

# THE HUNGARIAN SOCIAL CO-OPERATIVE AS SPECIAL SOCIAL ENTERPRISE

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## **1. Impetus of social enterprises and co-operatives to employment**

### *1.1. Societal and legislative environment*

In the Central and Eastern European countries – including Hungary – unemployment started parallel with the collapse of the socialist political regimes at the beginning of the late 1980s and early 1990s. Governments turning from socialist, centrally planned economies to market-based economies could not manage the significantly rising unemployment levels, and could only maintain the social, educational and cultural institutional systems at the cost of increasing national debts and taxes. As a result, masses of people became economically and socially marginalized – among others people above the age of 50, disabled people, young people with lower education (and later with higher education as well), single parents, inhabitants of marginalized municipalities, and especially Roma people.<sup>1</sup>

From the mid-nineties, international organizations (among others the International Co-operative Alliance (ICA), ILO, etc.) issued statements, recommendations and decrees for the national governments. The essence of all these documents was to stress the importance and favourable characteristics of co-operatives and social co-operatives,<sup>2</sup> while they made recommendations for creating favourable legal environment and supportive systems for disseminating and strengthening the form.

The International Labour Organization (ILO) in its Recommendation<sup>3</sup> No. 193. in 2002 stated that “the promotion of co-operatives guided by the values and principles should be considered as one of the pillars of national and international economic and social development”.<sup>4</sup> Furthermore, governments should introduce support measures, where appropriate, for the activities of co-operatives that meet specific social and public policy

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<sup>1</sup> <http://www.szocialisgazdasag.hu/uploads/pdf/szocszovkuttanosszen.pdf> (12.10.2016.)

<sup>2</sup> <https://www.historians.org/about-aha-and-membership/aha-history-and-archives/gi-roundtable-series/pamphlets/why-co-ops-what-are-they-how-do-they-work/what-are-the-strengths-and-weaknesses-of-co-operative-business> (04.11.2016.)

<sup>3</sup> NB: Recommendation is a non-obligatory international norm of the ILO.

<sup>4</sup> SMITH, Stirling: *Promoting co-operatives: an information guide to ILO Recommendation No. 193*; International Labour Office – Geneva: ILO, 2014.

outcomes, such as employment promotion or the development of activities benefiting disadvantaged groups or regions. Such measures could include, among others and in so far as possible, tax benefits, loans, grants, access to public works programmes, and special procurement provisions.”<sup>5</sup>

Based on the definition of the International Co-operative Alliance (ICA)<sup>6</sup> formulated in 1995 “a co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”.<sup>7</sup> Co-operative values have been defined in the following way: “Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.”

The co-operative model promotes sustainable employment in sustainable enterprises, and, hence, local development and social cohesion. Co-operatives are owned and controlled by owners-stakeholders who are actively present on the territory, and are aimed to satisfy their common economic, social, cultural and/or environmental needs and aspirations.<sup>8</sup>

Among them, worker and social co-operatives – and other types of employee-owned firms – are owned and controlled by the enterprise staff. The resilience of these enterprises to the past economic crisis (2007-2012), which has been surveyed, is a good indicator of their capacity to sustain their economic activities and their jobs. In the short-term, their governance and economic model enables them to take rapid joint decisions such as the non-redistribution of surpluses to worker-members or cost reductions or even to restructure when needed. In more complex groupings, workers can be rapidly redeployed from one enterprise to another one for some time and be retrained, while maintaining intact the payment of their pension benefits.<sup>9</sup>

In the longer term, they can often generate the joint intelligence needed to invest in innovation and find the appropriate anticipatory solutions for the future. This process is reinforced by the support environment that the enterprise network provides, with dedicated advisory bodies, training systems, banks and non-banking financial institutions, consortia and groups, representative federations and social organisations, which contribute to the long term sustainability of the enterprises and of their workplaces.<sup>10</sup>

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<sup>5</sup> International Labour Organization: Recommendation No.193., 2002.

<sup>6</sup> The 1995 year Congress of ICA also defined the co-operative Principles: 1. Voluntary and Open Membership. 2. Democratic Member Control. 3. Member Economic Participation. 4. Autonomy and Independence. 5. Education, Training and Information. 6. Co-operation among Co-operatives. 7. Concern for Community.

<sup>7</sup> International Co-operative Alliance: Statement on the Co-operative Identity, 1995.

<sup>8</sup> EGM on the Co-operative Sector and the 2030 Agenda for Sustainable Development <https://www.un.org/development/desa/co-operatives/what-we-do/meetings-and-workshops/egm-coops-2030agenda.html> (15.11.2016.)

<sup>9</sup> BIRCHALL, Johnston – KETILSON, Lou Hammond: *Resilience of the Co-operative Business Model in Times of Crisis, Sustainable Enterprise Programme: Responses to the Global Economic Crises*, International Labour Organization, [https://dspace.stir.ac.uk/bitstream/1893/3255/2/Resilience\\_Co-operative\\_Business\\_Model.pdf](https://dspace.stir.ac.uk/bitstream/1893/3255/2/Resilience_Co-operative_Business_Model.pdf) (06.11.2016.)

<sup>10</sup> <http://www.sustainableemployment.eu/Sustainable-employment-a-key-for,74.html> (14.10.2016.)

## 2. The legal framework of the social co-operatives in Europe

In medias res, the European Commission adopted (on 23 February 2004) a Communication on the promotion of co-operative societies.<sup>11</sup> In the Communication the Commission draws the attention of Member States – and especially that of the perspective Member States – to the importance of exploiting the potential of co-operatives and strengthening their role.<sup>12</sup> The Commission found the modernization of legal environment concerning co-operatives inevitable. Also, the document recommends that Member States should create a supportive environment. The advantages of social co-operatives have been stated in this document for the first time.<sup>13</sup>

The European Social Co-operative (ESCOOP) is based on the principles of national and international mutuality and excludes any purpose of private speculation.

ESCOOP has the purpose to pursue the general interest of the community, towards human advancement and the social integration of citizens through the management of: 1) socio-health, education and training services for the benefit of underprivileged people, and 2) productive activities in which the working integration and/or work placement of socially underprivileged people would be realized.<sup>14</sup>

The co-operative also has the purpose to achieve continuity of employment opportunities in the best possible economic, social and professional conditions, through appropriate management in associate or collective forms of the enterprise in which the employees, members and non-members work.<sup>15</sup>

The social co-operative is perhaps the archetypical social enterprise, in that it combines a business like style of operation with a profound attachment to social goals. What distinguishes it from a standard co-operative is that it has multiple stakeholders - usually its workers and its beneficiaries, and often volunteer members as well.<sup>16</sup>

This form of co-operative was pioneered in Italy and has grown most impressively there, although it is also strong in Spain. Later Belgium, France, Greece, Portugal, Spain, Germany, Finland and Poland have also created special legal forms of this type.<sup>17</sup>

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<sup>11</sup> Opinion of the European Economic and Social Committee on the Communication from the Commission to the Council and the European Parliament, the European Economic and Social Committee and the Committee of the Regions on the promotion of co-operative societies in Europe (COM(2004) 18 final) (2005/C 234/01)

<sup>12</sup> Council of European Union, Communication on European co-operatives, 2004.

<sup>13</sup> <https://www.stthomas.edu/media/catholicstudies/center/ryan/conferences/2006-rome/Pezzinifinalpaper.pdf> (19.11.2016.)

<sup>14</sup> <http://www.escoop.eu/en/> (12.03.2016.)

<sup>15</sup> <http://www.escoop.eu/> (12.03.2016.)

<sup>16</sup> <http://www.entrepreneurenvoy.org/inclusion/social-enterprises-and-co-operative> (15.03.2016.)

<sup>17</sup> FUGAZZA, Marco: *Search Bonuses: An Alternative to Declining Unemployment Benefits?* CERAS, Ecole Nationale des Ponts et Chaussées.

### 3. Social co-operatives at national level

#### 3.1. Italian legislation on social co-operatives

The term social enterprise was first used in Italy in the 1980s. The term referred to the innovative private initiatives established by volunteer groups with the aim of delivering social services or facilitating the integration of disadvantaged people in the labour market. These initiatives were initially set up using existing non-profit legal forms, but obtained their own distinct legal identity when the *Act on Social Co-operatives* was passed in 1991 (Law no. 381/1991). In order to promote pluralism in the production of social utility goods and services and a diversification of sectors of activity, a legal category of ‘social enterprise’ was introduced in 2005 with the adoption of the *Law on Social Enterprises* (Law no. 155/2006).

Italy is one of the few countries with a law on social co-operatives (legal form) as well as a law on social enterprises (legal status):

- a. The Law on Social Co-operatives (1991) created a new form of co-operatives. In contrast to traditional co-operatives which are primarily oriented towards serving the interest of their members, social co-operatives pursue social or general interest aims. The law distinguishes between social co-operatives providing social, health and educational services (defined by law as type „A” social co-operatives) and social co-operatives integrating disadvantaged persons into jobs (type „B” social co-operatives).
- b. The Law on Social Enterprises (2006) provided a legal definition of social enterprise and specifies the criteria that an organisation must comply with in order to be legally recognised as a social enterprise. It does not create a new legal form, but a legal status or „label” which all eligible organisations can obtain regardless of their ownership or organisational structure. Eligible organisations could in theory be traditional co-operatives, social co-operatives, investor-owned firms (i.e. share companies) or traditional non-profit firms (i.e. associations and foundations).<sup>18</sup>

A particularly successful form of multi-stakeholder co-operative is the Italian „social co-operative”. „Type A” social co-operatives bring together providers and beneficiaries of a social service as members. „Type B” social co-operatives bring together permanent workers and previously unemployed people who wish to integrate into the labour market.<sup>19</sup>

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<sup>18</sup> CHIRICO, Stefania (ICF) – VENTURI, Paolo (country expert) – RANDAZZO, Roberto – TAFFARI, Giuseppe (legal experts): *A map of social enterprises and their eco-systems in Europe*. European Commission, 2014.

<sup>19</sup> As for the scale of social co-operation in Italy, a good estimate of the current size of the social co-operative sector in Italy is given by updating the official ISTAT figures from the end of 2001 by an annual growth rate of 10% (Assumed by the Direzione Generale per gli Ente Cooperativi. This gives totals of 7,100 social co-operatives, with 267,000 members, 223,000 paid employees, 31,000 volunteers and 24,000 disadvantaged people undergoing integration. Combined turnover is around €5 billion. The co-operatives break into three types: 59% type A (social and health services), 33% type B (work integration) and 8% mixed. The average size is 30 workers.

It is estimated that there are roughly 35,000 social enterprises in Italy (in 2014) that fully meet the criteria laid out by the EU operational definition, representing 0.8 per cent of the total business population. Social co-operatives and social enterprises ex lege capture only a third of Italy’s estimated social enterprise population. (A

In Italy, social co-operatives are defined as follows:

- a. the objective is the general benefit of the community and the social integration of citizens. Type „A” social co-operatives provide health, social or educational services, while type „B” social co-operatives integrate disadvantaged people<sup>20</sup> into the labour market.
- b. various categories of stakeholder may become members, including paid employees, beneficiaries, volunteers (up to 50% of members), financial investors and public institutions. In type „B” co-operatives at least 30% of the members must be from the disadvantaged target groups
- c. the co-operative has legal personality and limited liability,
- d. voting is one person one vote,
- e. no more than 80% of profits may be distributed, interest is limited to the bond rate and dissolution is altruistic (assets may not be distributed).

Italian social co-operatives benefit from relief of social insurance charges on their disadvantaged members, but this is the only form of subsidy they receive.<sup>21</sup>

Social enterprises supply both labour market integration and care services. They offer a way to meet social needs that is both more efficient than a state sector burdened with intricate personnel regulations and pension liabilities, and of better quality because of the high relational content that they embody. Their commitment to social goals means that unlike the private sector, they are unlikely to resort to cost cutting as a way to increase revenue.<sup>22</sup>

### 3.2. Social co-operatives in Belgium, France, Greece, Portugal, Spain, Germany, Finland and Poland

In *Belgium*, the „social purpose company” (*société à finalité sociale*, or SFS, in French; *vennootschap zonder winstoogmerk*, or VSO, in Dutch) legal framework, introduced in 1996, does not focus on the sole co-operative tradition, although it is often combined with the latter. More precisely, this framework is not, strictly speaking, a new legal form, as all types of business corporations can adopt the “social purpose company” label, provided they “are not dedicated to the enrichment of their members”. Therefore, the company must define a profit allocation policy in accordance with its social purpose and provide for procedures allowing each employee to participate in the enterprise’s governance through the ownership of capital shares.<sup>23</sup>

In France and Belgium, these legal innovations have met, up to now, with little success. This may be explained by the fact that they involve a considerable number of requirements which add to those associated with traditional legal forms, without bringing a real value

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map of social enterprises and their eco-systems in Europe. (Chirico –Venturi – Randazzo –Taffari, 2014.)

<sup>20</sup> The categories of disadvantage they target may include physical and mental disability, drug and alcohol addiction, developmental disorders and problems with the law. However, they do not include other factors of disadvantage such as race, sexual orientation or abuse.

<sup>21</sup> IANES, Alberto: *Exploring the Origins of Social Enterprise: Social Co-operation in the Italian Welfare System and Its Reproduction in Europe (From the 1970s to the Present)*, Euricse Working Papers, 2016. No. 88/16 November 11.

<sup>22</sup> [http://www.wikipreneurship.eu/index.php5?title=Social\\_co-operative](http://www.wikipreneurship.eu/index.php5?title=Social_co-operative) (28.04.2016.)

<sup>23</sup> <https://marcusampe.wordpress.com/2012/10/05/defending-social-enterprises-in-europe/> (28.04.2016.)

added for the concerned organizations. Unlike the concepts of social economy or solidarity-based economy, which have inspired coalitions of actors for the last twenty years, from both the world of associations and that of co-operatives, and which are increasingly characterised by a social entrepreneurial approach, the notion of social enterprise itself is far from having achieved general recognition in these two countries.<sup>24</sup>

In *Greece*, a status of „limited liability social co-operative” (Κοινωνικός Συνεταιρισμός Περιορισμένης Ευθύνης Κοι.Σ.Π.Ε or *Koinonikos Syneterismos Periorismenis Eufthisis*, ΚοιSPE) was designed in 1999 for organizations targeting very specific groups of individuals with psycho-social disabilities and aiming at the socio-professional integration of the latter through a productive activity. These organizations are based on a partnership between individuals of the „target group”, psychiatric hospital workers and institutions from the community.<sup>25</sup> Indeed, this new form of co-operative undertaking brings together employees, users, volunteers, local and regional authorities and any other partner wishing to work together on a given local development project.

The *Portuguese* „social solidarity co-operative” (*cooperativa de solidariedade social*) legal form was created in 1997. This type of co-operative provides services with an objective to foster the integration of vulnerable groups, such as children, people with disabilities and socially disadvantaged families and communities. Portuguese social solidarity co-operatives combine in their membership users of the services, workers and volunteers; they cannot distribute any profit to their members.

As for *Spain*, a national law created the label of „social initiative co-operative” (*cooperativa de iniciativa social*) in 1999; any type of co-operative providing social services or developing an economic activity aiming at the work integration of socially excluded persons can use this label. Twelve autonomous regions have since developed their own legislation linked to this national law. As their Portuguese counterparts, Spanish social initiative co-operatives cannot distribute any profit, but their organizational forms are usually less oriented to a multi-stakeholder structure than what is the case in some other European countries.<sup>26</sup>

In some European countries, the concept of social enterprise (co-operative) is not part of the political agenda nor of the academic discourse outside a very small circle of experts; this is in particular the case in *Germany*. The main reason for this probably lies in the fact that the German socio-economic model is based on a wide social partnership agreement around the concept of „social market economy”, understood as a specific articulation between the market and the state to foster socio-economic development. Within such a model, the specific roles of social enterprises – or the social economy as a third sector – are particularly difficult to highlight. Although there exist plenty of not-for-profit organizations characterized by an entrepreneurial approach and addressing emerging social needs, these

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<sup>24</sup> <http://www.theses.xlibx.info/t1-other/942625-2-with-the-collaboration-karl-birkh-lzer-carlo-borzaga-laurent-fra.php> (08.04.2016.)

<sup>25</sup> Such a multi-stakeholder strategy is also at the heart of the French law, passed in 2002, which defines the „collective interest co-operative society” (*société coopérative d'intérêt collectif*, or SCIC).

<sup>26</sup> On this last point, however, it is worth underlining that empirical research has shown that the single stakeholder character does not seem to jeopardize the multiple-goal nature of social enterprises; the latter can have governing structures made of a single stakeholder category, as it is the case in many traditional co-operatives, and still pursue the satisfaction of the needs of the community at large or of particular disadvantaged groups. This suggests once more that the borders of the social enterprise phenomenon are not clear-cut ones.

organizations are not considered as making up a distinct group; they seem to be „split up” in a variety of different „milieus”, each with its own identities.<sup>27</sup>

The *Finnish Act on Social Enterprise (2003)* is emblematic of such a trend, as it reserves this term to the field of work integration. According to this Act, a social enterprise, whatever its legal status, is a market-oriented enterprise created for employing people with disabilities or long-term unemployed (it has to be noted that, probably due to the limited extent of benefits linked hereto, only very few organisations in Finland have decided to register as social enterprises so far - around 70 as of the end of 2007).

In 2006, *Poland* also passed an Act on Social Co-operatives, specifically intended for the work integration of particular needy groups (such as ex-convicts, long-term unemployed, disabled persons and former alcohol or drug addicts).<sup>28</sup>

In sum, the recent introduction of diverse legal frameworks in the national legislation of various European states tends to confirm that we are dealing with a somewhat original kind of entrepreneurship. These legal frameworks are intended to be better suited to these types of initiatives than the traditional non-profit or co-operative structures. The new status created in 1991 for Italian social co-operatives has already been mentioned. In 1995, Belgium introduced into its legislation the concept of a “social purpose company”, whilst Portugal introduced the “social co-operative with limited liability”. The Spanish law of 1999 about co-operatives provides for the existence of “social services co-operatives”, and specific legal frameworks have been introduced in the various regions. More recently still, France created the “co-operative society of collective interest”, while a new legislation is about to be passed in the United Kingdom regarding the “community interest company”.

These new legal frameworks are designed to encourage the entrepreneurial and commercial dynamics that are an integral part of a social project. They also provide a way of formalising the multi-stakeholder nature of numerous initiatives, by involving the interested parties (paid workers, voluntary workers, users, etc.) in the decision-making process. However, it must be emphasised that except in Italy, the great majority of social enterprises are still using traditional third sector legal forms.<sup>29</sup>

## 4. Social co-operatives in Hungary

### 4.1. Milestones of the legal development of co-operative movement in Hungary

The state has traditionally had a strong role in tackling social problems, especially employability<sup>30</sup> and social exclusion issues in a former socialist country, like Hungary. After the democratic transition (1989), a newly emerged third sector has shown significant

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<sup>27</sup> [http://www.community-wealth.org/\\_pdfs/articles-publications/outside-us/paper-defourny-nyssens.pdf](http://www.community-wealth.org/_pdfs/articles-publications/outside-us/paper-defourny-nyssens.pdf) (12.05.2016.)

<sup>28</sup> <http://www.theses.xlibx.info/t1-other1/942625-2-with-the-collaboration-karl-birikh-lzer-carlo-borzaga-laurent-fra.php> (12.05.2016.)

<sup>29</sup> DEFOURNY, Jacques: *Social Enterprise in an Enlarged Europe: Concept and Realities*

[http://www.emes.net/fileadmin/emes/PDF\\_files/PERSE/PERSE\\_WP\\_02-02\\_I.pdf](http://www.emes.net/fileadmin/emes/PDF_files/PERSE/PERSE_WP_02-02_I.pdf) (12.05.2016.)

<sup>30</sup> Literally, the world „unemployment” did not exist in that time. Officially, full employment was declared, and everybody had to have some kind of reported workplace in the personal ID card. It was a crime if somebody did not have an official workplace.

engagement in addressing social needs, establishing a broader „social economy”. However, these organisations are still heavily reliant on public funding. Market-oriented „social enterprises” with both social aims and sustainable business models have appeared in recent times but they are still relatively rare and not sufficiently visible among the broader public.<sup>31</sup>

The traditional co-operatives, an organisational form that may be regarded as a sort of „social activity” (based on common share, cooperation and solidarity), look back at a long history in Hungary. The first co-operative was established in 1845, and the milestone Code of Commerce of 1875<sup>32</sup> enshrined this new enterprise form into law.<sup>33</sup> From the late 19th century onwards, the first agricultural co-operatives were joined by consumption- and credit co-operatives, co-operatives for joint purchasing and production in other sectors, as well as homebuilders’ co-operatives. These organisations were exhibiting some characteristics of a modern-day social enterprise employing democratic decision-making processes, and sometimes also putting an emphasis on social goals. In the socialist era after the Second World War, these existing co-operatives were all put under state control, whilst – under a top-down approach – a number of new ones were created, and rural smallholders and certain professionals (e.g. hairdressers) were left with little choice but to join them. Relaxations of state rule in the economy in the 1970s-1980s, and ultimately the democratic transition in the late 1980s, cleared the way for private (not state-controlled) co-operatives to reappear again.<sup>34</sup>

Addressing social or environmental objectives has never been the prerogative of the state - not even under socialism, as evidenced by associations active especially in education, culture, sports, preservation of nature and cultural heritage. However, the dominance of the public sector left only marginal room for other actors during socialist times and is still felt today.

After the democratic transition, a vibrant third sector with the mission of tackling social and environmental problems has established itself, but it is strongly dependent on external funding – mostly from the state, either the central government or its agencies, or municipalities. For most organisations in the third sector, the pursuit of commercial activities is constrained by law, but sustainable business models are rare even among the rest.<sup>35</sup>

Developing a „social economy” has been on the government’s agenda for recent years. Considerable funds – from the national budget and later from EU-co-financed programmes – were allocated to support the establishment, investments and ongoing operations of social co-operatives. The majority of these co-operatives serve as employment vehicles for the work integration of the long-term unemployed – often Roma – which is a prime government priority. Experience so far shows that these organisations could typically not develop into viable businesses and cannot survive without further funding. Although recent times saw new types of more ‘business-like’ social enterprises emerge, this is still a rather slow process to date.<sup>36</sup>

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<sup>31</sup> FEKETE József (ed.): A hazai szövetkezetek rögös útja máig: hogyan tovább holnap? *Szövetkezés*, 2010. XXXI. 1–2.

<sup>32</sup> Kereskedelmi Törvény, 1875. évi XXXVII törvény.

<sup>33</sup> FEKETE, 2010. 18-19.

<sup>34</sup> FEKETE, 2010. 14-15.

<sup>35</sup> KALLMAN, Meghan Elizabeth – CLARK, Terry Nichols: *The Third Sector: Community Organizations, NGOs, and Nonprofits*, University of Illinois Press, 2016. 37-67.

<sup>36</sup> G. FEKETE Éva – SOLYMÁR Gábor: *A szociális gazdaság kiépítésének esélye és feltételei az Észak-Magyarországi*

It is important to mention that the Fundamental Law of Hungary (2011) does not mention a word either on social or plain co-operatives. However, in 2006, Act X of 2006 on Co-operatives was born, then it was also followed by a governmental decree<sup>37</sup> on social co-operatives, and so a new form of social economy could appear in Hungary.<sup>38</sup>

Table 1

*1. Social enterprise spectrum in Hungary between 2007-2013*

Forms of co-operatives with social purposes	Main features
<p>1. Social co-operatives ('old type': established between 2007 and 2013)            Sub-groups:            a) School co-operatives            b) Employment co-operatives</p>	<ul style="list-style-type: none"> <li>- Engagement in economic activities: aimed at creating employment for the disadvantaged and/or promoting their living conditions.</li> <li>- Explicit social aim: provision of social services such as the care of children, elderly and disabled people, and the integration of unemployed people into the workforce.</li> <li>- Limits on distribution of profits and assets: profit-oriented entities but assets and profits have to be used for the benefit of the communities and members and cannot be distributed.</li> <li>- Democratic decision-making process: one member one vote mechanism</li> </ul>
<p>2. Social co-operatives ('new type': established or reshaped after May of 2013)</p>	<ul style="list-style-type: none"> <li>- Engagement in economic activities: aimed at creating employment for the disadvantaged and/or promoting their living conditions.</li> <li>- Explicit social aim: provision of social services such as the care of children, elderly and disabled people, and the integration of unemployed people into the workforce.</li> <li>- Limits on distribution of profits and assets: profit-oriented entities but assets and profits have to be used for the benefit of the communities and members and cannot be distributed.</li> <li>- Loss of independence: the new type allows local government participation as member, this might affect independence and weaken democratic decision-making procedures.</li> </ul>

*régióban*', *Köz-jó-lét*, 2005. 2. 3. Available at: <http://gtk.uni-miskolc.hu/files/286>

<sup>37</sup> Governmental Decree of 141/2006 (VI. 29.) on Co-operatives

<sup>38</sup> <http://www.messe-project.eu/index.php/me> A map of social enterprises and their eco-systems in Europe,ntorship/legal-information/in-hungary.html (24.10.2016.)

3. Traditional co-operatives (with social aims)	<ul style="list-style-type: none"> <li>- Engagement in economic activities: undertakes economic activities, without focusing on profit generation.</li> <li>- Explicit social aim: may focus on the pursuit of social objectives in the fields of culture, education, health, sports, etc.</li> <li>- Limits on distribution of profits and assets: assets and profits have to be used for future activities and cannot be distributed.</li> </ul>
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*Source: Máté Vincze - Éva Fekete - Gergely Hámori: A map of social enterprises and their eco-systems in Europe, Country Report: Hungary, EU 2014. 10.*

#### 4.2. General context (definition and recognition) of social enterprises

Social enterprises in Hungary emerged in the last 10 years.<sup>39</sup> Social enterprises exist in the non-governmental sector as foundations, non-profit companies, social co-operatives, or co-operatives.<sup>40</sup>

In fact, Hungary lacks a legal definition or an exclusive legal form for social enterprises (the term „social enterprise” does not appear in legal documents).<sup>41</sup> Existing legislation and government policy is focusing on the role of organisations of a set of concrete legal form – i.e. (social) co-operatives and various types of non-profit organisations – in pursuing social goals in the economy.

However, in a broad sense, social enterprises mean all different kinds 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. Social economy in Hungary as a collective term includes all the social enterprises (including social co-operatives) in the narrow as well as in the broad sense, and also the co-operatives. This economy is between the state and the market, in order to fulfil its social mission, it performs business activity and it is self-financing.<sup>42</sup>

Public grant programmes offering support to organisations in the ‘social economy’ of course apply definitions and concrete criteria to determining eligible applicants. These criteria are based on EU definitions (SBI) and linked to various existing Hungarian legal

<sup>39</sup> In my opinion, the main impetus of social co-operatives starting to operate in Hungary was the result of the support provided by the National Employment Non-profit Ltd. (OFA). Social co-operatives offer their underprivileged members employment and other solutions improving their social conditions.

<sup>40</sup> <http://www.messe-project.eu/index.php/mentorship/legal-information/in-hungary.html> (24.10.2016.)

<sup>41</sup> A single and widely accepted definition for social enterprises does not exist in Hungary. Some academic papers (Including ‘A vállalati társadalmi felelősségen túl: A szociális vállalkozás’, PETHEŐ Attila István, PhD, Corvinus University of Budapest, 2009) refer to the definition used by the EU ‘CONSCISE’ report. According to this, social enterprises: a) are not-for-profit organisations; b) seek to meet social aims by engaging in economic and trading activities; c) have legal structures which ensure that all assets and accumulated wealth are not in the ownership of individuals but are held in trust and for the benefit of those persons and/or areas that are the intended beneficiaries of the enterprise’s social aims; d) have organisational structures in which full participation of members is encouraged on a co-operative basis with equal rights accorded to all members; e) encourage mutual cooperation.

<sup>42</sup> [www.southeast-europe.net/document.cmt](http://www.southeast-europe.net/document.cmt) (15.11.2016.)

company and non-profit organisational forms, but they are not part of a more comprehensive national framework.

There are also a number of entities operating under two other forms which fulfil the EU operational criteria and hence can be seen as social enterprise. These two forms are: 1. Traditional co-operatives pursuing general or collective interests and 2. Non-profit companies (it is to be noted that the recent new Civil Code has abolished this legal form).

Furthermore, the employment chapter of the New Széchenyi Plan<sup>43</sup> (the Economy Development Programme of the Hungarian Government), launched in 2011, does, however, mention the concept of ‘social enterprise’ in the context of increasing the sustainability of the non-profit sector. It recognises the need of adapting the business models of non-profit organisations to market trends while concentrating their activities on socially disadvantaged groups.<sup>44</sup>

The social economy as a phenomenon, alternative way of making business was introduced in Hungary not long ago. The story got the momentum when in 2005, under a Regional Operative Programme, the National Employment Foundation (OFA) network<sup>45</sup> was created. It means that besides the Budapest headquarters, 7 regional offices were opened to provide wide- scale, free of charge professional services for the alternative employment initiatives, especially on the field of social economy. In the frame of the work there were trainings, workshops, continuous consultancy with the most accepted experts on the fields of legal issues, business planning, etc. The role of the network was to coordinate the regional and national network of employment agreements, pacts and help them to fulfil their projects. The longer term objective was to create, establish, introduce and broaden the issue of social economy in Hungary. When the legislation made the establishment of social co-operatives possible, the network became a strong advocate of the issue.<sup>46</sup>

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 (social enterprises), which organises the employment of jobseekers based on local opportunities by means of public funding and partly of own income. The third pillar is public employment.<sup>47</sup>

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<sup>43</sup> New Széchenyi Plan, Employment Programme, 2011. p. 279. [http://www.nfu.hu/uj\\_szechenyi\\_terv](http://www.nfu.hu/uj_szechenyi_terv)

<sup>44</sup> VINCZE Máté - FEKETE Éva - HÁMORI Gergely: *A map of social enterprises and their eco-systems in Europe, Country Report: Hungary*, EU 2014. 3.

<sup>45</sup> Called at that time OFA ROP network.

<sup>46</sup> <http://socialeconomy.pl/node/313> (25.10.2016.)

<sup>47</sup> <http://socialeconomy.pl/node/313> (25.10.2016.)

Social enterprises exist in the non-governmental sector as foundations, non-profit companies, social co-operatives, co-operatives. The size of the whole sector has grown steadily in the last decade,<sup>48</sup> however it is difficult to be quantified.<sup>49</sup>

### *4.3. The societal functions of social co-operatives*

The institutional form of social enterprise<sup>50</sup> in Hungary exists under the label of social co-operative defined by Act X of 2006 on Co-operatives.<sup>51</sup> The social co-operative is the most common legal form for social enterprises in Hungary. The closely related concept of social co-operatives is legally recognised. According to Act X of 2006 on co-operatives, social co-operatives aim to provide adequate work conditions and improve the social circumstances of their socially disadvantaged members. Social co-operatives providing employment opportunities for the long-term unemployed or groups who are disadvantaged on the labour market are seen as an important vehicle of the government's employment policy – but other forms of social entrepreneurship do not seem to appear on the political agenda.

A social co-operative is a co-operative which has to have at least 7 members. There is no minimum capital that a social co-operative has to register. The difference between a co-operative and a social co-operative is that a social co-operative's aim is to create workplaces for unemployed or socially disadvantaged people. Co-operative members can be individuals, and (after a change in the regulations in 2012) local governments. There are two acts regulating the establishment of social co-operatives as organizational form: Act X of 2006 and the government decree of 141/2006 (VI.29) on social co-operatives.<sup>52</sup> In Hungary the national law and other related regulations (law on accounting, law on taxation, etc.) consider the basic type of social co-operatives to be for-profit enterprise.

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<sup>48</sup> Research implemented on behalf of OFA proves that the social co-operatives formed in the last couple of years need permanent professional support, and more support is necessary to create more social enterprises. OFA's existing and successfully operating regional network provides a sound base for this support, reducing the risks of failure to minimum. Research also showed that many social co-operatives were formed in response to the financial and technical support offered via tendering, which means significant risks regarding the survival potential of these organisations.

<sup>49</sup> Neither the Central Statistical Office of Hungary, nor surveys have used the concept. 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.

<sup>50</sup> Traditional co-operatives that may operate with an asset lock and partial profit distribution constraints but without explicit social aims and for-profit organisations such as firms with substantial CSR activities may often also lay claim to the social enterprise label.

<sup>51</sup> The Hungarian Act (Act LXIX of 2006) on the European Co-operative is the strict translation of the EU Regulation (Council Regulation No 1435/2003 on the Statute for a European Co-operative Society) without alteration or adaptation.

<sup>52</sup> The Hungarian government decree of 141/2006. (VI. 29.) on social co-operatives considers employment generating coops as an important policy tool in the direction of activating wide strata of undereducated people in deprived areas. Social co-operatives cannot have investor members, only contributing members in person. As opposed to mainstream co-operatives, they are acknowledged as having community-interest status entitling them to tax-deductible donations. There are many social co-operatives in the country, but they could not in a single case reach a sustainable business model.

The social co-operative is an economic organization, founded by locals who are socially committed, affluent and well-educated. These cooperate with the ones who are disadvantaged and excluded, so they can start to build a living space equally liveable for both parties, creating employment for those in need. The co-operative is part of the social economy, is a local community-forming organization, and also has functions in connection with well-being and community.

It serves as a muster (for the now dominant economic personalities, for those who only live for growth, profit, cost efficiency and productivity) how the following can be achieved: a) to set community values instead of individual ones; b) to set long-term interests instead of short-term ones; c) to serve the community's well-being and sustainability instead of maximizing the profit; d) organizing not market-ready but human needs-satisfying services; e) to make the presently dehumanized work a field where the individual can fulfil his or her personality.

It is only worth founding a social co-operative if one wishes to find the niche in the market and establish a self-sustaining economic organization, supporting the local community's independence (to set its economic, cultural, educational and democratic values).<sup>53</sup>

Thus, the current legislation and practice can be deemed as worthy for starting them as competence incubators, but unsatisfactory for pushing them over the threshold of an institutional status.<sup>54</sup>

The social co-operative's aim is to find employment for its members. Employment can also include work serving public interest. Unemployed persons and students can be members, as long as they personally contribute to the co-operative's activities and comply with conditions contained in various employment-related laws.

Furthermore, collaboration with local government offices is not always smooth, since mayors do not immediately see the benefits of social co-operatives in the provision of community services. Moreover, in many cases they consider them rivals rather than partners. However, the change in the regulation of 2012, which makes it possible for local governments to gain membership in co-operatives, could ease the tension amongst local stakeholders.

#### *4.4. Facts about the social co-operatives*

As it was mentioned earlier, there has been a legal opportunity to establish a co-operative since 2006, to help the situation of those who are somehow disadvantaged in today's society, by securing them employment. Originally, they could only be founded by private persons. They were made to match the social economic environment in Europe regarding employment. Since 2011, the Hungarian government has preferred the public employment, and the social co-operatives were also established according to this Act. This means they can also be founded by local governments. 123 local governments have founded social co-operatives with the aid of the Ministry of Interior, and an employment organization for the Roma with 500 members. These 124 co-operatives got the majority of the EU social economy funding. The number of social co-operatives can be a bit deceiving, as there are

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<sup>53</sup> <http://www.szozsov.hu/national-alliance-of-social-co-operatives-naosco> (24.10.2016.)

<sup>54</sup> <http://www.messe-project.eu/index.php/mentorship/legal-information/in-hungary.html> (24.10.2016.)

a number of co-operatives which are now “sleepers”, having been founded to apply for grants and funding, but they are not active. There are around 400 social co-operatives, which are up and running, these provide employment for ca. 3,000 employees. Szoszöv (Szociális Szövetkezetek Országos Szövetsége, in English: National Association of Social Co-operatives, NAoSCo) has 42 member social co-operatives, an income of HUF 200 Million and 415 employees.<sup>55</sup>

Today, there are 4,730 co-operatives in Hungary, with 1,800,000 members. 300 of these are housing co-operatives, consumption co-operatives, industrial co-operatives, saving societies and student co-operatives, which represent the success of the co-operatives beyond agriculture. Furthermore, the types of co-operatives show the following distribution: services: 46%; agriculture: 28%; industry: 17%; trade: 7%; and in the field of tourism: 2%. The stock of these 4,370 co-operatives is approximately 230 billion Hungarian Forints, their income nears 800 billion, and the profit is more than 6 billion.<sup>56</sup>

There is a network of co-operatives in the whole country, the number of which was 2,023 in 2014 and 2,634 in 2015. However, there is no comprehensive information as yet about the work and output of this sector, as compared to other EU Member States.<sup>57</sup>

Table 2.

*The number of the social co-operatives established by year (2007-2015)*

Year	Number	Year	Number
2007	1	2012	77
2008	33	2013	1231
2009	25	2014	545
2010	202	2015	105
2011	55	Total:	2274

Source: Országos szociális szövetkezeti hálózat (<http://168ora.hu/halozatban-biznisz-szocialis-szovetkezetek-tol-fiktiv-partalapitasig/>)

The distribution of social co-operative funding: In 2008 there were 36 co-operatives which received HUF 945 million distributed among them from budget source. In 2010 – with the support of the EU - HUF 2.3 billion was distributed among 57 organizations. In 2013 180 societies had HUF 8 billion distributed among them.

An employment society received HUF 5 billion from EU sources, and in 2015 one social co-operative got HUF 3 billion through public procurement.

<sup>55</sup> <http://www.szoszov.hu/national-alliance-of-social-co-operatives-naosco> (25. 10. 2016.)

<sup>56</sup> <http://www.szoszov.hu/national-alliance-of-social-co-operatives-naosco> (25. 10. 2016.)

<sup>57</sup> TÉSITS Róbert - ALPEK B. Levente - KUN Antigóné: *Az új típusú szociális szövetkezetek területileg eltérő foglalkoztatási szerepe*. Területi Statisztika, 2015. 55(3): 254–272.

#### *4.5. Unequal treatment for the employees of social co-operatives*

The original social co-operatives created the conditions of work for socially disadvantaged people, but the actual work could be performed only in the framework of ordinary employment relationship, entrepreneurial relationship or mandate. This was changed by the amendment of Act X of 2006 on co-operatives in 2013, which makes membership in itself sufficient to perform work in the co-operative.

However, it is important to emphasize that work performed by the members is not subject to the same regulations which apply to the other forms of employment. In other words, employment in social co-operatives does not fall within the scope of the Labor Code. This means that there is no mandatory minimum wage, the co-operative decides about the members' earnings. This, together with the tasks to be performed and the manner of their documentation, shall be laid down in the statutes of the co-operative.

The co-operative shall report the employee to the health insurance organ not later than before the commencement of the work. A health service contribution of HUF 7,110 per month (in 2017) is paid after the members of the social co-operative, and considerable benefits are available. In the first year following the commencement of the member's employment the co-operative is exempt from the payment of the entire sum of the contribution, and only 25%, 50% and 75% shall be paid in the second, third and fourth year, respectively. Thus the entire sum of the contribution shall be paid only from the fifth year.

Naturally, there are conditions for determining who can be employed in the form of social co-operatives. Only job seekers registered in the Employment Centre or persons in public employment relationship can work in this type of employment. In addition, only one social co-operative at a time is eligible for the benefits available after the member. Therefore, the employed person must declare that no other social co-operative receives the benefits due after him/her. If, despite his/her declaration, this situation arises, the member shall pay the fine.<sup>58</sup>

### **Summary**

The social co-operatives were appearing after 2006, introduced by new legislation establishing this new organisational form and offering them certain tax advantages (as compared to normal employment contracts, for example), social co-operatives are currently the most visible form of social enterprise in Hungary and relatively wide-spread, boosted by public funds made available for establishing and operating them.

The mission of most social co-operatives is to provide work for their previously unemployed members – integrate or reintegrate them into the labour market. Social co-operatives have, apart from the main category, two distinct sub-categories: a) school co-operatives and b) employment co-operatives. School co-operatives aim to find job opportunities for their student members. Employment co-operatives were introduced in 2012: they are established by at least 500 natural persons and/or a national ethnic minorities' organisation (notable the Roma). A number of social co-operatives have been established,

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<sup>58</sup> <http://www.hsakft.hu/blog/a-vilag-ahol-nincsen-berminimum> (20.10.2016.)

but this was made possible only by considerable – project-based – public support. The new legislation has allowed all social co-operatives to include individuals or legal persons not actively taking part in their activities among its members (‘new type’ co-operatives<sup>59</sup>).<sup>60</sup>

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<sup>59</sup> New-type social co-operatives after 2012 are expected to offer further employment for people coming from public employment programmes, who would need regular income. However, the co-operatives often cannot ensure the same regular payment, only from some grant. Co-operatives do not pay wages but pay to members from the goods produced (in-kind, tax-free up to the amount of the minimum wage) or revenues generated. Often, for example in agriculture, there is no stable revenue stream, income is generated only after harvest. Payment in-kind is sometimes problematic, as the co-operative members would be probably in need of money, hence they would need to sell the goods for which they would need a licence and pay tax.

<sup>60</sup> VINCZE – FEKETE – HÁMORI, 2014. 11.