

Social economy - laying the groundwork for innovative solutions to today's challenges (Paris, 10-11 December 2012)

The Social Economy in Hungary¹

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1. What are the current situation and the recent trends in your country in relation to social economy?

Use of the concept of 'social economy'

As the CIRIEC report (2012) rightly notes, the concept of social economy is relatively little used in Hungary. There is no government agency dedicated to the social economy. Nor is the concept used in legislation or statistics. Nevertheless, the concept has already appeared in both employment policy and political discourse. Hungary's EU-cofinanced Social Renewal Operative Programme (SROP) for the period 2007-2013 contains a component entitled '*Social economy, innovative and local employment initiatives and pacts*', which is one of the interventions aimed at improving employability and promoting entry to the labour market (SROP 2007). The concept of 'social economy' is now also used by another SROP grant programme for social cooperatives (its website is called www.szocialisgazdasag.hu, Hungarian for 'social economy').

In 2011, the Hungarian Government accepted the Hungarian Employment Plan. It is **a three-pillar-based system** of employment-related supports. The first and most important pillar is the promotion and reinforcement of **employment in the open labour market** among others through wage and contribution subsidies, paying special attention to micro, small and medium-sized companies. The second pillar is **social economy**, which organises the employment of jobseekers based on local opportunities by means of public funding and partly of own income. This is a temporary form of employment, the aim of which in the long term is to lead on to open labour market employment. The National Social Policy Concept envisions that certain social services near home could be organised within the framework of social economy, by relying partly on private, partly on municipal resources. The third pillar is **public employment**, which is closely related to the reform of the social security system aiming at promoting work, and in the framework of which the state itself organises the temporary employment of those for whom the first two pillars currently do not offer any job opportunities.⁴

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⁴ http://www.kormany.hu/download/e/a7/40000/Magyar_Munka_Terv.pdf



Substance of the social economy in Hungary

Following the international literature and the discussion paper for this Peer Review, we can define the Hungarian social economy as in principle consisting of two types of organisations:

- non-profits providing social and other services (education, social care, sports, environmental protection etc.) and employment to anybody;
- non-profits, cooperatives, enterprises providing employment to socially or otherwise disadvantaged groups and organise any activity.

In reality, the two groups of organisations largely overlap. To a large extent, it is the non-profits offering advice, training or social services to the needy that also initiate employment programmes for them.

In addition to 'classical' non-profit organisations (similar to those in other European countries), two country-specific features of the social economy need to be emphasised:

- a strong role of municipal governments in organising social employment in various forms, including non-profit enterprises and public work programmes;
- the tradition of 'social cooperatives' in agriculture, which partly builds on the 'social land programmes' that began in the early 1990s.

Municipal governments play an important role because social enterprises are most needed in economically backward regions and localities, where municipalities are often the only effective organisers of local society.⁵

The aim of the social land programmes has been to help the livelihood of disadvantaged families through services and allowances that stimulate their agricultural production (e.g. land tenancy, machine lease, support the livestock, agricultural consulting). Although social cooperatives in agriculture are very marginal actors, they may be considered as prototypes for social business in rural areas.

The Hungarian social economy in numbers

The social economy within the non-profit sector

The size and structure of the social economy in Hungary are difficult to identify. Neither the Central Statistical Office of Hungary, nor surveys have used the concept. This lack of data may lead to serious misconceptions. For example, the CIRIEC report (2012) calculated the volume of 'paid employment in the social economy' in Hungary by adding up employment in cooperatives, mutual societies and associations. However, most cooperatives are for-profit agricultural firms; mutuals provide insurance or banking services without any social commitment; and associations make up a large part of the non-profit sector, which is far broader than the social economy (no matter how the latter is defined).

One approach to make a more realistic guess about the size of the social economy is to identify those non-profit organisations which either support employment or social policy in some way, or provide employment to socially vulnerable, disadvantaged groups.

The Hungarian Central Statistical Office publishes data about the non-profit sector each year. The size of the whole sector has grown steadily in the last decade.

⁵ Németh, Nándor (ed.): A helyi kezdeményezésű gazdaságfejlesztési programok vizsgálata [Analysis of local economic development initiatives] MTA Közgazdaságtudományi Intézet, Budapest, 2011.



Employment in the sector increased from 62,000 in 2000 to 116,000 in 2010. (This means that the non-profit sector accounts for 3-4% of total employment.)

As shown in Table 1 below, more than two thirds of the people are employed by non-profit enterprises. The other category consists mostly of foundations and associations.

Table 1. The size of the non-profit sector in Hungary, 2010 (CSO, 2012)

	Non-profit enterprises	Other non-profit organisation	Non-profit sector
Number of organisations	2,456	62,531	64,987
Number of employees	80,219	35,634	115,853
Income (thousand HUF)	609,650	592,605	1,202,255

<http://www.ksh.hu/docs/hun/xftp/stattukor/nonprofit.pdf>

How many of these organisations may be counted as belonging to the social economy? We have data on each organisation's primary field of activities. Among these, 'economic development and labour', 'social care' and 'education' appear relevant (Table 2). Since many of these organisations may not have a social economy character,⁶ the statistics about them may be taken as upper bounds for the social economy within the non-profit sector.

Table 2. Estimates about the size of the social economy within the non-profit sector in Hungary, 2010 (CSO, 2012)

	Number of organisations		Percentage	
	Non-profit enterprises	Other non-profit organisation	Non-profit enterprises	Other non-profit organisation
Economic development and labour	702	1,061	28.6%	1.7%
Social care	211	5,538	8.6%	8.9%
Education	391	8,363	15.9%	13.4%
Upper bound for social economy within the non-profit sector	1,304	14,962	53.1%	24%
<i>Other activities</i>	<i>1,152</i>	<i>47,569</i>	<i>46.9%</i>	<i>76%</i>
All	2,456	62,531	100%	100%

Social cooperatives

Social cooperatives are not included in the above statistics so they must be considered separately. **The number of social cooperatives was 259 in June 2011.**⁷ It should be noted that the large majority of these (191 cooperatives) were established in 2010. It seems that most social cooperatives are unstable organisations. A survey examined the survival rate of social cooperatives that

⁶ For example, some of them may provide advice to SMEs or educational services to highly educated people.

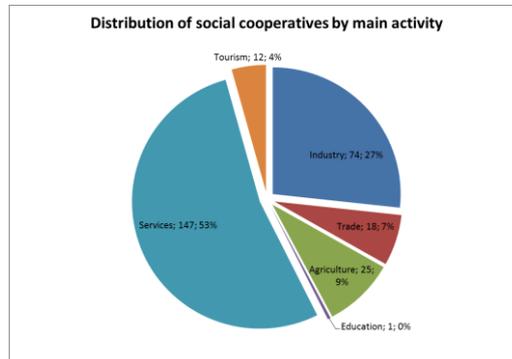
⁷ The number of functioning social cooperative according to the official Hungarian Company Register.



received support from the National Employment Fund in 2007. It found that only 7 out of 49 were still functioning in 2011.⁸

As shown in the diagram below, the majority of social cooperatives operated in the services sector in 2011.

Graph 1. Distribution of social cooperative by main activity (number of cooperatives; percentage of cooperatives)⁹



Other actors

Municipal social employment programmes in diverse organisational forms and for-profit enterprises employing disabled people are not included in any of the above statistics but may constitute a significant segment of Hungary's social economy.

As for the employment of the disabled, there is a limited circle of organisations that offer permanent employment and/or rehabilitation to the disabled. About 14% of Hungarians between 14-64 years of age (ca. 1 million people) are to some degree disabled. Only one quarter of this group are active, and 30-40,000 people are employed by 70 such organisations. Although these firms and foundations produce for the market, they largely depend on financial support by the government.¹⁰ Of course, the number of enterprises which employ disabled people is much larger. Public grant schemes and breaks in social security contributions are in place to encourage this kind of employment.

2. What framework measures and models to encourage social enterprises are applied in your country?

Public grant schemes and related support measures

There are several public grant schemes and related support measures which target the social economy. One example is the support of 'local employment initiatives and innovative employment services' which began under the EU's EQUAL programme and Hungary's Human Resource Development Programme (co-financed by the European Social Fund) between 2004 and 2006. Within the framework of the present Social Renewal Operative Programme, the government has continued these programmes and one component of the Programme (TÁMOP 1.4.3) now supports pilot projects to activate the inactive population, to integrate the disadvantaged people into the labour market, to foster permanent employment of long-term

⁸ Source: Németh, László (2011): Tényszerű adatok a szociális szövetkezetek működéséről [Facts about the operations of social cooperatives]. Budapest: SZOSZÖV.

⁹ See note 6.

¹⁰ Scharle, Ágota (2011): Foglalkoztatási rehabilitációs jó gyakorlatok Magyarországon [Best practices of employment rehabilitation in Hungary], Budapest: Budapest Institute.

unemployed, to develop sustainable employment models in the field of social economy.

Another intervention of the Operative Programme (TÁMOP 2.4.3) supports social cooperatives, especially those operating in disadvantaged regions. Grants are given to make business plans, carry out market research and organise trainings. Additional resources are assigned to popularise social cooperatives. For this purpose, a methodological guide has been published and a promotional campaign has been organised. In addition, the project has fostered co-operation between cooperatives and set up an advisory platform.

As for the regulatory framework, the Act on Cooperatives (2006th X.) and the Directive on Social Cooperatives [141/2006 (VI.29)] provide the legal basis for social cooperatives. Table 3 summarises the main features of two government initiatives to support the social economy

Social land programmes

Some of these programmes merely help the very poor to produce their own food and become self-sufficient. However, a number of initiatives go beyond this and are organised as enterprises producing for the market. They are almost exclusively established and run by municipalities or non-profit organisations founded by municipalities. About a half of the beneficiaries are Roma families.¹¹

Table 3 Main features of two government initiatives

	Local employment initiatives and innovative employment services (TÁMOP 1.4.3)	Social cooperatives (TÁMOP 2.4.3)
Number of announced tenders since 2007	3	2
Announced amount of money (billion HUF)	11.2	3.7
Obtained amount of money	5.3	3.2
Number of projects supported	36	57
Main target groups of the projects	Parents after child care benefit, disabled people, youth	(Disadvantaged) unemployed; people in disadvantaged micro-regions
Main instruments of the projects	Adult learning networks, social innovation in social economy	Self-employment, fostering employment in green industry, atypical employment programmes, agricultural programmes

Micro finance programmes

Micro finance programmes are another area of public support to the social economy. Notably, 'Kiút Program' ('The Way Out' Programme) is similar to the Grameen bank model. It aims to bring people out of the poverty trap, enhance entrepreneurship and foster the social integration of the poor or disadvantaged (primarily Roma) population. The programme office provides financial education, lifestyle consulting to potential borrowing groups, and if a group can offer sufficient safeguards, a member of the group can get a loan up to 1 million HUF to start a

¹¹ http://www.rtop.hu/TF_fuzet_%282%29_Helyi_gazdasagfejlesztes_k.pdf



business. The resources of the Programme are mainly from the European Union: the project was awarded 1.425 million EUR through the Pan-European Coordination of Roma Integration Methods – Roma Inclusion: Self-employment and microcredit tender. Until the end of 2011, the programme had 70 clients, allocated 50 million HUF and generated 64 start-ups. According to an expert analysis, the repayment rate is expected to be around 60%.¹²

There were two antecedents to the *Kiút Program*. Two foundations – SEED and *Autonómia* – launched micro-finance programmes (separately). SEED targeted women to make their own start-ups but the foundation was unable to find enough clients for its resources. *Autonómia* ran a programme that was similar to the *Kiút* programme. It targeted Roma people living in extreme poverty but did not live up to expectations either: the repayment rate was below 50%.¹³

Public work schemes

The unemployment and the social benefit systems have been transformed and a new Public Work Programme has been launched in order to break benefit-dependency and make work attractive also for those long-term inactive who are furthest from the labour market. Hungarian governments have considered public work schemes as important tools of employment policy. The most important purpose of public employment is to mobilise the long-term unemployed (LTU), in particular, in geographical regions where the incidence of LTU is high and work opportunities are scarce. The Government looks upon public employment primarily as a temporary solution. The social economy – especially social cooperatives – can be the next step for this group towards the open labour market. The public work programme (*Startmunka*, i.e. 'Start work') provides, at least in principle, an opportunity for participants to join a social cooperative, to which equipments and tools previously used in the public work scheme may be transferred.

3. What are the main challenges for the future development of the social economy and social enterprises?

Competition rules. Public financial aid to social economy actors may violate EU rules if judged to 'distort' competition. The *de minimis* rule and existing group exemptions do not offer sufficient room for a more generous and effective public support to the social economy.

Marketability of products. It is now a policy priority to strengthen the employment capacity of non-profit organisations and their production of marketable products and services. Public support (e.g. co-financed by ESF) is being directed to such organisations. Organisations should strive to decrease the ratio of state support in their revenue structure.

Public work schemes. The government is now trying to move public work schemes closer to models of social economy. For example, it encourages participants of such schemes to join social cooperatives. A novel idea is that a special form of social cooperative – called an 'employment cooperative' – should be introduced, which would focus on hiring employees to firms, non-profits or municipalities.

Public procurement rules. National rules allow but do not prescribe preferential treatment of the social economy in public procurement. However, EU legislation on

¹² Reszkető, Petra – Balázs Váradi (2012): *Kiút Mikrohitel Program értékelése* [Evaluation of Kiút Microhitel Programme], Budapest: Budapest Institute.

¹³ See note 9.



public procurement, as interpreted by the ECJ, makes the preferential treatment of social economy actors all but impossible.

4. A brief assessment of the learning value of the French good practice to your country

- Coordination of government activities affecting the social economy may be a useful idea to be transferred to Hungary.
- Lessons of seed funding and support to social enterprises would be interesting because there is so far little success in this field in Hungary.
- Innovations in the regulation of cooperatives are interesting as Hungary is also trying to adapt its laws to changing economic and social circumstances.

