



SOCIAL ECONOMY IN HUNGARY

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Introduction

The present summative study has undertaken to make a secondary analysis of several studies, and having revealed the connections between them, it tries to position the Hungarian social economy in the economic space that recently people just refer to as third economy, or solidary economy.

In the study, we wish to provide a brief overview about the settling down of the idea of social economy in Hungary, and about its embedding into the national economy.

The basic features of the social enterprise sector

From market economy to solidary economy

The thought of social economy can not be interpreted without the „idea” of social market-economy, that’s why first we try to turn back to the origin of the birth of the thought itself, and we wish to present the development progress that led to the settling down of the third economy – which is already representing a serious weight in the economy of the entire Europe. It is the development of that nonprofit sector that would have led to the establishment of social market-economy.

The definition of the requirements, the system of values and the setting up of the practice of social market economy had all been established by Ludwig Erhard, who created social market economy after the 2nd World War, not only in theory, but also in practice.

In Hungary, after the change of the political regime, the thought of social market economy had been present for many parliamentary cycles. József Antall, the prime minister of the first freely elected government, thought in the Erhardian¹ spirit that it is not the social policy that is to lay down the social security of a society, but its the economy. As an example, that Western model was floating in front of his eyes, in which every fourth or fifth citizen can be a shareholder, and in which the natural form of ownership is the stock. *„In all three sectors of economy- that are the market, the state and the nonprofit sector- clearly the competition shall be the definitive principle.” – as it is appointed as the strongest direction in the collection of principles about economic policies entitled Jövőkép (Future prospective), edited by the intellectuals near FIDESZ party (Hungarian Civic Union). At the same time however, according to the credo of the document „such a Hungarian market economy is needed, which is both liberal and social at the same time.”* In these thoughts, the ideal of social economy has already been present, the three pillars, on which social economies are built up.

These thoughts were born at the dawn of the Hungarian change of regime, then when the unemployment caused by the first structural change of the economy shocked the society. But at that time, this was only a thought. In the very same years, Europe found the remedy for the development of the social market economy stuck in the ideal of social economy. The economy of the USA and Japan has not even been touched by those processes with which the old continent was struggling. In these years, the economy was still flourishing in America and in Japan.

¹ Erhard: The definition of the requirements and the value system of the social market economy and the formation of its practice can be attributed to Ludwig Erhardt, who has not only established social market economy in the theory, but he has also laid it down in the practice as a minister of economy

While Hungary was busy with the tasks caused by the change of regime, the European Union was busy with the Maastricht Agreement establishing the bases of the monetary union and later, it initiated changes in the field of labour and employment with the treaties of Rome, Amsterdam, and Lisbon. The more and more serious unemployment, the appearance of duratively unemployed people required a new thinking approach. This thinking approach can be found in the White Book of the EU(1993), in which social economy is defined as one of the development routes leading into the 21st century.

In the White Book, published in 1993, social dimension gained a special importance, that includes the questions related to the employment, the development and the mobility of labour force, but also the basic social and employee rights, the working conditions, the labour market, the employment, the working hours, the wage, the social security systems and assistances, the protection of the interests of the employees, the social dialogue, and the questions of the problems of the disadvantaged groups.

It was also laid down in this document that the questions of economy and social policy must be dealt with simultaneously, and reinforcing policies must be made in both areas.

The White Book, which is putting a special emphasis on employment, received the title „Growth, competitiveness, employment. Challenges and the road to the 21st century. It emphasized the importance of labour intensive² investments in the field of infrastructural developments, environmental and cultural investments.

The White Book of the year 1995 considered the increasing of employment as a tool of reaching economic and social cohesion.

Among the principles of forming relationships with the associate partner countries, it emphasized the social dimension³ of a uniform internal market⁴, and it approached even the the labour force from the side of social dimension.

The White Book was preceded by the statement of the European Commission, released in 1989, which considered enterprises in the social economy as a borderless market of Europe. In the same year, the European Commission sponsored the first Conference on European Social Economy (Paris) and it established the social economy department in the framework of the 23rd (XIII) Directorate (entrepreneurial policy, distributive commerce, tourism and social economy).

The European Commission sponsored the European Conferences on Social Economy organised in Rome (1990), Lisbon (1992), Brussels (1993) and in Sevilla (1995). In 1997 the Luxemburg summit acknowledged the role of the enterprises working in the social economy played in the local development and workplace establishment, and has launched the experimental policy entitled „The third sector and the employment”, in which it has chosen the field of social economy as a field of reference.

² Investment that increases employment

³ Social dimension is the blanket term of the policies of the European Community related to employment and social policy. Recently the Community prefers and uses more and more often the expression European Social Modell, that is to express the common social values, principles and traditions of the Member States.

⁴ The internal market means such an area without internal borders, within which the free move of products, persons, services and capital comes true. It means a degree higher than common market, when beyond the abolishing of customs and quantitative limitations other, „non-customwise”, that is noncommercial-aimed, phisical, financial and technical limitations are abolished as well.

By this time, the social economy of the countries of the European Union could already show up significant achievements:

- In 1995, 30-50% of the inhabitants of the EU is in a close relationship with the social economy.
- The investments based on solidarity cost around 400 million EUROS
- The market share of associate banks in the EU was already more than 17%

The employment data of social economy in the countries of the EU are as follows.

(Source: CIRIEC, Provisional Results (April 1999) p.11)

Country	Employment (number of persons)	Employment rate (%)
Austria	233.662	8,0
Belgium	206.127	7,1
Denmark	289.482	13,8
United Kingdom	1.622.962	8,4
Finland	138.580	8,1
France	1.214.827	6,8
Greece	68.770	3,3
The Netherlands	769.000	16,6
Ireland	151.682	15,8
Luxembourg	6.740	4,6
Germany	1.860.861	6,4
Italy	1.146.968	8,2
Portugal	110.684	3,5
Spain	878.408	9,9
Sweden	180.793	5,8
Altogether	8.879.546	

The fact that the group of representatives dealing with the European social economy has been operating since almost the beginnings shows the importance of social economies within the European Community.

The background and the birth of the Hungarian social economy

This is the time when the nonprofit sector⁵ that used to have great traditions before World War II has its revival.

During the forty years of socialism, there were only some associations that used to work in the politically more or less neutral areas (such as the sport and the culture), but the interest representations were directed from above by the party state. The foundations were abolished in 1949, and their establishment was forbidden.

⁵ Módszer és gyakorlat: A nonprofit statisztika 10 éve 1992-2002 (Methodology and practice: 10 years of nonprofit statistics 1992-2002). Written by Bence Balogh
Géza Mészáros-István Sebestyén Budapest, 2003 (Manuscript)
http://www.nonprofitkutatas.hu/letoltendo/560_modszer.doc

In the '80s, when the economic crisis and the bankruptcy (e.g. in 1982 the currency reserves have almost been exhausted and the country has almost become insolvent) threatened Hungary and it has become evident to the power that the caring state cannot be maintained any more. In these years, all the elements of the Hungarian „social system” have been shaken. The in-kind allowances became unsustainable, the income differences became visible, the retirement insurance bled from a thousand wounds, and it was already visible that the PAYG (pay-as-you-go) system has already been endangering the pension of the following generations. The more the dissatisfaction of the inhabitants grew, so had the system become loose. In the field of economy, thanks to the „new economic mechanism”, Hungary, as a communist country switches mixed, then to market economy.

In this environment slowly, but an opposition was established, and movements started that were present later at the formation of the nonprofit sector. The first family assistance offices were organised, the Fund for the Support of the Poor People (SZETA) has been established and the later political opposition appeared in some seemingly innocent environmental protectional, scientific, professional associations as well.

Also the institutions of the civil society gained their own right soon. In 1987, the Civil Code⁶ legalized the legal institution of the foundations. The law on the right of association⁷ was passed in January 1989 by the Hungarian Parliament. Soon also the laws on the operation of the parties, and on the freedom of conscious and religion, as well as the law on churches were born. Thanks to the motivating legal background and to the new taxation system making it possible to give financial supports, the number, the social role and the economic weight of nonprofit organisations has risen excessively. In 1997, the law on public benefit organisations⁸ declared the public benefit status of nonprofit organisations, the CXLIV/1997 law has declared a particular economic company form among the forms of economic companies, the „company of public benefit”.

Along with this, the legal background that could have launched the development of the third economy in Hungary, was established.

The main features and characteristics of social economy and the social enterprise sector

The report⁹ made by CIRIEC (International Center of Research and Information on the Public, Social and Cooperative Economy) for the request of the EESC (European Economic and Social Committee) was born in 2006, and it is a conceptional and a comparative study about the situation of social economy (SE) in the European Union and in its 25 member states. The report was made in 2006, so it does not deal with Bulgaria and Romania that joined the EU on 1 January 2007.

A brief summary of the statements of the investigation

„More than 240.000 cooperatives were doing economic activity in 2005 in the 25 member states of the EU. These cooperatives had reasonable positions in all fields of economic activities, especially in the field of agriculture, financial mediation, retail and residence and in

⁶ Civil Code of Hungary (PTK) (The foundations were regulated in the modification of IV/1959.law)

⁷ II/1989(2/1989) law on association

⁸ CLVI/1997(156/1997) LAW

⁹ The summary of the report prepared by the CIRIEC (International Centre of Research and Information on the Public, Social and Cooperative Economy) for the European Economic and Social Committee is available at <http://www.gyerekesely.hu/content/view/101/1>

the industrial, constructional and service sectors, in the format of cooperatives based on joint (associated) works.

These cooperatives employed 3,7 million people directly, and they had 143 million members. The health and social welfare self-aiding companies offered help and provided escort for more than 120 million people. The market share of self-aiding insurance companies is 23,7%.¹⁰

The participants of the survey concluded that the social economy in Europe contributed efficiently to the solving of social problems, both directly and indirectly. In the past few years, the institutions of economy have strengthened, the economy showed growth, the services were aligned with the needs, and by doing so, they have increased the value of economic activity, they cared about the equal distribution of the revenues.

The report of the committee pointed out that social economy was acknowledged both at national and at the level of the political and legal context of the Union.

At the same time, the report mentioned also the fact, although the social economy is present in the member states of the EU, still the estimation of social economy and the analysis of its efficiency is not an easy task.

The organisations of social economy are not recognised as a separate institutional area in the system of national accounts. Clear understanding is also inhibited by the fact that in what way can it be distinguished from business enterprises and the nonprofit sector, when in a very significant part of social economies a business enterprise is present, but there are also the non-commercial foundations, associations so we can say that the social economy is extremely colourful. This colourfulness is also present in the definition attempts.

Definition attempts

In the approach of social economy there are several schools operating in Europe:

- There are schools that define both the market- and the non market-oriented third sector doing public interest activity as a collective blanket term of social economy and nonprofit organisations.
- According to the conception of nonprofit organisations, the nonprofit sector includes such private organisations, the rules and provisions of which prohibit the distribution of the profit for the founders, the controllers and the financing parties of the organisation.
- The conception of the solidary economy that was formed in the second half of the 20th century, is built up on three pillars: the pillars of the market, the state and the mutuality.

The EU¹¹ defines the social economy on the basis of the following criteria:

- We are speaking about private sectors, so they are not part of the public sphere, and they do not belong to its controlling area
- They are operating among formal organisational frameworks
- They have a decision making autonomy, they can freely choose, control, organise their activities

¹⁰ See the study above <http://www.gyerekesely.hu/content/view/101/1>

¹¹ See the quoted study : <http://www.gyerekesely.hu/content/view/101/1>

- They have a voluntary membership
- The distribution of any actual profit or profit surplus between the members is not proportionate with the capital invested by the members, but with their activities they did for the benefit of the company or with the degree of their cooperation with the organisation.
- They are doing such economic activity that fulfills the needs of individuals, households, and families. That's why they consider the organisations of social economy as organisations serving the benefit of people, and not the capital.
- Although they take capital and other non financial type of services for their operations, they do not serve the interests of the capital.
- They are democratic organisations. With the exception of a few voluntary organisations offering non-market-like services for households, the primary organisations of social economy apply the principle of „one member – one vote” in their decision-making processes, independently of the capital invested by the members, and/or the fee they paid. The members have majority or exclusive control of the decision-making within the organisation.

The embedding of social economy into the economy of the member states of the EU is shown by the investigation of CIRIEC¹² International Centre of Research and Information on the Public, Social and Cooperative Economy. The question investigated by CIRIEC tried to find the answer for how much do the state authorities, the social economies, and the scientific world know about social economies, and the thought of social economy.

The balanced answers given to the questions:

accepted
more or less accepted
less accepted

Country	State authorities	Social Enterprises	Scientific world
Belgium			
France			
Ireland			
Italy			
Portugal Cyprus			
Spain			
Sweden			
Denmark			
Finland			
Germany			
Greece			
Luxembourg			
The Netherlands			
United Kingdom			
Cyprus			
Czeh Republic			

¹² The summary of the report prepared for the European Economic and Social Committee CIRIEC (International Centre of Research and Information on the Public, Social and Cooperative Economy)

Estonia			
Hungary			
Latvia			
Lithuania			
Malta			
Poland			
Slovakia	-	-	-
Slovenia			

Source: <http://www.gyerekesely.hu/content/view/101/1>

According to the report the degree of the people's awareness of social economy is different in each countries.

Those countries belong to the first group –France, Italy, Portugal, Spain, Belgium, Ireland and Sweden – where people know the thought of social economy, it is embedded into the economy. Moreover, in France and in Spain the existence of these economies are also acknowledged by the law.

The countries that accept the thought of social economy in a medium way: Cyprus, Denmark, Finland, Greece, Luxembourg, Latvia, Malta, Poland, and the United Kingdom, but in these countries the nonprofit and the voluntary sphere coexist with the social enterprises under the notion of social economy.

Those countries belong to the third group, where the notion of social economy is hardly, or not known at all, or they are only beginning to get to know it right now. Hungary belongs to this group as well.

The qualitative characteristics and features of the social enterprise sector in Hungary

Although the unfavourable labour force market processes have turned back for the middle of the 90's, the unemployment rate decreased, but the employment indicators have still been lower than the average of the EU. Despite of the decrease of unemployment, the duratively unemployed people, who appeared on the labour market did not mean employable labour force. It has become more and more visible that neither the public sphere, nor the entrepreneurial market sector in itself is able to provide efficient answers to the treatment or the decreasing of long-term unemployment. That's the point when the support of the employment initiatives of nonprofit organisations is started, that's the workplace establishment outside the mainstream of the labour market.

Dr.Maria Frey¹³ wrote about two main types of workplace-establishing initiatives outside the labour market. One of these is the German; the other one is the French model.

The German model emphasizes the improvement of the employability of the labour force on the secondary labour market, while the French model expected the increasing of the jobs from the extention of social economy.

The second labour market employment in Germany offered such complex solutions to the handling of unemployment, in which the integration, training and social care programmes were accompanied by employment. As a result of this model, workplaces are established in

¹³ Challenge for the nonprofit organisations: the joining of the unfulfilled local needs and the unused labour force capacities
www.nonprofitkutatas.hu/letoltendo/570_frey.doc

the socio-ecological sector (in factories). The operation of socio-ecological factories is recently rather characteristic of the Austrian social economy.

According to the German model, the main aims of creating workplaces outside the mainstream of the labour force market are the following:

- The establishment of an enterprise that after the supports at the beginning, becomes self-supporting.
- The undertaking of a mediatorial-mentoral role, as a result of which, during the doing of the non-market oriented activity, the employees become able to work, and once their health state is stabilized, they will be mediated to the open labour market.
- The establishment of protected workplaces that undertook the employment of people who are unable to integrate themselves into the open labour market on the long run.

These programmes outside the mainstream of the labour market – **the public-aimed and the public benefit employment** - have appeared in Hungary as well, and they have only made possible a relatively short period of employment. These programmes were not accompanied by any trainings and social supports, so their rate of efficiency and successfulness was low, as the improvement of the employability of these people has not taken place, and in many cases there was only pseudo-employment.

There are significant differences between the secondary labour market and the Hungarian public employment practice. The secondary labour market is making an institution system of the organisers of public benefit employment and from this institution system, it establishes a socio-ecological sector (Austrian model), the area of which is limited to the nonprofit sphere, and its organisation principle is the public interest character of the activity. While in Hungary the field of public benefit¹⁴ and public aimed¹⁵ employment is not limited to the nonprofit sector, it is also present in the state and the forprofit sector as well, it does not institutionalize, and it is resource-dependent.

The first projects have been launched with the support of the OFA¹⁶, that have already provided transit employment jointly with training, and after the attaining the qualification and improving employability of these people, they helped them exiting into the labour market.

Besides all this, in the secondary economy also „target organisations”¹⁷ and social employers¹⁸ were present, who employed those people with changed working capacities, who – as a result of the rehabilitational approach of that time - could not represent themselves on the primary labour market. These organisations were getting significant state support.

¹⁴ 1991/IV. law

¹⁵ 1993/III.law

¹⁶ OFA: National Employment Foundation of Hungary

¹⁷ The appointing of the target organisation took place with the agreement of the Ministry of Employment Policy and Labour of Hungary and with the hearing of the opinion of National Association of Protected Organisations (VSZOSZ) in the power of discretion, on the basis of the decision of the Ministry of Finance of Hungary. The target organisations received significant state support. The condition of appointment was the duratively high (more than 60%) rate of the involved employees. The degree of support – depending on the degree of disability and working capacity change of the persons involved as well as on the number of campsites of the financing organisation – could be 135-160% of the minimal wage, but it could not be more than net price income multiplied by 1,4 (Author: the support system has been transformed from 2006, the supports are directed to the person and not the organisation)

¹⁸ Those organisations that used to employ people with changed working capacities, but did not have a target organisation status. (author: the support system was transformed from 2006)

Also the French social economy model had an impact on the formation of Hungarian social economies. The appearing form of this were offering microcredits¹⁹ for starting a separate enterprise, the support of becoming entrepreneur²⁰ tenderable from the labour market fund, the wage and appurtenance supports²¹ and working through occasional employment²².

We define the notion of social economy according to the definition of Maria Frey²³. She defined social economy as such social and community enterprises that link the unfulfilled needs with the unused labour in a way that:

- They hold a middle position between the state and the market
- They have to fulfill **both an economic and a social mission**
- They serve the **interest of the public**
- Their aim is not the distribution, but the recycling of the profit that they subordinate to their social mission.
- Its behaviour is dominated by the **entrepreneurial character**.
- They explicitly facilitate **creating new workplaces** – especially for the disadvantaged people – there is no social enterprise without the employment element!
- **They are more autonomous**: based on the variety of the consumers, they gain such resources that provide **that they become self-supporting**
- They have an **ownership structure** that is able to guarantee the involvement of all interested parties and **self-management**
- They focus on **settlements**, they cooperate with the local community in the definition and the fulfillment of local needs
- They concentrate on inventing **new services** and **innovative products**.

The definition of Frey is word by word the same is that of the EU, however an important viewpoint is not present in her definition, and that is the **private economy as a kind of ownership**.

Probably the reason of this is that among the productive and service providing economies accepting the social mission **we can find the state-owned economic companies or the other nonprofit organisations as well**.

In Hungary, the notion of **Social Enterprise has a narrow-sense interpretation**, in which those enterprises are present that have been established explicitly for the purpose of providing

¹⁹ Micro credit: The most important task of the Hungarian Foundation for Enterprise Promotion (MVA), as a public benefit organisation was to promote the development of Hungarian SMEs. From 1992, many microcredit programmes were operating, the aim of all of them was the financial and business support of micro and small enterprises.

²⁰ Support of becoming an entrepreneur: The interest-free capital allocation offered for the people registered as „unemployed”, job seekers, in a refundable and/or non-refundable format (monthly non-refundable allocation), the costs of consultation necessary for the beginning and the performing of entrepreneurial activity.

²¹ Wage and appurtenance support. It is a tool of active employment policy. It is the support provided for the employer to establish new workplaces.

²² Occasional employment. It is a special form of employment, to the establishment, termination of which, to the degree of common charges born there are simplified, more favourable rules that differ from the general. On behalf of the employee, the condition of establishing a legal relationship is to get an employee's booklet, which is an official document serving for keeping a record of the labour relations of the employee. (author: from 2010 simplified employment)

²³ It is available at: <http://foldrajz.ttk.pte.hu/munkaero/ppt/frey.ppt#343,4>

social services, the permission of the services they provide was allowed by a regulation²⁴ different from the permitting of the state institutions.

In a broad sense, Social Enterprises mean all different kind of organisations that have a social mission and are self-financing on a long term basis. Also socio-ecological factories and the producing-service providing factories belong to them.

In 2006, the X/2006.²⁵ law on cooperatives was born, then it was also followed by a governmental decree²⁶ on social cooperatives, and so a new form of social economy could appear in Hungary.

If we would like to make order in the jungle of definitions, then today we use social economy in Hungary, as a collective term in which we include all the social enterprises in the narrow as well as in the broad sense, and also the cooperatives. This economy is between the state and the market, in order to fulfill its social mission, it performs business activity, and it is self-financing.

Social economies in Hungary - quantity indicators, size, structure

We can gather information about the role and the present of social economy from the works of Éva G.Fekete, Mária Frey and Anikó Soltész, because there is no separate data collection for the social economies. The data of social economies are present in the data of enterprises, and also among information collected about nonprofit organisations. That's why it is difficult to give precise information about who are the participants of social economy, how much is the number of its workers, what kind of activities they do and how much they are economically successful. Although, about the latter we can gain information from the public benefit reports of the nonprofit organisations. On the basis of the things described it is difficult to draw conclusions about what impact do policy makers have/or are going to have on these organisations.

Mária Frey²⁷, in her study summarizing her researches she made at the end of the 90s, declared the nonprofit sector as an important participant in the formation of social economic strategy.

Having a closer look at the nonprofit sector, on the one hand, she speaks about a wider employer power, and on the other hand about organisations that undertook the employment of people who have duratively been crowded out of the labour market. According to the study, in

²⁴ Until 2010, the 188/1999 (XII.16) governmental decree, then the 321/2009 (XII.29). With this latter decree has the sector neutral regulation been established.(author)

²⁵ The cooperative is an organisation working on the base of the principles open membership and changing capital that has a legal entity and the aim of which is the promotion of the fulfillment of the economic, and other social (cultural, educational, social and health) needs of its members

²⁶ Passage 1 of §8 of the 141/2006. (VI.29) governmental decree says: Social cooperative, in accordance with the §7, is a cooperative:

- The aim of which is to establish the working conditions for its socially disadvantaged members, and to improve their social state in other ways;
- That works as a school association
- The social association has to include in its name the nomination social association –or - in case of scholar association- the nomination scholar association.

²⁷ Mária Frey: Challenge for the nonprofit organisations: the joining of the unfulfilled local needs and the unused labour capacities www.nonprofitkutatas.hu/letoltendo/570_frey.doc

1993 hardly 50.000 people worked in this sector, while in 1998 the number of employees was already nearly 80.000.

We know it from the study of Maria Frey, that the number of those organisations that have implemented labour market programmes, was 206 in 2008. They were either foundational, or they were operated in the framework of other nonprofit organisation form.

It meant a significant development resource for the nonprofit organisations, that from 1998 those employers could share from the **Labour Market Fund** that employed duratively unemployed people, people who start their career or people with changed working capacities.

Besides all these also those **umbrella organisations** have appeared that continuously supported the programmes implemented by organisations accross money distributor, network builder, community developer functions. These were the followings: *National Employment Foundation (OFA)*, *Welfare Service Foundation*, *Foundation for Nonprofit Enterprises in the Social Welfare Sector*, *Autonomy Foundation*.

The role of employment-oriented organisations in the integration of marginalized labour force market groups has been recognized by the employment policy.

As we have already referred to it several times, the OFA has started several programmes as a conclusion of which the transit employers are present in the employment of duratively unemployed people as participants outside the mainstream of labour market. Later on, it was the OFA again who was present at the support programmes (HEFOP²⁸) financed by the Structural Funds of the EU.

In spite of the supports taken, it cannot be said that the development of social economy would have been drastic. In the concluding study *The present and the future of social economy in Hungary*²⁹, the authors concluded that in 2002, among almost 50.000 nonprofit organisations only 200 declared to do employment. Even the OFA knew about 400-500 such organisations.³⁰

The study of Attila Petheő about the sector completed with empirical survey esteemed the **number of Hungarian social enterprises in 2009 as about 500-600**. Petheő uses the definition of Social Enterprise in a broader sense, that means all kind of organisations, which has a social / employment mission belong to this quantity.

The development of the sector was made even more difficult, moreover in many cases inhibited it the uncertain economic environment, the quick, almost turbulent change of the economy, the conscious economic policy and global economic policy concerning the third economy and the lack of frameworks, the inequity and the uncalculability of the supporting system.

The author highlighted the fact that most of the community enterprises have been organised on a project basis, that's why **after the termination of support, their maintenance become questionable**. According to the author it is not only the economic environment, but often the hecticcy of the support can be blamed if a programme can not be maintained. It often occurs that even the applicants do not take into consideration the real, local condition, they do not

²⁸ Humán Erőforrás Operatív Program (Human Resource Development Operative Programme, HRDOP)

²⁹ Dr.Futó Péter, Hanthy Kinga, Lányi Pál, Mihály András, Dr.Soltész Anikó: A szociális gazdaság jelene és jövője Magyarországon –Kutatási zárótanulmány (The present and the future of social economy in Hungary-concluding research study)

³⁰ Gayer Gyuláné-Huber Béla: A nonprofit szektorról és a foglalkoztatásról, Munkaügyi Szemle 46,2002. 2.sz.(43-47) (About the nonprofit sector and the employment,Munkaügyi Szemle 46,2002. 2.sz.(43-47)

have any employer's experience, and they are not matured for self-maintenance, as far as value creation is concerned.

An example for that is, that among the organisations that took part in the Equal³² programme provided by OFA, less than a quarter of them fulfilled the criteria of social enterprise.

In the past few years, besides the above, there were many researches trying to investigate the participants of the social economy, but with regards to the fact that the social economy does not appear as a separate sector and often even the researchers did not work along the same definitions, this colourfulness made it impossible to document the actual circumstances.

As we have already referred to it, **in Hungary social economy consists of the nonprofit organisations undertaking employment of disadvantaged people, the social association, the associations reorganised after the change of the political regime, and the social enterprises.**

The majority of these organisations is not in a private ownership, their operation is lacking the democratic decision making expected from the social economies. Generally these organisations were either established by the local government or the state, or they are significantly supported by the state, and only so they are able to provide their existence.

The organisational and management characteristics of social enterprises - The economic strength of nonprofit sector in Hungary

The statements of Social Economy Manual³³, although they are built on the data of the previous years, can serve as a reference base as far as the incomes of the sector are concerned: The whole nonprofit sphere – including besides the civil sphere also the state-founded and state-financed public foundations and public benefit companies - is better off as far as self-management is concerned than the nonprofit organisations aimed at employment. The entire nonprofit sector economized from 700 billion HUF in 2003.

- This total added up from the following incomes:
- more than the half of it came from the own activity of the organisation, and their membership fee
- more than 100 billion HUF came from citizen and company donations, or donations coming from abroad
- The remaining part came from the state budget (public foundations, tenders, local government support, VAT-request, and the 1% of the Hungarian Personal Income Tax³⁴

The income coming from 1% of the Hungarian Personal Income Tax was approximately 210 billion HUF, whereas the total annual budget of the nonprofit sector – compared to the 2002 data – has increased by 100 billion HUF.

In 2006, the number of nonprofit organisation working in Hungary has already reached 58,242.³⁵

³² Equal programme for the support of fighting against discrimination (2006)

³³ Csaoba Judit-Frey Mária – G. Fekete Éva- Soltész Anikó: Szociális Gazdaság Kézikönyv (OFA-ROP HÁLÓZAT) http://195.70.62.5/ofarop/index.dw?mit=72&kiadvany_id=8

³⁴ The data of PM Office were revised in the article of Matolay Réka: Kalaprogram –Pénz a civil szférának. Figyelőnet

³⁵ Source: <http://portal.ksh.hu/pls/ksh/docs/hun/xftp/idoszaki/pdf/nonprof06.pdf>

Legal form	Organisations	
	number	distribution
Foundation	20,819	35.7
Public foundation	1,645	2.8
Association	30,071	51.7
Common board	483	0.8
Employee interest representation	1,059	1.8
Professional, Employer interest representation	2,398	4.1
Public benefit organisation	1,620	2.8
Nonprofit institution	38	0.1
Union	109	0.2
Together:	58,242	100%

Source: Nonprofit organisations entity in Hungary, in 2006

http://portal.ksh.hu/portal/page?pageid=37,183501&_dad=portal&_schema=PORTAL

The vast majority of the sector still consists of the classical civil organisations, the private foundations (36%), and the associations (52%). The ratio of the public foundation and public benefit organisations 3-3, the ratio of Professional, Employer and Employee interest representation was 6% altogether. In almost a quarter of the Hungarian settlements there was only one civil organisation working. On the basis of the survey index of the Statistical Office of Hungary (KSH)³⁷, in a great percentage of the settlements, the number of organisations was more than 1, but less than 10. More nonprofit organisations than this could be found only in every 5th settlements and exclusively in cities.

52% of the nonprofit sector was related to the leisure and hobby (17%), to the education (14%), to the sport (12%) and to the cultural (11%) activity area.

The income of those nonprofit organisations that had an income was more than 896 billion HUF in 2006, that in 2000 was only 495 billion HUF.

At the same time, on the basis of the data, it can be concluded, that the rate of organisations having an income less than 500,000 HUF is still high (more than 44%)

The majority of the incomes appeared by the civil organisations dealing with settlement development and economy development. Due to their weight, the leisure and the sport organisations had to divide smaller resources. The rate of state fund was still 28% of the annual income in 2000, while for 2006 it has already risen above 46%. More than 60% of these supports flowed into the cashier of public benefit companies and public foundations. These two public benefit organisation forms represents only 6% of the entire sector.

In civil organisations, between 2003 and 2006, the number of employees has risen by 14%, that for today has already reached 100.000 people. The number of full-time employees was

³⁷ Source: nonprofit organisations in Hungary, in 2006.

http://portal.ksh.hu/portal/page?pageid=37,183501&_dad=portal&_schema=PORTAL

more than 75,000. 58% of the employees worked at public benefit organisations, while 18-18% of them worked by associations, private and public foundations.

The approximated number of voluntary helpers in 2006 was about 438.000 people, they have performed about 50.000.000 working hours, the approximated value of their work was more than 42 billion HUF. Characteristically there was no voluntary work present at Public benefit companies, Associations, Public Foundation, Common boards.

It is an important data from the point of view of the analysis of the Hungarian social economy that the entrepreneurial income of nonprofit organisations in 2005 was 108 738,3 million HUF, whereas in 2006 this data is 106 869,3 million HUF, that shows a decrease, but this reduction is not significant relative to the two years.

As a summary we can say that although the financial weight of the nonprofit sector was significant in Hungary - in the year 2006, it was 896 244,1 million HUF, out of which the income coming from the state was 378 353,7 million HUF, that is more than 40% of the total income - this economic background can still not be said to be stable from the point of view of the sustainability of social enterprise-like organisations, **the sector is significantly subordinated to the state.**

Also the labour force appearing in the nonprofit sector shows the importance of the sector. The public company form employed the most employees, almost 4/5(four fifth), just like as it is with the state incomes, as the rate of state incomes is also the highest at public companies. In 2008, the nonprofit sector has been getting even stronger. The total of the incomes was almost 1094 billion HUF, which means that it has grown by more than 120 per cent compared to the price of 495 billion HUF of the year 2000.

Especially the financial situation of the organisations working in the field of economy development became more favourable. Behind the favourable processes however, we can find the increase of the state resources. While in 2000 28% of the total incomes of the sector derived from state or local government budget, this rate became more than 44% in 2008. The reason for this is that the State has been subcontracting more and more tasks to the nonprofit companies that it established. In these years, 65% of the state support that was nearly 485 billion was received by nonprofit enterprises and public foundations, although the ratio of the these enterprises of the sector was only 6%. The state organs executed the staff reduction required in the public sphere accross these organisation, fixed staff number- and wage calculation. So this rise did not particularly strenghten the employment-aimed nonprofit organisations.

Paralelly with this rise, however, the rate of private supports reduced from 16 to 11 per cent. Between 2000 and 2008³⁸, the number of the employees working in the sector has risen by more than 48%, the total number has almost reached the value of 120.000.

To sum it up: The trends of the development of the today working social enterprise-like organisations can be defined so that on the one hand, the **nonprofit organisations operating in the second economy**, increasing their resource with different (state and EU) funds, established transit workplaces. These organisations completed their activities with services that facilitated the integration of the permanent unemployed people working in them into the primary labour market. Among the appeared services we can find training, advisory, social

³⁸ The most important features of the nonprofit sector in 2008: Statisztikai Tükör I III. 192. sz. 2009.december 19.

support, and mental care. In 2009, the „Road to Work” programme could have further increased the role of these service providers by establishing sustainable workplaces of „undefined period” with wage and appurtenance support. This extension of employment could have contributed to the solution of the tasks of the local governments given at the particular settlement. The public benefit could have been joined with the involvement of disadvantaged people into work, with establishing new workplaces, in a way that the given settlement could get richer as well.

It is not our task to give a critics of the programme here, but the fact that the programme missed to position this activity in the system of social economy, that is to join the local unfulfilled needs with the unused labour, it is not only the organic development of social economy that was hurt, but also the employment remained in a vacuum as well. We can witness this recognition recently, as in the framework of the „Programme of Social Renewal” as part of „New Hungary Development Programme”, a Call for Application entitled „Innovative, experimental programmes” intends to guide the above mentioned employer organisations into the direction of social economic operation.

Of course also those employers are present in the Hungarian economy that do not define themselves as social enterprise, although the character and the form of their activity totally exhausts the concepts of social economy and social enterprise. Usually these **SMEs³⁹**, **organised on a family basis** are those who not trusting in the funding systems – lacking experience in application process, or due to earlier negative experiences, not seeing the returning of the time and energy invested – go their on own way and they are inaccessible for the researcher groups, who are characteristically organised around funding systems.

But among the participants of social economy today we can already find **social coopertives** as well that reacting on the local needs. In the establishment of these coopertives a significant role was undertaken by OFA.

The ideal of cooperative-movement in Hungary devalved due to the communism, when Agricultural Cooperatives were organised on the basis of private grounds of people on a dictatorial way.

The thought of cooperative was reborn in 2006 - the X/2006. law was born about the cooperatives, and the Government brought a decree number 141/2006 (VI.29) about social cooperatives.

It shows the development of social cooperatives that on 21 May 2010 in Kunbábony the **National Association of Social Cooperatives was established**, that was established by eleven social cooperatives.

Despite of the programmes presented, it is showing well the situation of the Hungarian social economy that while already between 1997⁴⁰ and 2000⁴¹ 8.880.000 full-time positions declared as equal to workplaces were registered in the EU, which is 8% of all the paid jobs, for today it has already reached 10 or even more in the EU, while **in Hungary the rate of people employed in the social economy is only around 2%**.

As far as the role-taking of social economy in the labour market is concerned, it is important to emphasize that it belongs to the particularities of social enterprises, that a significant part of their employees is coming from the social stratas that can be characterised as marginalized on the labour market. That’s why it is already an evidence also in Hungary, that for the people who were excluded out of the labour market, the third economy can offer workplace.

³⁹ Small and medium sized enterprises, about which we have no information relative to the social economy, due to the fact that it does not appear separately in the statistical invoice system.

⁴⁰ Brussels Association of Employees, Cooperatives, Social cooperatives and MRP Societies

⁴¹ CECOP [~2002] P.45

It is the product of this recognition, that today the appearing social economies are already making people hear their voice, the operating and newly established social economies also have a forum on the internet:

http://forum.szocialisgazdasag.eu/do_topics3Szocilis-gazdasg-s-szocilis-szvetkezetek-fruma.aspx

The driving forces, the barriers and the current framework conditions of the development of social enterprises

The state of the Hungarian third economy was analysed by several studies. As we have already referred to it, the Hungarian nonprofit sector, that could have been the cradle of social economies, got stuck in its development after the II. World War. In 1987, among the party state frameworks of that time, for the support of György Soros, the Civil Code of Hungary was modified in the field of science and education, and this modification made it possible that the form of foundation be a legitimate form of operation.

From this moment can be counted the birth of the third sector⁴² in Hungary. So besides the still very strong state, and the developing market sector, the third sector started its way by offering a new range of public services. As a matter of fact, it was the fail of the state that gave birth to this sector by the fact that the public service providers could not give answers to the appearing problems arising due to the social economical processes. Among many other things, it has become clear in these years that the existing state systems (big suppliers) could not offer solutions for the reasons and the treatment of social integration failures. With the appearance of the third sector, the state monopoly was not only stopped in the field of public services, but also the party state ideology that used to be uncorrodable was beginning to disintegrate as well. With the modification of 1987 of the Civil Code of Hungary it became theoretically possible that the Hungarian citizens freely chose public service, and that they can freely decide what public functions and public service providers they support.

A very significant participant of the third sector are the associations, they were organisations that worked even after the world war, in the framework of party state conditions. So the Law on Association, born in 1989, has not established a new form, but took down the political guardianship from these organisations. In 1989, there were 8000 associations working in Hungary⁴³.

The Hungarian third economy has undergone a rapid development and increase in a very short time. Éva Kuti⁴⁴ saw the reasons of the rapid development of the sector in the followings:

- Returning to the traditions and trend preceding the 2nd World War
- The impact of social and political transformation
- The lack of welfare service, the reaction to the appearing needs.
- The state shifted the responsibility in the handling of problems – structural change

⁴² From 1987 to the birth of public benefit company form, the foundations were significant economizing organisations besides their function of collecting donations.(author)

⁴³ In the statistics, they were appearing under the heading partner enterprises.

⁴⁴ Kuti Éva: A harmadik szektor helye és szerepe a magyar társadalom és gazdaság szerkezetének átalakulásában (The place and the role of the third sector in the transformation of the structure of the Hungarian society and economy). A nonprofit szektor Magyarországon (The nonprofit sector in Hungary), Tanulmányok, Nonprofit Kutatócsoport, Bp.1992

- The fight for surviving: the different participants of the crisis fought for their own survival even like that.

László Harsányi⁴⁵ explains the quick building up and appearing of the sector with the failure theory. „The renaissance of the nonprofit organisations shows that the citizens have been aware of the importance of the third sector. They exactly feel what is also verified by international and the Hungarian experiences before 1945, that is the fact that actually neither the market, nor the state sector is suitable for the fulfillment of all social needs and all public services. The role of the market (for-profit) sector – by definition- is limited to the profitable production and service areas. The state sector is primarily called for caring about well-standardizable public goods serving the whole society for every citizen at the given level of development. Every tasks the fulfillment of which can not be undertaken due market rationality and to the narrow boundaries of state responsibility. **The nonprofit organisations provide the frameworks of the self-organisation and lobby, and give occasion for the development of services tailored for the particular needs of smaller-larger social groups, for the non-profit-oriented innovation, and the community handling (but not state handling) of social problems.**

They relieve the state sector, on the other hand, they make it possible to have a social control of it.

In 2001 the Nonprofit Research Association published a study⁴⁶ in which they modelled the labour-establishing opportunity of the Hungarian social economy. According to the observation of the research group, if 100.000 new workplaces would be established in 2001, and the registration of further 200.000 new workplaces would take place, than this would require about 36 billion HUF support and extra cost. This total would further be increased by the costs of the operating institutions and the discounts to be offered for the takers of the service. The not realising tax income is 32 billion HUF that cannot be regarded as actual loss, as those incomes that can partake in different tax discounts, can not be established outside the social economy. Giving work to 50.000 people living on unemployment appurtenance and further 50.000 people receiving other aids would result in 32.000.000.000 HUF saved. So the total of the actual extra costs would probably remain under 10 billion HUF. Besides the reached achievements, the established workplaces, this economy would greatly contribute to the diminishing of social tensions and would improve the social reception ability, the civil-state conversation would facilitate the mobilisation of the civil sphere, the reservation of the State sphere according to the example showed in the European Union, and the subsidiarity.”

In the third sector in Hungary, after the change of the legal and political environment, there was a significant structural change in 1990s. It shows the economic weight of the sector that the number of organisations having interest representation and the organisations doing economy development activity has significantly increased compared to the earlier statistics. It shows the economic weight of the sector that the number of organisations having interest representation has significantly risen, and compared to the earlier, the organisations doing economy development activity are representing a more significant rate. Here belong the different social employers, the nonprofit institutions helping the unemployed.

Between 2003 and 2006, the number of employees has risen by 14 per cent ,and has reached 100.000 people.The number of full-time employees was also more than 75.000. 58% of the

⁴⁵ Harsányi László: A harmadik szektor In: A nonprofit szervezetek szerepe a helyi foglalkoztatásban, Agroinform Kiadóház 10.p

⁴⁶ NKE(2001): 377.o.,379-380.o,A szociális gazdaság munkahelyteremtő képessége és helyi szintű mobilizálásának, illetve legális keretek közé történő terelésének lehetősége

employees worked mostly at public benefit companies doing economic activity,18-18% worked for associations and private and public foundations.

Despite of the development however, more and more studies have called the attention to the inhibiting factors of the development of the third sector. Dr. Péter Futó, Kinga Hanthy, Pál Lányi, András Mihály, Anikó Soltész Dr. (2005) authors, analyzing the situation of the Hungarian third sector, highlighted to the fact that the sustainable development,the stability of this sector can only be guaranteed only by self-management.

The authors pinpointed to the fact that the Hungarian community enterprises hardly have a chance to survive, only in a very few cases. The vast majority is unable to save money, their capital strength is weak. Their development is inhibited by the fact that they do not have a stable, long-term market, but their formation cannot be expected either, as 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.In their daily operation,the market,the employment and the social elements mix with each other and they do not suit the requirement of staying economic.⁴⁷

Another obstacle of sustainability is that there is no bank service provider behind this sector in Hungary,so they are unable to handle their liquidity problems,they cannot invest,develop,often even the continuity of the enterprise is endangered.In order to decrease and handle the risks,also the insurance background is missing.In many cases,their independence from the State is only an illusion.

Also those supporting forms are missing or working only partially, that would facilitate the market operation of economies, the extension of the demand.So,among many other things,the taxation discounts,the regulations providing supporting market operation, the support of the roads leading to the extension of paying demand are all missing.(e.g: voucher system,etc.)

Furthermore another very serious boundary of sustainability is that although there are supports, but they are not present at the place and the time requested by the 3rd sector, they can be taken often in the format of tenders, that is uncertain, but often it does not precede the needs.

⁴⁷ Dr.Futó Péter-Hanthy Kinga-Lányi Pál-Mihály András-Soltész Anikó:
A szociális gazdaság jelene és jövője Magyarországon (kutatási zárótanulmány),Budapest, 2005. 37.p.

The impacts and factors helping and inhibiting the establishment and the operation of community enterprises in Hungary

SWOT- analysis

<p style="text-align: center;">Strength</p> <ul style="list-style-type: none"> • Committedness, intrinsic motivation and conscious role taking on behalf of the organisations • The exact knowledge of the needs and opportunities of the field and target group • Quick reaction ability deriving from the size and the market position • Novelty • The international experiences, their adoption to the Hungarian relations was successful, the good practice motivates 	<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • New sector free of stereotypes • Market role taking opportunities • Need for undertaking state services • Contribution to increase productivity and competitiveness • Accepting and admission of socially responsible enterprises • acknowledgement, appreciation, social support • New approaches, innovative opportunities • The extension of available resources, especially EU resources • The legal conditions have almost been formed out • The sector-neutral supporting environment has been forming • In rural development, with the representation of local needs there are significant potentials of demand and supply
<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • The lack of intersectoral routine and experience, professional preparedness • The lack of entrepreneurial experiences and practice • Dependence from state and EU Funds • Lack of resource and infrastructure, the enterprises suitable for community entrepreneurship have low capital • Lack of tools assisting development • Liquidity problems • Lack of efficient marketing • laws of different fields regulating the operation of SE are not harmonized 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • Lack of force in simultaneous cooperation / lobby • Fighting for the smaller and smaller state resources that kills cooperations • Big supply, small demand • The crisis of monetary market and the labour market influences the sustainability of community enterprises • There is no bank background to support the third economy. • The insurance market does not appear behind the third economy • The systems supporting the third economy are only partially present in the (among the) Hungarian regulators • The programmes that would facilitate the formation of supporting system are either late or have not even started yet • There is no incubational background, the umbrella organisations, associations are not working, the interest vindication of the sector is weak.

Policies facilitating social enterprises - legal environment

At the dawn of the change of the regime in Hungary, the laws that were laying down the prerequisites of the establishment of the third economy have been born. The table below summarizes and presents those enterprises that were established with the 1993 modification⁴⁸ of the Civil Law⁴⁹.

	Associations	Public boards	Foundations	Public foundation	Public benefit company
Founders	Legal and private persons	Law	Legal and private persons (except the governmental organisations)	the Parliament, the government, the local government	Legal and private persons
Joining opportunities – Membership	Entering and voluntary acceptance under the articles	Membership prescribed by the law, or voluntary entering	The voluntary accepting of joining according to the deed of foundation	The voluntary accepting of joining according to the deed of foundation	According to the company law
Aim: basic activity	The aim defined in the base regulations	Public tasks related to the membership	Durative, long-term public aim	State or local government task based on the laws	The fulfillment of the common needs of the society
The opportunity of doing economic activity	Only as a complimentary activity	According to the Foundation Law	Only as a complimentary activity	Only as a complimentary activity	Primary activity
Gaining a legal personality	Registration by the justice	Registration by the justice	Registration by the justice	Registration by the justice and official publication	Registration by the company justice
Legal supervision	Legal counsellor	The authority mentioned in the Founding Deed	Legal counsellor	Legal counsellor and Court of Auditors	Registry court
The situation with the fortune after the cessation of the company	the provisions of the base rules, according to management decisions, in absence of the for public interest aim	According to founding law	According to the provisions of the founding deed, on the basis of justice decision, into a similar foundation	According to the decision of the founder	According to the law about economic companies
Annulment	Division, union across dissolution	By law	The aim defined in the Founding Deed	The need for fulfilling public task	According to the laws on Economic

⁴⁸ 1993/XCII.law put the public foundation, the public board and the public benefit company into the Civil Code

⁴⁹ 1949./IV. tv(law)

			is fulfilled... Time passes, the condition occurs,and annulment by way of union	ceased, or it can be fulfilled more efficiently in another way	Companies
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Source: László Harsányi: Harmadik szektor In: DemNet-füzetek,1998.12.p.

The establishment of the above mentioned organisations was accompanied by the intention of destatualization, the aim of the the state is to leave the former state tasks to non-state organisations in a way that it still holds the control above them in its hands.

The 1997 modification of Civil Code introduced the **institution of public benefit organisation** as well.

According to the 57.§ of the Civil Code of Hungary „The Public benefit company is a legal entity of public benefit, serving the common needs of the society without the aim of gaining profit or fortune”. The public benefit company can do businesslike economic activity in order to promote public benefit activity; the profit deriving from the activity of the company can not be divided up between the members. For the public benefit company, the Rule relevant to the Economic Companies⁵⁰ and the company of limited liability shall be applied, as appropriate.” With the aforementioned modification, a new economic company form was born that paved the way for the third economy. Until recently the Rule has already seen many changes, and in 2006⁵¹ a new law was born defining the operation of economic companies.

The fact that the **Hungarian Parliament adopted the law about public benefit companies**⁵² also happened in 1997, and today after several modification, it defines the circle of public benefit organisations as follows:

„The following organisations registered in Hungary can be qualified as public benefit organisations:

- Social organisation, with the exception of providing association and polical parties and the employer’s and employee’s interest representation organisation
- Foundation
- Public foundation
- Public board if the law about its establishment makes it possible
- Nation sport specialised association
- Nonprofit company
- The Hungarian Higher Education Accredittation Committee and the Higher Education and Scientific Board, and the Hungarian Rectoral Conference
- European Territorial Cooperation Association
- Higher education institution not working as governmental organisation
- Social cooperative fulfilling public benefit activity

The growing number of nonprofit organisations and churches required the regulation of financing as well. So **in 1996, the 1996/CXXVI law was born that was known as 1% law** that already gives opportunity to the citizens to support service providers freely. The law pinned down (§45) that the private person can have a declaration about the 1% of the remaining part of his tax after reduction of his tax discount for the benefit of an organisation

⁵⁰ 1997/CXLIV.tv.(law)

⁵¹ 2006/IV tv (law)

⁵² 1997/CLVI tv.(law) about public benefit organisations

practising public benefit activity. The 1% was taken by the churches, foundations, state and local government institutions providing social service, but no Public Benefit economic companies could and can be subjects to it.

In 1993, in **the social law**⁵³ it has already appeared the notion of non state maintainer, and the **participation of non state organisations in social services** was regulated in the 188/1999(XII.16.) governmental decree.

From this date, the participants of the third sector could directly take the state **normative contribution after social service providing**. Besides the supportedness of the sector, still these regulations were seriously violating the neutrality of the sector in several cases by restricting the support to separate financing requirements, the frequency of controls was different from the state sector, the state financed the assistance only in possession of an assistance contract stipulated with the local government.

These rules were getting lighter after the EU integration, and for **today a relatively sector neutral regulation is working**.

In 2003, the Parliament adopted the „Civil Law”⁵⁴ establishing the Civil Fund with the aim of providing resources for civil organisation taken into justice registration. The definition of civil organisation according to the law is: „the social organisation is and the foundation established on the basis of 1959/IV. law, and the organisational unit of organisations having a legal entity, except for parties, foundation founded by a party, association established with the participation of a party; any organisation, association and public foundation fulfilling economic interest representation; insurance association and public foundations

It is revealed from the definition that the law narrows down the notion of civil to associations and foundations, but it does not consider as civils even those economic companies that had been established from private fund.

The the §6 of 1997/CLVI law enumerates the public benefit organisations, the supporters of public benefit organisations, the discounts that the service takers of the public benefit organisations are entitled to take, it denominates the types of discounts and their most important legal resources. It is generally true that the public benefit organisations are entitled to have the discounts.

The **laws regarding the taxation of the third sector** have been laid down in several laws⁵⁵, the orientation in which means a problem in many cases for the participants of the third economy, who have little professional knowledge. A few rules⁵⁶ are cited hereas well, giving an insight into the taxation order of Hungarian nonprofit sector.

It is a **general rule** that

- the participants of the third economy are entitled to have tax exemption; after their entrepreneurial activity they are entitled to have discount on company tax obligation; discount concerning local tax paying obligation, customs discount, or other discount

⁵³ 1993/III. tv(law)

⁵⁴ L./2003 law about the National Civil Base Programme

⁵⁵ The LXXXI/1996 law. about company tax and capital return tax, and the CXVII/1995. law about personal income tax

⁵⁶ The XCIII/1990.tv about duty, and the C/1990 law about local taxes, C/1995 law about customs law, customs procedure and customs management

- the taker of the targeted service provided by public benefit organisation gets exemption under the payment of personal income tax – as a targeted allowance. The taker of the service receives exemption under the personal income tax. The supporter of the public benefit organisation is entitled to have a discount for the purposes of the aims laid down in the founding document. The supporter of the public benefit organisation is entitled for further discount for the purposes declared in the concerning company tax payment and discount concerning personal income tax, and in case of long-lasting donation, from the second year of support, the person is entitled for an extra discount
- the given support (furthermore referred to as donation), is entitled for further discount concerning company tax payment and discount concerning personal income tax, and in case of long-lasting donation, from the second year of support, the person is entitled for an extra discount
- The public benefit organisation in its targeted activity sphere is entitled for the employment of a person doing civil service
- However, if the public benefit organisation has public debt according to the Taxation Law, then he is not entitled for the discounts

The public benefit organisation is not obliged to pay taxes after the incomes deriving from the entrepreneurial activity, if the income does not exceed the 10% of its total income, but maximum 20.000.000 HUF.

In case of organisation of outstanding public benefit this rate is the 15% of the total income. Except for the public benefit companies that receive tax discount proportionally to their discounted activity.

The public benefit organisations are still entitled to have several discounts laid down in different laws. For example, on the basis of the Hungarian law on personal income tax the user of the vehicle gets exemption under the payment of personal income tax, that is operated with the aim of illness prevention, with social aim by the foundation, public foundation established for the helping of people with damaged health, social organisation, community board for these particular aims.

Today there are already 28 aims for which we can already get public benefit, and outstanding public benefit status, making the organisation eligible to different discounts and exemption. There are laws that regulate the use of state resources, and the rules related to transparency and incompatibility. Also the institutions of accounting and controlling the public wealth have been established.

Regarding the analysis of accounting and taxation rules concerning the third sector we have to mention that as it is clearly visible from the regulations, the public benefit companies, or as we today call them **nonprofit companies, have either been left out of most of the discounts, or they have never been included in them.** This regulation makes it largely difficult to maintain the employment-aimed community enterprises that are operating in some kind of economic company format.

In 2006, the the government of the time has introduced the law about cooperatives⁵⁷, and then adopted the governmental decree⁵⁸ about social cooperatives. Minister Péter Kiss in his proposal suggested the law for passing: „...the bill considers cooperatives an organisational framework that is able to combine cultural, social and community organiser functions”;

⁵⁷ The X/2006. law about associations

⁵⁸ 141/2006(VI.29) governmental decree on associations

„.... while the cooperative mobilizes the social-economic resources that are available in the communities that are able to cooperate. Such resources that would not dominate with the separate operation of individuals.”

The stipulation of the law about associations is of historic significance from two different points of view. On the one hand, 16 years after the change of the regime, it has rehabilitated the cooperatives, and on the other hand it has opened the way to the establishment of social cooperatives.

„The cooperative – according to the intention of policy makers – is a community established in accordance with the freedom for associating, and the principle of self-aiding in which the members were associating with the aim of fulfilling their common economic, social, cultural needs and incentives by their own participation and financial contribution, in the framework of a democratic local government, doing basic and entrepreneurial activity, serving the interest of the members.”

The first step has been taken to the direction of supported markets as well.

On the basis of the authorization CXXIX/2003 law about public procurement (furthermore referred to as Kbt.) the government stipulated a decree⁵⁹ **about the detailed rules of public procurements reserved for protected employers**, in which it declared that “the requester of the bid can reserve his right of participation in the public procurement procedures directed for product and service procurement for protected workshops⁶⁰”. This fact has to be referred to in the announcement.

It limits this regulation that the duratively unemployed people with complex disadvantages are not regarded as people with changed working capacities by the law. Employees are classified into this group only in case of a certain degree of changing of the working capacity of the employees, due to handicap, or due to physical or mental incapacitation.⁶¹ So those employers that employ **employees that have disadvantages due to segregation, cannot get this kind of support**. As far as changed working capacity is concerned, a significant change of approach would be necessary in Hungary, and also the rehabilitation of the mental-physical state caused by the change of the working capacity should be recognised.

Among the policies promoting the development of social economies, we have to mention the **activity of the National Employment Public Foundation (OFA)**. The public foundation was established by the Ministry of Labour on 30 June 1992, and on 1 January 1997, at its transformation into public foundation, its circle of founders was extended with the Government of The Hungarian Republic. Its outstanding public benefit status was registered in 1998. The organisation has held the OFA acronym, that derives from its founding name (**Országos Foglalkoztatási Alapítvány- National Employment Foundation**). The funding programmes of the OFA were financed by the Hungarian State, the resource for their support was provided by the Labour Fund. Its mission is to serve the decreasing of unemployment and

⁵⁹ 302/20006(XII.23) governmental decree. Also that organisation is regarded as a protected workshop that has settled down in a state enjoying a national footing and that employs people with changed working capacities in more than 50%.

⁶⁰ In the Member States of the European Union, and on the basis of the passage (4) of §1 of the Hungarian Public Procurement Law, also that organisation for national treatment, that employs people with changed working capacities in a degree that is beyond 50%

⁶¹ The person, whose prospects for the taking, holding and progressing with an applicable task have significantly been reduced due to some observed corporal or mental damage.[ILO 159.sz. Agreement about employment rehabilitation and employment (1983)]

Who is corporally or mentally disabled, or whose chances of finding or holding his employment are reduced due to his corporal or mental damage.

the service of the extension of employment, by which it fulfills an important role in the Hungarian labour policy institutional system.

Several programmes funding the community enterprises have been launched in the previous years. Among these it is worth to mention the educational and employment transit projects that were launched in 2004, funded by EU funds.

In the first planning cycle, after the joining, between 2004 and 2007, they supported the preparation of programmes HEFOP 2.3.1. „The labour market training and employment of disadvantaged people on the alternative labour market” and the HEFOP 2.3.1. ”Development-centered alternative labour market services” on the basis of which the transit employment funds were born. Some of them is still a living enterprise today, and as good practises, they help the acclimatisation of social economy in Hungary.

The objectives of the HEFOP 2.3.1. programme were the following:

- The promotion of an alternative training project with an integrated approach adjusted to the abilities and necessities of the different groups of disadvantaged people that is able to show up verifiable result. The promotion of helping the people with low-school profile to support them to gain certification;
- The promotion of the institutionalisation of the integrated approached alternative training modell;
- The promotion of as many disadvantaged, unemployed people to find long-term work, and their promotion to adapt in their workplace and in the society;
- To provide people with low schoolar profile a chance to gain a certification acknowledged by the state;
- The increasing of local resources, helping the unemployed people by the cooperation of nonprofit organisations and other organisations, local government, institutions, enterprises.

The HEFOP 2.3.2. programme helped the labour market integration primarily by the services it was offering for the improving of employability. The organisations that have entered this programme then are still present among the labour market service providers, where they are holding serious market positions.

The **aim of the EQUAL (2004-2006)** community initiative was to work out and disseminate such unconventional, innovative approaches and methods that contribute to the abolishment of negative discrimination and inequities related to the labour marketing, a way that the supported initiatives fitted to the European Employment Strategy and to the Community strategy of the fighting against social segregation. In Hungary, the total available cost of the EQUAL for the period between 2004 and 2006 was 40 389 513 €, out of which 30 292 135 € was provided by the European Social Fund, and 10 097 3781 € was provided from the central budget.

The fields supported in the framework of the EQUAL programme were the following:

- Working out and testing methods and services targeting the helping of disadvantaged people, among them gypsies to get to the labour market.
- The formation of schools and vocational forms based on „Second chance school”-methods
- The elaboration and testing of new tools assisting the training and employment of inactive, unemployed people living with a handicap
- Working out new tools for fighting against labour market discrimination

- The prevention and abolishment of human trafficking by promoting labour market and social integration
- The employment and the training of disadvantaged people by working out and testing new methods serving the improvement of employability
- The elaboration and testing of new methods helping the employment and the holding in employment of elder employees
- The developments targeting the formation of an intermediary labour market and the helping the people with changed working capacities into the open labour market
- The helping of women to find a job and the development of methods serving the decreasing of employment segregation
- The formation of new methods and services assisting the improving of the employability and the integration of refugees

The main fields of the assessment and the dissemination of the results and the changes of the experiences are the thematic networks operating on a national level, and the European level so-called thematic groups. The EU level cooperations and the international cooperation were resources of significant added value and innovation.

„The social land programme” is a very significant prefiguration of community enterprises, that has been present in Hungarian social politics since 1992 as a tool of giving a chance of development for the rural areas and settlements. For today, this programme was already put to its place, under the supervision of the Ministry of Economy. Many small settlements received soil usage and different tools for doing agricultural activity. The programme provided an opportunity for croft agricultural farming and animal holding, and by activating the families to work based on the use of local resources. The operators of the programme in the settlements are primarily the local governments and their multi-purpose associations and the nonprofit organisations established by the local governments. Later on, the social land programme became the part of the local social assistance system. For today, most of the programmes are also prepared for market sales besides self-supply.

In 2009, the social land programme was going on in 10 counties, 44 rural areas, and in 194 settlements, mostly in the most disadvantageous areas of Hungary. Nearly the half of the beneficiaries was of gypsy origin.

The presented programmes gave impetus to the development of Hungarian social enterprises by offering their innovative solutions. To all these contributed those good practices serve as a good example not only with their novelty, but also with their sustainable development.

Some examples of good practices

In 1986, in the framework of the party state social and economic regulators, the Összefogás (it means: Cooperation) Industrial Cooperative was established, that has for today developed to become a national network: it gives work at 24 campsites for about 700 mentally handicapped, and cumulatively handicapped people. The apartment houses tailor-made for the particular needs provide residence for 70 handicapped people and employees. The international Schwab Foundation awarded The Society-Conscious Entrepreneur of the Year” prize to this organisation in 2006.

The Hungarian winner of NeSst-Citi Social Enterprise Development Competition was the restaurant called „Tasting” of the Blue Bird Foundation from Szekszárd. The restaurant came true in the framework of the HEFOP 2.3.1. programme, and today it fulfills an individual role in the preparation for integration and the world of work, providing training and working opportunity for its disabled employees.

In 2009 the 10.000 \$ prize for the organisation making the most remarkable business plan in Hungary was awarded to Csoport-téka Association on The Prize Giving Ceremony. They are working on the reintegration of people who often have multiple disadvantages.

We concluded the national report of social enterprises in Hungary with a successful programme presentation that were in the last years also worthwhile for significant prize. Besides them, there are several community enterprises that was embedded into the local economy, providing work and living opportunities for its members in a way that maintaining its mission so, that it is continuously developing. We hold it important that these programmes be presented on the ISEDE-NET website, and that they become members of the ISEDE-NET network.

Prospectives

In the planning cycle between 2007 and 2013 in the New Hungary Development Plan the keywords are competitiveness, innovation, economy, sustainable development, human resource develop. The employment of the disadvantaged and the related policies got their place in Social Mobility Operative Programme (TÁMOP). In the Regional Operative Programmes (ROP) the aim is the development of the economy and the strengthening of social cohesion.

In the past few month there was several funding programmes supporting the dissemination of the thought and the practice of the social economy in Hungary.

Also the TÁMOP 1.4.3. programme was inscribed, entitled Innovative Experiential Employment Programme that are supporting the alternative training and employment of the disadvantaged people, and furthermore the social economy is also a programme element directed to the establishment of a community enterprise. It has also become possible that the cooperatives working earlier from OFA-funds could also get EU-funds.

In the **New Hungary Rural Development Plan**, among other things, there are the following priorities:

- The strengthening of the guarantees of sustainable economy
- The decreasing of the problems in rural areas, the extention of gaining revenues
- The development of local communities

The LEADER resources are supporting the implementation of such regional development strategies that are built on the cooperation of the local administration, the entrepreneurs, and the civil organisation. It gives actual decision-making right into the hands of their community.

These priorities show that rural development can be the cradle and the generator of Hungarian community enterprises

Field	Explanation
Country	Hungary
Name of the scheme/measure/regulation (English)	The English translation of the original name - The support of atypic employment forms Convergence regions
Original name of the scheme/measure/regulation	TÁMOP -2.4.3.B-2-10/1 Atipikus foglalkoztatási formák támogatása Konvergencia régiók
Principal organisation	ESZA Nonprofit Kft - ESZA Nonprofit Ltd
Implementing organisation	ESZA Nonprofit Kft - ESZA Nonprofit Ltd and the alltime winning appliers
Status of implementing organisation	State-owned nonprofit ltd
Source of funding	The European Social Fund cofinanced by the budget of the Hungarian Republic
EU financial contribution	Yes
Duration of the action - Start date - And day	Year 2010. Year approx. 09 2014.
Type of the scheme/measure/regulation	Tender
Objective of the scheme/measure/regulation	The aim of the project is to promote the self-employment of disadvantaged people, and the establishment of labour opportunities and providing the employment of the job seekers.The project should contribute to the difficulties inhibiting employment arising from the organising of the works, by its function of community organising, community development through the social, educational, cultural function of social association.
Brief description of the scheme/measure/regulation	<p>The social associations are trying to fulfill such needs that are not fulfilled by neither the market ,nor the state sector.Their activity is dominated by the incentive to improve the situation of the low profile strata of the society.The social association combines the driving principles characteristic of economic companies and social associations: it fulfills its employment-extending,employment-establishing and community-organising role by joining profit,and social and cultural aims.</p> <p>Association might mean a solution in the handling of unemployment and in the promotion of employment.- especially in case of the social groups having disadvantages,as well as in the decreasing of black market economy.</p> <p>In order to achieve this however,it is necessary to operate helping,supporting systems,and also that extra resources be present in this area.Related to the present</p>

	tender construction the National Employment Public Foundation (OFA) is providing supporting advisory service free of charge.
Target population addressed	In the framework of the present calling for tender, only the social associations corresponding to §8 of law X/2006(excluding scholar associations).
Geographical areas covered	National
Relevance of scheme/measure/regulation	The promotion of re-employment of the disadvantaged job-seekers and inactive people,the extention of employment in order to fulfill the local needs,with an activity focusing on the local of the market,by extending their activity,anf furthermore the helping of economic operation of social associations,in order to give a basement to their self-management.
Evaluation	They are regularly assessed
Future perspective of the scheme/measure/regulation	Is it interrupted? Is it continuing? Does it change? Why?
Additional relevant information	The expected number of supported tenders:40-50 pcs

Field	Explanation
Country	Hungary
Name of the scheme/measure/regulation (English)	The English translation of the original name
Original name of the scheme/measure/regulation	141/2006(VI.29) governmental decree about social associations
Principal organisation	The Government of the Hungarian Republic
Implementing organisation	Not relevant
Status of implementing organisation	Not relevant
Source of funding	Not relevant
EU financial contribution	no
Duration of the action - Start date - And day	Year 2006.(06.29) Year
Type of the scheme/measure/regulation	Governmental decree
Objective of the scheme/measure/regulation	It is a law regulating the operation of social associations
Brief description of the scheme/measure/regulation	The aim of the regulation is to motivate the members of the society to become active participants of social economy,that is is special form of association,that includes in itself the characteristic base values of social economy and is struggling to fulfill such needs to the fulfillment of which the other fields of the sector are not capable.

Target population addressed	The social associations are the autonomous associations of persons, who voluntarily associate with each other with the aim of implementing their common economic, social, educational and cultural aims through their democratically managed enterprise. The social association is an organisation working based on the principles of open membership and changing capital. It has a legal entity. Association, revenue production in the format of association means a solution in the handling of unemployment and the promotion of employment.
Geographical areas covered	National
Relevance of scheme/measure/regulation	The European experiences show that the associations - the social associations- can mean one of the tools of handling and solving the problems emerging in the framework of employment policy, regional and rural development, agriculture and environment .

Relevant Laws regulating Social Economy in Hungary

1. CXLIV/1997 Law on economic companies
2. IV/2006 Law on economic companies
3. CLVI/1997.Law on public benefit organisations
4. L/2003 Law on the National Civil Base Programme
5. LXXXI/1996 Law on company tax and capital return tax
6. CXVII/1995 Law on personal income tax
7. XCIII/1990 Law on dues
8. C/1990 Law on local taxes
9. C/1995 Law on customs law,customs proceedings and customs management
10. X/2006 Law on associations
11. 141/2006(VI.29) Governmental decree on social associations
12. 302/2006(XII.23) Governmental decree
13. Civil Code(IV/1959 Law)
14. II/1989 Law on public benefit organisations
15. III/1993 Law on social management and social services
16. 188/1999(XII.16) Governmental decree about the permission and controlling of social institution providing personal care and the operation of village guardian service
17. 321/2009(XII.29) Governmental decree about the permission of the operation of social institutions and social service providers
18. 141/2006(VI.29) Governmental decree about the permission and control of the operation of social service providers and institutions
19. 141/2006(VI.29) Governmental decree about social associations
20. 302/2006(XII.23) Governmental decree about the detailed rules of the public procurements maintained for the protected employers.

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