-sufficiency (e.g. through gardening, farming, sewing, etc.). The number of employees can range from a few people to more than one hundred, and varies depending on available financial resources. As the main aim of these organizations is to integrate marginalized people through work, they have a relatively high dependency on external funding; and when external funding is not statutory, but project-based, work integration CSOs can have to cope with strong fluctuations in their number of workers. In some cases, former workers also participate in the activities as volunteers. This category of SE includes organizations with various legal forms: foundations, associations, but also social cooperatives and non-profit companies. Through their economic activities, these enterprises often intend to find niches in certain services. The outsourcing of some tasks by the state or municipal authorities to these enterprises, a higher availability of statutory funding, and long-term contracted services can strengthen their financial stability. Since they are considered as sustainable enterprises, they can also often be partners of companies as part of their CSR activities. Several previous public funding schemes have facilitated the implementation of labour market programmes by non-profit employers and social cooperatives (see section 3.3). Though these organizations receive grants, donations and sometimes statutory funding as well, they have the intention of developing earned-income strategies. Still, the operation of work integration CSOs usually remains less sensitive to the market than to public support and public service contracts. Changes in policies supporting work integration CSOs negatively affected the financial resources available to these organizations; as a result, work integration CSOs strive for a stronger market orientation, but these efforts are not always successful. Dependency on project-based funding is usual, which causes difficulties in management and frequent changes in activities (sometimes in a hectic way).

Legal form:	social cooperative, association, foundation, non-profit Ltd. founded by citizens
Sectoral affiliation:	close ties to civil society, permanent cooperation with the public sector
Aim:	employment of the target group, providing economic benefits (job or extra income) for this target group
Field:	agriculture, social welfare, culture, environmental protection, communication
Employment:	employment is an important goal; the number of employees can change on a project basis; volunteers are present (usually in low numbers)

2.4. Local development community enterprises

Local development community enterprises implement local economy development programmes in an integrated, multi-functional way, usually with the direct or indirect involvement of local governments. Some kind of local product or an activity serving the operation or development of the village/town is at the core of their activity. They mostly operate in rural areas lacking small and medium enterprises and are developed to provide certain public services. When agricultural cooperatives—which had a community-organizing function in addition to their economic function—disappeared after the regime change, a demand emerged from village or town communities for initiatives reorganizing the local economy. Local development community enterprises intend to build an integrated local economic system, based both on endogenous resources and external funding. Their decade-long sustainability can be accounted for by the fact that they have clear and definite aims (e.g. the development of the settlement and the increase of the well-being of the inhabitants through the use of local resources) and by their constant adaptability. They take legal forms that are acceptable to—and even supported by—the current public bodies (foundation, public work programme, social cooperative), but their basic core activity does not change; it rather constantly expands. Eventually, a complex local economy is built and they operate in cooperation with several organizations as a “village enterprise”. The participation or support of the local government as a long-term, secure entity is necessary, but these enterprises build on the wider local community too. Almost all inhabitants take part in the “village enterprise”, be it as managers, workers, partner companies or volunteers. Quite unsurprisingly, social enterprises in this category often put an emphasis on community development, but as the activities are often initiated and coordinated by the local municipalities, decision making might lack participatory nature. A local citizen—often the mayor—usually plays a crucial role in the initiative, “leading” the community and stimulating the members to follow a defined strategy; without this person—who has good access to financial (often EU) funding and to local material resources (land, buildings, machines), and who is well embedded into the institutional framework of rural development—, the model might collapse. Another sensitive point regarding local development community enterprises is their possible negative impact on local enterprises. Indeed, public funding for rural development (e.g. social land programmes or programmes such as LEADER; see section 3.3) is available for this type of SE; due to the financial support they receive or to the opportunities they have to employ people through public work programmes, local development community enterprises have lower production costs than other enterprises in the village/town. But in ideal situations, local development includes the involvement of local small enterprises as well; some workers might even leave the community enterprise to set up their own enterprise.

Legal form:	social cooperative, cooperative, association, foundation, non-profit Ltd. (established by citizens or by the local government); the legal form can change over time and several entities with different legal forms can coexist
Sectoral affiliation:	close ties to local authorities but often also cooperation with local civil society and local small enterprises
Aim:	integrated local development
Field:	any activity that fits in the local economic system and can be carried out based on local resources

Employment: employment is an important component; jobs are created in the framework of activities that form a unified system. Almost the whole community takes part in the enterprise, playing different roles

2.5. Social start-up enterprises

The determining factor in the operation of social start-up enterprises is their business activity, but this activity is based on a moral aim influenced by business ethics or corporate social responsibility. The social aim directly influences the economic activity, which facilitates the development of an economy based on a greater degree on solidarity and environmental consciousness. Social start-ups might be for-profit. Social and other cooperatives working in certain special areas (e.g. IT, waste management and recycling), community enterprises focusing on certain specific areas of the local economy (e.g. one specific agricultural product) and for-profit companies putting emphasis on philanthropic solidarity and innovation can be included in this category. Democratic decision-making might not be characteristic of for-profit companies.

Legal form: any legal form; in this category, traditional for-profit companies can be found too, besides non-profit companies, foundations, associations and social cooperatives

Sectoral affiliation: close ties to the private sector

Aim: implementing a socially (culturally or environmentally) useful, innovative idea

Field: culture, environment, IT, transportation

Employment: employment is not a major goal; the number of employees is determined by economic necessity

2.6. Solidarity economy initiatives

Although the number of initiatives identifying themselves explicitly with values of the solidarity economy movement still remains rather limited and these initiatives are concentrated in or around more developed cities, this number can be expected to increase in the near future. As the motivations of solidarity economy initiatives differ from those of the other types of SE, we find it important to elaborate on them as a separate group. These enterprises only rarely receive public support, they do not aim to obtain grants in particular, and they often remain informal. They are based on clear values and ideologies, built on solidarity and environmental sustainability. Reciprocity, participation and democratic decision-making play a defining role in their principles of operation. They have economic activities that satisfy the needs of their members, who are often a group of friends and/or neighbours. They sometimes operate informally, and beyond the framework of the market economy. They show common traits with local exchange trading systems (LETS), especially time banks or *kaláka*. *Kaláka*⁶ is a

⁶ Building on the traditionally strong family or neighbourhood relationships, *kalákas* emerged already during feudalism as a vehicle for satisfying needs through reciprocity-based economic transactions. During socialism, *kalákas* played an important role in the everyday life of people for whom satisfying their needs through the formal economy was a challenge. After the regime change, *kaláka* as a social

Hungarian form of LETS. *Kaláka* is similar to time banks in that it is also based on working time, but the documentation of working time is less formal in *kaláka*. People participating in *kalákas* would not necessarily consider their activity as a solidarity economy initiative. Solidarity economy initiatives also include community gardens engaging in market activities, and recycling community flea markets. Solidarity economy initiatives implement or are constantly looking for transformative social innovation, i.e. new, alternative answers to current problems.

Legal form:	all legal forms as well as informal groups
Sectoral affiliation:	close ties to civil society
Aim:	solidarity-based economy, embedded in society
Field:	alternative solutions in all fields, mainly substituting money
Employment:	employment is not a primary goal; these initiatives are rather based on voluntary participation

When drafting the typology described above, the following observations were made:

- There is no unambiguous connection between the legal form and the other characteristics. In other words, the choice of a legal form does not appear to depend on the social aim or the sectoral affiliation; indeed, all legal forms appear in almost all types of SE.
- Paid work can be present in all types, though the biggest potential for employment appears in public service provision SEs, work integration CSOs and local development community enterprises.
- Social aims do not appear to be strictly linked to the different types, but social goals appear predominant in public service provision SEs; social, environmental and cultural goals, in enterprising CSOs; production and service provision, in work integration CSOs and local development community enterprises; and economic goals, in social start-ups.
- Just like balance between social and economic goals, the strength of public/municipal role seems to vary from one type to the other.

In all the types presented above, some features might give rise to debate as to the characterization of some initiatives as social enterprises according to the ideal type of SE: excessive state support in public service provision SEs; the weakness of the entrepreneurial character in enterprising CSOs; the role of local government—due to the extent of public funding—in work integration CSOs, and its direct involvement in local development community enterprises; the lack of democratic nature of operation in social start-ups; and the “stepping out” of the market economy framework in solidarity economy initiatives. Still, such typology remains useful; it proved empirically easy to classify the organizations that took part in the

practice started to disappear from Hungary, but it still exists today to a certain extent, e.g. in the form of family harvest, and, though in a more limited way, through building or refurbishing family houses. A *kaláka* was not simply a reciprocity-based exchange of work: after the work was done, *kaláka* members often ate or celebrated together (Szabó 2008: 7).

ICSEM survey⁷ into the types above with a great level of certainty, and the differences among the different types appeared quite unambiguous.

Table 1: Main characteristics of Hungarian SE models

	Public service provision SE	Enterprising CSO	Work integration CSO	Local development community enterprise	Social start-up	Solidarity economy initiative
Legal form	Association, foundation, non-profit company, social cooperative	Association, foundation, non-profit company	Association, foundation, non-profit company, social cooperative	Association, foundation, non-profit company, social cooperative	Beside non-profit legal forms, for-profit company and cooperative	All legal forms as well as informal groups
Sectoral affiliation	Close ties to the public sector	Close ties to civil society	Close ties to civil society	Close ties to local authorities	Close ties to the private sector	Close ties to civil society
Aim	Public service provision	Gaining extra income for the sustainability of the organization	Employment of the target group, providing economic benefits	Integrated local development	Realizing a socially useful, innovative idea	Promoting solidarity-based economy
Field	Social welfare, public utilities, employment	Social welfare, culture, environmental protection, etc.	Agriculture, social welfare, culture, environmental protection, communication	Any activity that fits in the local economic system	Culture, environment, IT, transportation	Alternative solutions in all fields
Employment	Important goal	Not a major goal	Important goal	Important goal	Not a major goal	Not a major goal

3. INSTITUTIONAL DEVELOPMENT

Social entrepreneurial activities—not-for-profit economic activities in both the substantive and formal economic sense—have had a long history and are largely connected to the non-profit and cooperative sectors in Hungary. The current situation is influenced mainly by the social and economic changes that took place after the regime change in 1989, as well as by accession of the country to the European Union. In the following section, we will first present the development of the legal framework and available legal forms; we will then analyse the main public and private support schemes and programmes.

⁷ The second major part of the ICSEM Project consisted in building a large international database on SE models worldwide. This collection of data relied on a common survey, which national teams of researchers carried out in their respective countries with social enterprises that they deemed emblematic of the SE models they had identified in the previous stage of the research.

3.1. Legal framework

Voluntary social organizations similar to associations and foundations have been functioning in Hungary since the Middle Ages. The first cooperative was founded in 1845, and in the second half of the 19th century, several consumers', credit, agricultural and other producers' cooperatives were formed.

During the forty years of state socialism (1949-1989), the establishment of foundations—which were abolished in 1949—was prohibited, while some associations working in politically neutral areas (such as sport and leisure) were allowed to function. Cooperatives came under state control, and new cooperatives—of which it was highly “advised” to become a member—were established. However, in the 1980s, due to the economic crisis and bankruptcy threatening Hungary, the strict, centralized system started softening, and Hungary switched to a mixed—and then to a market—economy. In this environment, opposition slowly built up, and movements were born that later played a role in the formation of the non-profit sector; what would later become political opposition also appeared in some seemingly innocent environmental protection, scientific and professional associations (Horváth 2010: 5).⁸

Around the time of the regime change (in 1989), a first important step was the rehabilitation of the foundations, which happened in 1987, when this legal entity was once again included in the Civil Code.⁹ In 1989, the Law on the Right of Association was adopted, legally guaranteeing the freedom of association.¹⁰ In 1990, binding the founding of foundations and associations to permits was abolished, while new tax laws allowed the total amount of individual and corporate donations to foundations to be deduced from the tax base (Nagy 2011: 121). These new regulations led to an explosive growth in the number of organizations, and in particular of foundations; this can thus be regarded as a certain revival of traditional civil society organizations. Most of the new organizations were quite small, “mostly created for fundraising purposes, with very low capital, and did not even consider the permanent employment of staff as a long-term goal” (Kuti 2008: 14; our translation). It should also be noted that this growth in number was not necessarily mirrored in the “scale” of civic engagement (in other words, the population active in non-profit organizations did not increase proportionally with the number of organizations).

Cooperatives experienced a different path of development. Before the regime change, cooperative membership was more or less compulsory, and cooperatives were not autonomous, bottom-up initiatives of citizens (Kovách 2012: 33); as a result, after the

⁸ In terms of the types of activities of the non-profit sector, before the change of regime, non-profit organizations were primarily active in sports, recreation and culture. Shortly after the transition, environmental, human rights, social, health, educational, other charitable, public safety protection, urban development and economic development organizations also gained importance. However, to this day, the most common activities of organizations remain related to leisure, hobbies, culture, education and sports (see for instance Hungarian Central Statistical Office 2015: 1). The Hungarian non-profit sector is less oriented towards advocacy or lobbying than towards service provision and community functions.

⁹ 11th Legislative Decree of 1987.

¹⁰ Act II of 1989 on the Right of Association.

transition, cooperatives—instead of being associated with grassroots movements or processes of participatory decision making—were considered as institutions of a patriarchal state. In 1991-1992, the political elite launched a campaign against agricultural cooperatives. The agricultural cooperatives that were still in activity were transformed into Ltds and, within a few months, many had ceased to exist (Kováč 2012: 67), not just due to economic policy but also because their disappearance served the interests of the central state.¹¹ This resulted in thousands of people losing their jobs and their opportunities to earn extra income from agriculture, and poverty in rural areas started to grow.¹² Overall, the number of cooperatives decreased from around 7,600 entities at the time of the regime change to around 3,000 organizations in 2011.¹³

In the middle of the 1990s, three new non-profit organizational forms were created: public bodies, public law foundations and public benefit companies.¹⁴ In practice, these new types of civil society organizations were bigger than their older counterparts and were more connected to the public sector.¹⁵ Based on these so-called “close-to-state” organizational forms, the outsourcing of part of the public services previously provided by governmental, municipal institutions and communal companies started, and the transfer of services and thus financial resources to the non-profit sector also began (Kuti 2008: 14). So although central state and local municipality funding for non-profit organizations increased, such support was mostly granted to organizations closer to the state—which were less autonomous and “bottom-up”. Moreover, this funding has not been granted on a statutory basis (i.e. automatically, after service provision) but incidentally, and based on subjective measures (Bocz 2009: 34). The role of traditional civil society organizations in welfare provision has remained minor in Hungary, and a reason for this might be that “the government does not consider civil society organizations as partners, but as subordinate players of welfare provision” (*ibid.*: 36), and usually choses to hand over services to organizations created by public players. Besides, a kind of saturation also occurred, “because every possible public service institution had already one or more own foundations” (Kuti 2008: 14). All in all, as a result of these changes, the

¹¹ According to Kováč (2012: 67), cooperative leaders were the only elite group that was independent from the local state and had economic, social and (local) political power; therefore, the new political elite wanted to oppose this local power group through liquidating agricultural cooperatives.

¹² Before the regime change, cooperatives bought the products that their members produced through “backyard farming”. Rural households received crops for free or bought them at a reduced price from their cooperatives to raise animals. Backyard farming thus constituted a complete structure that, through agricultural cooperatives, provided rural households with a means to earn extra income. In 1993, through a new regulation, the institutional framework behind backyard farming was abolished. However, some cooperatives continued to buy the products produced through backyard farming, though no statutory requirement obliged them to do so (Kováč 2012: 102).

¹³ This number increased again by 2016, due to the number of social cooperatives established, to around 5,000 organizations (data from the Central Statistical Office - <https://www.ksh.hu/>).

¹⁴ Act XCII of 1993 amending the Civil Code.

¹⁵ Public bodies, public law foundations and public benefit companies, unlike market players, were entitled to tax reliefs; they also had less regulations than financial bodies regarding their management and entrepreneurial activity and, compared to classical civil society organizations (foundations and associations), they had better access to governmental funding (Bíró 2002, in Bocz 2009: 28). In the following years, the restriction of tax benefits linked to cash donations and the gradual decrease in tax incentives had a negative impact on the establishment of classical civil society organizations.

growth in the number of organizations slowed down, and so did the increase in the size of organizations; these trends were accompanied by a kind of “polarization” of the sector, with the emergence of two groups of entities: traditional civil society organizations, on the one hand, and organizations closer to the state, on the other.

The second half of the 1990s and first half of the 2000s were characterized by the further institutionalization of the non-profit sector. The adoption of the 1% personal income tax law, in 1996, widened the public’s right to have a say in decisions about supporting civil society organizations.¹⁶ The Public Benefit Act of 1997 created the category of “public benefit and outstanding public benefit organizations”,¹⁷ which made the activities of the organizations—instead of their legal form alone—the basis for defining whether an organization qualified as a public benefit entity. Further initiatives included the 2002 Civil Strategy, the main principle of which was that the state should regard autonomous civil society as partners, followed by the creation of the National Civil Fund, in 2003, which aimed to provide financial support to NGOs¹⁸ (Nagy 2011: 121).

After the EU accession, in 2004, the Act on public interest volunteer activity (passed in 2005) determined the content of volunteering and the legal guarantees of volunteer labour, and made it possible for civil society organizations to include in their accounts voluntary help or the reimbursement of the costs incurred by volunteers¹⁹ (Nagy 2011: 121).

In 2006, Act V of 2006 ordered the dissolution of public benefit companies, and though public law foundations were not eradicated, their activities could not be extended and no new ones could be created. At the same time, the concept of “non-profit company” was introduced in the law about companies: since July 2006, non-profit limited partnerships, general partnerships, limited liability companies and corporations can be created.²⁰ The aim of the new regulations was to replace these limitedly effective organizational forms by new, more efficient ones; the new regulation made it possible for former public benefit companies to become non-profit companies without changing their ownership structure (Act V of 2006). Many non-profit companies are thus the “successors” of previous public benefit companies founded by public entities to perform public services; in this sense, they are not traditional civil society organizations.

In 2006, the social cooperative legal form was also introduced in Hungary. Organizations under this form can also obtain a public benefit status, but are freer to carry out business activities than non-profit organizations (associations and foundations).²¹ In public policy, the issue of the social economy also became more significant. At the same time, the growth in the number of non-profit organisations stopped in the year 2006.

¹⁶ Act CXXVI of 1996 on the Use of Specified Amount of Personal Income Tax for Public Purposes in Accordance with the Taxpayers Instruction.

¹⁷ Act CLVI of 1997 on Public Benefit Organizations.

¹⁸ Act L of 2003 on the National Civil Fund.

¹⁹ Act LXXXVIII of 2005 on Voluntary Activities in the Public Interest.

²⁰ Act IV of 2006 on Business Associations.

²¹ Act X of 2006 on Cooperatives.

The situation became significantly different *after the change of government in 2010*. The new administration has a less pluralistic, more paternalistic attitude towards civil society organizations than previous ones. The new government “excludes some of the actors from the partnership and support. Several of the previously established partnerships and social forums were ended or became dormant or obsolete” (Márkus and Szabó 2015: 16).

The new civil law of 2011 was introduced,²² and though it settled certain legal relations, e.g. defining principles of cessation (which had hitherto remained unregulated), and redefined public benefit status, it “has raised many questions, resulting in uncertainty and confusion among CSOs on how to adapt to the new rules” (USAID 2013: 2). In 2010, individual income tax incentives for charitable giving completely disappeared, while some corporate tax incentives remained.

In 2013, the New Civil Code introduced a new kind of sanction on debt existence at termination of an association.²³ Still, important issues have not been dealt with, e.g. the fact that public benefit status is based on providing public services or that funding for the non-profit sector has been cut and that the method of distribution—the operation of the National Civil Fund, renamed National Cooperation Fund—has become more centralized and remains political in nature (USAID 2014: 3). Besides, regulations are still confusing and bureaucratic. Since 2013 as well, new legislation has allowed all social cooperatives to include in their membership legal persons—local government and non-profit status organizations performing charitable activities—not actively taking part in the activities.²⁴ In December 2016, the law was amended, making the inclusion of such institutional members compulsory for all social cooperatives.²⁵ Such evolution can result in an increase of influence of the state and local governments in social cooperatives and to a decrease in independence of these initiatives; many social cooperatives are indeed not grassroots organizations but are initiated by public actors.

Most recently, on June 13, 2017, a new law on the Transparency of Foreign Funded Organisations was adopted by the Hungarian Parliament. This law requires associations and foundations that receive more than 7.2 million HUF (around 20,000 EUR) in international support annually (not including EU funding) to register as foreign-funded organizations and make it visible in all their communication. The law was adopted despite domestic demonstrations and international backlash. Several civil society experts and activists believe that the law is unnecessary, stigmatising and harmful, and will have negative consequences on the third sector in Hungary.²⁶

²² Act CLXXV of 2011 on Right of Association, Non-profit Status, and the Operation and Funding of Civil Society Organisations.

²³ Act V of 2013 on the Civil Code.

²⁴ Act CCLIII of 2013 amending various laws related to the entry into force of the new Civil Code.

²⁵ Act CXLV of 2016 on modifying certain employment-related laws.

²⁶ See for instance:

https://www.transparency.org/news/pressrelease/ngos_were_here_to_stay_and_to_continue_our_work

At the same time, the development of and support to social enterprises currently constitute a direct objective in Hungary, as evidenced by the introduction of the first public—EU-co-funded—funding programme for social enterprises.

The non-profit sector has always been characterized by co-operation between the state and independent organizations, as well as by mutual distrust and confrontation. After the centralizing policies of state socialism, the change of the regime in 1989 brought about the rehabilitation of the non-profit sector and an explosive growth in the number of its organizations, while cooperatives, on the other hand, experienced a sharp step back, from which they have not yet recovered. From the middle of the 1990s onward, the non-profit sector experienced a kind of institutionalization as well as a trend toward polarization, with traditional civil society organizations on the one hand and entities closer to the state—such as non-profit companies—on the other. From the middle of the 2000s, and in particular after the country joined the European Union, the social economy was strengthened, mainly through a top-down approach, especially by introducing social cooperatives. Since 2010, a more paternalistic, centralizing tendency has been observed; at the same time, direct support for social enterprises has been implemented for the first time.

3.2. Possible legal forms

There is no specific law or legal form for social enterprises in Hungary. The legal framework is provided by laws on the different types of non-profit organizations, volunteering and social cooperatives, and especially by the New Civil Law of 2011. In this section, the different legal forms that Hungarian social enterprises can take will be presented. According to most recent data by the Hungarian Central Statistical Office, in 2015, there were 18,003 foundations and 31,354 associations (traditional civil society organizations) in the country; the number of organizations that engage in entrepreneurial activities is significantly lower, though. There were also 2,995 non-profit companies, and altogether 4,577 cooperatives, among which around 2,500 social cooperatives.

Regarding the possible legal forms of social enterprises, researchers disagree as to whether social enterprises can have for-profit forms or not.²⁷ According to NESsT, “social enterprises in Hungary can function either in non-profit legal forms (e.g. foundation, association, non-profit company, etc.) or in for-profit legal form (e.g. social cooperative)” (Etchart et al. 2014: 11). By contrast, authors such as Petheő (2009; see section 1.2) stress the importance of the non-profit legal form. G. Fekete et al. (2014a) identify mostly non-profit companies with social aims, NGOs (associations or foundations) with economic activities, social cooperatives and traditional cooperatives as social enterprises. According to their study, “this group is complemented by a small number of social enterprises working under a ‘traditional’ for-profit

²⁷ The Hungarian Central Statistical Office (*Központi Statisztikai Hivatal*, or KSH) regards the following legal forms as non-profit organizations: privately founded foundations and associations and federations (i.e. traditional non-governmental organizations); non-profit companies and public foundations; and public bodies, trade unions, employers’ representatives and professional associations (i.e. interest groups) (see KSH 2014: 1). Frey (2007: 22) considers that the social economy does not only include non-profit legal forms, and that this sector can also include cooperatives (in particular social cooperatives) and social enterprises with for-profit legal forms.

organisational form (where democratic decision-making is less characteristic)" (G. Fekete 2014a: 3).

The recent state programme that directly targets social enterprises considers that for-profits— with the exception of social cooperatives—are not to be regarded as eligible. Organizations entitled to receive support within the programme are non-profit companies, social cooperatives, foundations and associations conducting business activities, which contribute to the employment of disadvantaged, unemployed and inactive people (Ministry for National Economy 2015: 6).

An *association*, according to the Civil Code, is a legal entity with registered membership, established for the continuous realization of the common, long-term objective of its members, which is set out in its statutes. The basis for its organization is the freedom of association—a right to which everyone is entitled. An association must be established by at least 10 people, and its activity must be in line with the constitution and not prohibited by law. The general assembly has the ultimate decision-making power. As a general rule, members are entitled to equal rights and obligations, but it is possible to create special types of membership in the statutes. The members are obliged to pay a membership fee. The Civil Code allows associations to carry out business activities, but only on a supplementary basis. According to the law, such business activity should not jeopardize the association's main aim; it should only be a means to achieve the economic conditions under which the organization can pursue its main goal. Separate accounting records should be held for the costs and results of the main activity, on the one hand, and those of the economic/business activity, on the other hand. As far as the allocation of profits is concerned, the association's assets can only be used in accordance with its basic aims, and profits may not be distributed to members. This is also the general rule in case of dissolution of the association.

A *foundation* is a legal entity established to implement the continuous, long-term target set by the founder(s) in the deed of foundation. The new Civil Code, in effect since 15 March 2014, has withdrawn the clause, present in the previous Code, that required that foundations have a public purpose, thus leaving wider opportunities for the operation of foundations and simply stating that "in accordance with the pursuit of the purpose of the foundation, financial services can be provided to whomever is indicated as beneficiary by the deed of foundation (or by the entitled foundational body if the deed fails to define the beneficiary)" (3:385§). Just as associations, foundations may not be established to pursue economic activities, and they are only authorized to carry out economic activities directly connected with their main goal. The foundation's executive body is the "three-member board" (i.e. the board of trustees, which includes three members) or, depending on the founder's (or founders') decision, the curator, who is acting by the same rules as the board of trustees. Regulations about the foundation's assets provide that the founder must provide the financial benefits according to the instructions given in the deed of foundation, and must manage and use the foundation's assets in line with the specifications defined in the deed. The capital placed at the disposal of the foundation is not recoverable; reducing the funds by modifying the deed is a legally invalid action. In case of termination of a foundation without successors, the founder(s), the affiliate(s)²⁸ and the

²⁸ An affiliate is a non-founding member.

benefactor(s) are only entitled to the contributions they have made to the foundation: the amount they recover cannot be higher than the one they have donated. After the various contributors have recovered their contribution, the founder may only dispose of the contributions—if their use is not provided for in the deed of foundation—in favour of foundations or associations with purposes similar to those of the foundation.

A *non-profit company* is an organization whose rules are regulated by the Act V of 2006 on Public Company Information, Company Registration and Winding-up Proceedings. Non-profit business companies are a special form of business companies. The Civil Code's definition says that "business companies are legal entities formed by the financial contribution of their members for a joint business-like economic activity, in which members collectively share the profits and collectively bear the losses" (3:88. §). The articles of association of non-profit companies determine that profits derived from the company's activities cannot be distributed to its members, but should increase the company's assets. A non-profit company may be established and operated under any form of company (general partnership, limited partnership, private limited company or joint-stock company). The company's board of members is the main authority, whose role is to make decisions regarding fundamental personal and business issues. Every member of the company is entitled to participate in the work of the board. Voting rights are proportional to the financial contribution of each member. In non-profit companies, the distribution of profits is not allowed. In case of termination without successors, the members are only entitled to their own shares, up to the current value of their portion of the assets.

A *cooperative* is an organizational form that, according to the Civil Code, "is established with the capital gathered from the financial contribution of its members and operates according to the principles of open membership and changing capital. As a legal entity, its activity aims to meet the economic and social needs of its members; the obligation of the member toward the cooperative is to provide a financial contribution and personal involvement, as declared in the articles of association" (3:325. §). Cooperatives' activity can include selling, purchasing, production of goods and provision of services. Thus, some cooperatives are not explicitly social purpose-oriented companies, although the sector's social role is indisputable. Establishing a cooperative requires at least seven members. The ratio of legal entities among members cannot exceed 20%, while members who are not personally involved cannot reach more than 25% of the membership. To ensure democratic operation, "the members are entitled to the same rights in the cooperative's management and control, regardless of the amount of financial contribution they provide" (3:356. § of Act V. of 2013 on the Civil Code). Within the assembly, the supreme decision-making body of the cooperative, each member has one vote. Profit distribution is limited. At least half of the cooperative's profits have to be distributed among the members, not in proportion to their financial contribution to the cooperative's capital but in proportion to their personal involvement with the cooperative. Any member leaving the cooperative is entitled to the value of his/her contributions, plus assets in proportion to the contributions accumulated during the period of their membership. Any asset provided by the ex-member for use by the cooperative must be returned to him/her if it is available; in case of deterioration of this asset, the cooperative does not bear any responsibility.

Social cooperative is the only legal form in Hungary intended specifically for social enterprises. According to the definition by Németh (2012), social cooperatives are autonomous communities aiming to meet the needs that recently emerged due to the social and economic division of labour. They are organized on the basis of three principles: care for others and the community, responsibility and solidarity. Act X of 2006 created social cooperatives as a distinct form of cooperatives. This law, in comparison to its international counterparts, is permissive in terms of social goals and as regards the identification of the groups targeted by the activities of social cooperatives. Although the legislation puts a special emphasis on job creation for the disadvantaged, an additional clause (about “otherwise [facilitating] their social conditions”) leaves a space open for various possible activities; moreover, neither the Civil Code, which governs the general characteristics of cooperatives, nor the cooperative law, which contains special rules, specify what should be understood by “the disadvantaged”. Regarding membership, a few differing regulations can be found in the Hungarian legal system. Overall, the Civil Code’s general requirements for cooperatives are the norm. Such requirements include for example the principle of open membership; the civil code also defines the appropriate share-capital contributions, and it states that a cooperative must be founded by at least 7 founders (since 2012, beside natural persons, local governments and public benefit organizations performing charitable activities can be members as well). According to the Act CXLV of 2016 modifying certain employment-related laws, as from December 2016, local governments or certain charitable organizations appointed by the state must be among the members of the social cooperative. For social cooperatives, the upper limit for the proportion of legal-entity members is higher than for traditional cooperatives (25%, compared to 20%). The Hungarian law contains no guidelines about the proportion of disadvantaged members within the whole membership. The law also provides for the possibility of “membership work”, a form of membership-based direct contribution that exists only in social cooperatives. In line with cooperative traditions, the law states that the “one member, one vote” principle, democratic decision-making and an institutional framework ensuring transparency should prevail in social cooperatives. According to the provisions of the Civil Code, the cooperative must establish a general assembly, a board of directors and a supervisory board, and it must employ an accountant. Profit distribution is not prohibited by law for Hungarian social cooperatives: like for traditional cooperatives, the law only requires as a means of control that at least half of the social cooperative’s profits should be allocated based on the members’ personal contributions. It is also possible to create a Community Fund, which is made up of non-distributable assets and whose aim is to cover the benefits provided to members and their families.

Since social enterprises are usually connected, in Hungary, to the non-profit sector and social economy, we primarily focused here on non-profit legal forms and cooperatives. It should be noted, though, that as far as *for-profit legal forms* are concerned, during “the last five years, for-profit social enterprises have also appeared and they have become stronger and stronger” (Etchart et al. 2014: 6).

In Hungary, all non-profit organizational forms and social cooperatives can acquire public benefit status. Social enterprises can adopt different legal forms, and it is frequent to operate several different legal entities with different legal forms together.

3.3. Public support schemes and programmes

The development of social enterprises has not only been influenced by changes in the regulatory framework, but also by public funding policy. After the initial first few years following the transition of 1989, the role of the European Union in public funding has been crucial for social entrepreneurial activities in Hungary. However, in the case of most programmes, the amounts received by non-profit organizations in general and by social enterprises in particular are not known.

Before Hungary joined the EU, in the framework of PHARE (Pologne Hongrie Aide à la Reconstruction économique), local economic and labour market development programmes in disadvantaged regions were introduced, as well as programmes aiming to promote and facilitate the reintegration, into the labour market, of women who had been out of employment for a long period of time (Frey 2007b: 164).

After the country joined the EU in 2004, in the first development period (2004-2006), the Human Resources Development Operational Programme (HRDOP) included two major programmes: (1) labour market training and employment of disadvantaged people on the alternative labour market; and (2) development-centred alternative labour market services, funding the creation of the first main transit employment initiatives by NGOs, some of which are still in operation today. In addition, the Regional Development Operational Programme (RDOP) initiated a structured dialogue on the subject of the social economy, studies and research were conducted on the employability of disadvantaged people, and international best practices were presented. One funding construction as part of RDOP supported the implementation of non-profit employment projects in the social economy (Tóth et al. 2011: 19). Besides, the EQUAL community initiative aimed to develop and disseminate innovative projects for the abolishment of inequities and discrimination in the labour market.

In the second development period (2007-2013), the areas relevant for social enterprises and non-profit organizations in general were mostly covered by the Social Renewal Operational Programme (SROP), one component of which supported “pilot projects to activate the inactive population, to integrate the disadvantaged people into the labour market, to foster permanent employment of long-term unemployed, to develop sustainable employment models in the field of social economy” (Ruszkai and Mike 2012: 5). Another initiative within SROP directly supported social cooperatives, thus making the advancement of this legal form possible.²⁹

Besides, another important programme was LEADER, which—in line with the priorities of rural development policies in Hungary—aimed to strengthen the opportunities for sustainable economy development, reducing problems in rural areas, increasing revenues, and developing

²⁹ The predecessors of the program were the Cooperate 2007 and Cooperate 2009 programmes, managed by OFA (National Employment Nonprofit Ltd.) and financed by the central state budget, which funded the establishment of the first social cooperatives. Although there are only few comprehensive reports on the viability of the supported social cooperatives, many criticized these programmes, pointing out that many social co-operatives had been established only with a view to applying for the funding, though this legal form did not necessarily fit them well (Tóth et al. 2011: 20).

local communities (Horváth 2010: 28). The LEADER programme supported the implementation of regional development strategies building on cooperation among local governments, businesses and non-profit organizations. The programme focused more particularly on the 33 most underprivileged micro-regions of Hungary. Another initiative focusing on these micro-regions was the LHH programme, carried out between 2008 and 2013, which was based on the idea that, through the expansion of local production capacities, the living conditions of people in the affected areas could be improved (NFÜ 2007, in Kabai et al. 2012: 54).³⁰

Beside programmes directly co-funded by EU Structural Funds, certain initiatives fostering the development of social enterprise-like activities were financed by domestic state budget as well. The first major domestic institution funding and supporting the development of initiatives connected to social entrepreneurship was the National Employment Foundation (*Országos Foglalkoztatási Közalapítvány*, or OFA), which later became Non-profit Ltd. (*Non-profit kft.*), and whose programmes were originally financed by the Labour Fund, which provided financial support to non-governmental, non-profit organizations aiming to create employment (Frey 2007b: 171). Since its foundation, in 1992, the mission of OFA has been to fight unemployment and to promote employment—a mission by which it fulfils an important role in the Hungarian labour policy institutional system. Several programmes funding community enterprises (social economy organizations) have been launched in recent years (Horváth 2010: 26).

“Social land” programmes have been running since 1992 as a tool for rural development. Within the framework of these programmes, poor families in small and remote villages were allowed to use the land and purchase different agricultural tools. The initiatives were mainly run by local governments, either directly or through non-profit organizations founded by municipalities, and a high proportion of beneficiaries were Roma families. “Some of these programmes merely help the very poor to produce their own food and become self-sufficient. However, a number of initiatives go beyond this and are organized as enterprises producing for the market” (Ruszkai and Mike 2012: 5). Bartal (2005: 19) argues that, for really poor and marginalized households, social land programmes are inadequate support schemes and that, in order to avoid the reproduction of deep poverty within these households, a more complex employment, social and reintegration programme would be needed.

Supported employment and public work have also been present for a long time and constitute an important source of income for work integration social enterprises (public service provision social enterprises and work integration CSOs). The employment of people with disabilities is supported through wage-related subsidies from the central budget, available in the framework of social employment and employment by accredited employers (Kajner and Jakubinyi 2015: 201-2).

³⁰ LEADER did not achieve the expected results and was characterized by the slowness of central administration, over-regulation and the delay in contracts and later in payments (see Fazekas and Nemes 2005). The LHH programme also proved unable to deliver solutions based on local needs (Czike 2011).

For the employment of the long-term unemployed, particularly in regions where work opportunities are otherwise limited, support is provided by the highly controversial public work programme.³¹ Since the transformation of the unemployment and social benefit systems, public employment (rather than other, possibly more empowering means of active labour market policies, such as training, support for entrepreneur wages or travel allowances) has been playing a central role in employment policies. “The Government looks upon public employment primarily as a temporary solution. The social economy—especially social cooperatives—can be the next step for [the long-term unemployed] towards the open labour market.” (Ruszkai and Mike 2012: 6) However, in reality, public employment does not appear to be temporary and participants do not reintegrate the primary labour market as expected. In practice, public employment rather appears as a “trap-like” situation, creating a feudalistic system (for a detailed analysis, see Bakó et al. 2014).

As of now, the main public funding schemes available are specified in the Hungarian Partnership Agreement for the 2014-2020 programming period, where the term “social enterprise” appears beside those of social economy, transitional employment and sheltered employment (Partnership Agreement: 31). Two current programmes of the Economic Development and Innovation Operational Programme (EDIOP) and one initiative of the Rural Development Programme (RDOP) are of particular interest regarding social enterprise (for a detailed analysis, see Kajner and Jakubinyi 2015: 209-28):

- The “Programme for encouraging and supporting social enterprises”: the main target groups of this programme are disadvantaged unemployed and inactive people, actors of the social economy and social enterprises (EDIOP 5.1.3). At the time of its launch, the overall budget of the programme was 6 billion HUF (around 20 million EUR).
- The “Complex employment programmes of non-governmental organizations”: the main target groups of these programmes are disadvantaged unemployed and inactive people, including the Roma (EDIOP).
- The “Solidarity economy and community supported agriculture” initiative: the aim of this development initiative is the diversification of agricultural production activities, by having agricultural farms implementing social inclusion activities, e.g. services connected to health care, social inclusion, community-supported agriculture and activities related to environmental and food education (RDOP).

Besides, for social cooperatives that have local governmental members and are based on public employment,³² another call for application was announced in 2016; the overall budget of the program was 10 billion HUF (around 33 million EUR).

³¹ Hungarian governments have long considered public work as an important tool of employment generation. Public work originally referred to the completion of tasks of public interest by the central state and local governments. Since 2011, the new system of the National Public Employment Programme has been focusing on achieving reintegration, in the labour market, of the highest possible number of workers, rather than focusing on the long-term, social aspects of inclusion (for a more detailed analysis, see G. Fekete et al. 2014b: 14-20).

³² By “public employment”, we refer to situations in which local governments that are implementing public employment projects start a social cooperative and hire in the cooperative the workers that were previously public employees.

The National Employment Nonprofit Ltd. (*Országos Foglalkoztatási Nonprofit kft.*), which supports the applicants to the “Programme for encouraging and supporting social enterprises”, is currently responsible for setting up an institutional structure for the professional guidance, mentoring and networking of social enterprises, as well as establishing a system of measurement, qualification and evaluation. The programme intends to support non-profit organizations and social cooperatives that, through their activities, contribute to the employment of disadvantaged, unemployed and inactive people (Ministry for National Economy 2015: 6). Supported organizations would receive funding to employ underprivileged people in certain projects, but it is feared that the organizations might not be able to maintain these jobs when the funding comes to an end.

The main state institutions involved in public support to social enterprises are the Ministry for National Economy, which is responsible for the drafting of EU-co-financed operational programmes including grants to support social enterprises; the Ministry of Human Capacities, which is responsible for social inclusion-related issues; and the Prime Minister’s Office, which is responsible for EU Structural Funds. The Ministry of Agriculture and the Ministry of Interior should be mentioned as well, as regards respectively social enterprises in agricultural settings, on the one hand, and public work and work integration social enterprises, on the other hand.

All in all, support schemes and programmes connected to social enterprises in Hungary have mostly been co-financed by EU Structural Funds aiming to strengthen the social economy and social cooperatives pursuing a goal of employment generation for vulnerable social groups and rural development. Unfortunately, due to the small number of comprehensive impact assessments, the efficiency and results of these programmes are difficult to measure. Existing analysis often points out the deficiencies and lack of sustainable results of certain programmes.

3.4. Non-governmental financial and professional support

International and domestic private foundations or other organizations directly focusing on social enterprises have been present in Hungary for years. Social enterprises have been supported by various key organizations in the past years and several opportunities for financing, professional assistance and networking are available today to social enterprises.

The most important of these support organizations, NESsT, has been present in Hungary since 2001. NESsT is US-founded private, international non-profit organization developing social enterprises in emerging market economies, and providing both capacity-building services and investment in the form of loans, capital investment and non-refundable grants.

Another organization that has played an important role is Ashoka, the largest network of social entrepreneurs worldwide, which has been present in Hungary since 2009. Ashoka provides financial support to social entrepreneurs for a 3-year period, so that they can develop their work and spread their ideas. But while NESsT supports social entrepreneurs in the sense given to the concept by the earned income school of thought (which NESsT represents in Hungary), Ashoka has a broader understanding of social entrepreneurs: “they are solving

social issues using some of the tenants of entrepreneurship but they are not necessarily running socially driven businesses.”³³ (Etchart et al. 2014: 14).

Microfinance programmes have also been present in the country for decades.³⁴ Today, the “Way Out” (*Kiút*) Programme, established as a Hungarian adaptation of Yunus-type micro-credit initiatives, aims to help the poor or disadvantaged (primarily Roma) population, providing “financial education, lifestyle consulting to potential borrowing groups ... [If] a group can offer sufficient safeguards, a member of the group can get a loan up to 1 million HUF to start a business” (Ruszkai and Mike 2012: 6). The pilot programme, funded in part by the state, started in 2009; since 2011, it has been financed exclusively by private sources. The programme experienced severe problems, mainly due to the fact that, while enterprises launched thanks to microfinance support in the Global South were typically informal initiatives, within the *Kiút* programme, enterprises were expected to operate within the formal economy (Molnár 2014: 93 and 95). The following differences should be taken into account when considering the situation in Hungary, as compared to that in “developing countries”, where microcredit was originally applied (Molnár 2014: 94): Hungary has high levels of taxes; the country has a social benefit system; people starting an enterprise bear significant administrative burdens and face challenges, such as the fact that the capital costs of starting-up an enterprise are comparatively higher in Hungary; the country is also characterized by a lack of trust towards institutions, including banks. Audy et al. (2013) argue that one of the main challenges of the social microcredit scheme in Hungary is to balance financial sustainability and social mission: “A main obstacle for this type of program is that ‘sustainability’ of microcredit operations is currently a prerequisite for existing microcredit instruments. (...) such sustainability requires a clientele with higher social status than the target group of social microcredit.” (*ibid.*: 30)

Certain financial and other for-profit institutions have also been active in relation to social enterprises. These institutions typically offer funding, business education, pro bono consultancy and other expert support as part of their CSR activities.³⁵ Besides support targeted at social

³³ Other organizations have also appeared recently; one example is the Badur Foundation, which supports projects in Hungary fighting inequalities in terms of education and projects facilitating social change, in particular for the Roma community, e.g. agricultural social enterprises.

³⁴ “There were two antecedents to the *Kiút* Programme. Two foundations—SEED and Autonómia—launched micro-finance programmes (separately). SEED targeted women to make their own start-ups but the foundation was unable to find enough clients for its resources. Autonómia ran a programme that was similar to the *Kiút* programme. It targeted Roma people living in extreme poverty but did not live up to expectations either: the repayment rate was below 50%.” (Ruszkai and Mike 2012: 6) Since 1992, the Hungarian Foundation for Enterprise Promotion (MVA) has operated several microcredit programmes to provide financial and business support to micro and small enterprises.

³⁵ The Erste Foundation Roma Partnership (connected to Erste Bank), for example, aims to support the development of social entrepreneurship, income generation activities and educational programmes for job creation opportunities at community level, while enabling and reinforcing long-term collaboration between Roma and non-Roma, while the good.bee program has provided, since 2011, financial consultancy and services to social enterprises. Since 2005, Citibank, in cooperation with NESsT, has launched several tenders for social enterprises; it provides expertise and funds an award given to the most successful social enterprises. The UniCredit bank’s Social Responsibility Project launched a “Social Innovation” competition in 2013 for initiatives addressing the economic vulnerability of disadvantaged

enterprises in particular, certain NGO funds—although they do not have a primary social entrepreneurial focus and rather aim to foster civil society in Hungary—do support projects with social entrepreneurial activities.³⁶ There are also several competitions offering different types of prizes (funding or professional development) for social enterprises, social innovation projects or non-profit organizations in general.³⁷ A range of development organisations offer consultancy and professional support to social enterprises or other non-profit organisations, without being involved in financing in particular.³⁸ In recent years, academic interest for social enterprise has also increased; several universities now offer courses and conduct research connected to the non-profit sector, social economy and social enterprises in particular.³⁹

There are several networks and communities for certain types of social enterprises. The National Association of Social Cooperatives was founded in 2010 and has 44 member organizations. It represents and promotes the interests of social cooperatives in legislation and other public decision making. The National Association of Charity Shops was founded in 2014 by 10 founding organizations operating 19 shops. The National Association of Social Enterprises was formed in 2015; it aims to represent its members' interests, and its economic development activities support the members' entrepreneurial activity, particularly through promoting their access to markets. Besides, certain fairs, conferences and other programmes facilitate networking; the most important of these events is the Social Enterprise Day, an annual fair for social enterprises organized by NESsT and National Employment Non-profit Ltd.

groups by helping them establish economic self-sufficiency. KPMG's (a leading audit, tax and advisory firm in Hungary) Programme for a Responsible Society started in Hungary in 2009; it supports non-profit organisations or social enterprises active in education, health and environmental protection by providing pro bono professional support for one year; the advisory work is complemented by an operational grant and donations of used laptops if needed. The MagNet Bank, which considers itself as an ethical bank, offers favourable conditions to social enterprises and non-profit organisations.

³⁶ This is the case of the EEA/Norway NGO Fund and the Swiss NGO Block Grant.

³⁷ E.g. SocialMarie (since 2005), and the Added local value award of the National Employment Public Limited Company (first organized in 2015).

³⁸ The Association of Community Developers helps in the execution and monitoring of business plans and supports networking opportunities; Kreater Social Agency has a social innovator and start-up internship programme for young people; the Foundation for the Development of Democratic Rights runs an international exchange project within the framework of the Erasmus for Young Entrepreneurs programme; Civil Support improves the effectiveness of social organisations through developing and generating cross-sectoral collaborations between businesses; and Impact Accelerator, a 6 to 9-month-long development programme for social enterprises, promising social investment opportunity at the end of the programme, has recently started. Other organizations have also recently started connected programmes, e.g. Védegylet, SocialFokus, Social Inclusion Foundation or the Budapest Impact Hub.

³⁹ The Corvinus University of Budapest was the first university to engage in teaching on the topic; it has proposed its students a one-semester course on social enterprise ("Social Enterprises and Social Economics") since 2006. The University of Debrecen has offered, since 2014, a Master's Degree Programme in Social Work and Social Economics (SOWOSEC). The Budapest Business School (BGF) and the University of Miskolc have conducted research or launched projects on this topic as well. At the Eötvös Loránd Science University, in the Faculty of Social Sciences, PhD students are currently researching the topic.

To sum up, besides the key role of the state (which focuses on non-profit organizations and social cooperatives that contribute to the employment of disadvantaged, unemployed and inactive people), certain non-governmental actors from both the non-profit and for-profit sector have financial or professional support activities targeting social enterprises and have played an important role in shaping the development of the sector.

Regarding the proposed models, no direct differentiation can be established on the basis of support schemes and legal development. Certain support mechanisms are certainly most commonly associated with some models (for example, social land programmes are frequently associated with local community development social enterprises, or employment-related subsidies are often granted to work integration CSOs), but no support mechanism is exclusively linked to one model. Social enterprises have been using funds and other development opportunities based on their practical needs and diverse realities.

4. MAIN CHARACTERISTICS AND CHALLENGES

No database or recent representative study is available on social enterprises in Hungary. Existing literature mostly analyses statistics related to the non-profit sector (to specific legal forms, but not to social enterprises in particular), discusses qualitative case studies or (for quantitative research) is based on small samples. This makes any description of the sector in terms of number of enterprises, size, main activities and target groups difficult and the results unreliable.⁴⁰

There is no single and widely accepted definition of social enterprise in Hungary; the concept is not widespread and not well known by the general public. The low level of awareness and understanding of the concept (according to G. Fekete et al. 2014a: ii) and the lack of trust of the general public in economic activities carried out by non-profit organizations can pose problems for organizations.

There is no single law, uniform regulation or a long-term strategy either, resulting in a confusing legal and policy environment. According to Etchart et al. (2014: 10), the unpredictability of the regulatory environment is a factor that has a negative impact on social enterprises.

Regarding finances, in general, the situation of non-profit organizations in Hungary has long been characterized by excessive dependence on state and EU resources (which have been decreasing lately); the lack of local, corporate and individual donors; and the small number of other possible resources (Tóth et al. 2011: 16). In recent years, according to a report by USAID on the sustainability of civil society organizations, a number of social, economic and

⁴⁰ Available data are to be extracted from data on enterprises, cooperatives and non-profit organisations. Regarding the number of social enterprises, due to the overall lack of statistics, only estimates are available. Petheő (2009) writes about 500-600 organizations, while, according to NESsT, (2014) there are about 300-400 social enterprises in Hungary. The definitions on the basis of which scholars estimate the number of social enterprises might be different, but their estimates in terms of number of concerned organizations appear quite similar.

political factors have been affecting NGOs in a negative way, such as the weakened rule of law, fragile economic environment, deteriorating standards of living, higher proportion of people living in deep poverty, etc. (USAID 2013: 88). The last years have thus witnessed a decrease in all dimensions of sustainability: legal environment, organizational capacity, financial viability, advocacy, service provision, infrastructure and public image (USAID 2016: 110); financial viability was the dimension for which the most severe backwards step was registered.

Most social enterprises experience similar difficulties: in general, they rely heavily on external—mostly public—financing (e.g. grants and subsidies), which constitute a rather unpredictable source of revenue (since they are not given on a statutory but on an occasional basis) and are often scarce, too bureaucratic, not flexible and not based on local needs. Support structures are often criticised for not being transparent, lacking communication and having political bias; when it comes to granting funding, close-to-state organizations are often preferred to other organizations, which leads to a polarization of the sector. G. Fekete (2014a: ii) also states that the sector lacks supporting infrastructure.

The Hungarian situation is also characterized by the low purchasing power of many consumers and the lack—or insufficiency—of potential in terms of markets, especially in disadvantaged regions where social entrepreneurial activities would be particularly relevant. “Private commercial investment is usually not considered a viable alternative—neither for investors, nor for the organisations. Market-oriented ‘social enterprises’ with both social aims and sustainable business models have appeared in recent times but they are still relatively rare and not sufficiently visible among the broader public.” (G. Fekete et al. 2014a: 13) It should be underlined, though, that although a stronger market orientation of Hungarian social enterprises appears desirable in several aspects, many social enterprises—especially among those emerging in disadvantaged regions—would most probably not be able to survive solely off the market.

The lack of entrepreneurial and management skills of social entrepreneurs is also pointed out by some authors as a problem: “the expertise of the people working in the organisation is not professional, because they do not possess that knowledge that is necessary to enter and to stay on the market” (Horváth 2010: 19). However, this explanation for the limited success of social enterprise does not take into account the structures and the national economic, cultural and political contexts in which social enterprises emerge.

To sum up, there are currently public and non-governmental funding programmes or other types of supporting activities available to social enterprises, and there is a growing interest for this topic. However, social enterprises often face severe problems in their daily operation, due mostly to the low level of awareness, unfavourable economic situation, unpredictable funding, deficient support infrastructure and confusing legal environment.

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- Act IV of 2006 on Business Associations
- Act X of 2006 on Cooperatives
- Act CLXXV of 2011 on Right of Association, Non-profit Status, and the Operation and Funding of Civil Society Organisations
- Act CCLII of 2013 amending various laws related to the entry into force of the new Civil Code
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