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# 1. SUMMARY OF THE MOST IMPORTANT RESULTS AND CONCLUSIONS OF THE SOCIAL COOPERATIVE RESEARCH IN HUNGARY

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## 1.1 Historical background

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The first cooperatives have been founded in Europe in the middle of the nineteenth century as a defense mechanism against changing circumstances as a consequence of the industrial revolution. Due to the cooperation of their members cooperatives could manage to represent stronger bargaining power and could improve life circumstances of their members and other groups in need.

The cooperative movement has been for long unbroken in Europe and in Hungary too. On the other hand, following WWII in the years of the socialist dictatorship regime, Hungary – as well as other Eastern-European countries – turned away from the path of European cooperatives' legal development due to the forced cooperative movement. This legal deviation was corrected in the 1992 year II. and 2000 year CXLI laws. Still, a large number of – mostly agricultural – cooperatives were liquidated in the 90s. This produced large unemployment mostly in rural areas.

As a result, even until today very negative perceptions are linked to the concept of „cooperatives” despite the fact that **in most part of Europe it already means a very modern, progressive form which represents strong social values.**

The role of social enterprises - and within them social cooperatives - which are able to fulfill both economic and social goals started to increase significantly in the second half of the 20<sup>th</sup> century. Due to the economic crisis in the seventies, unemployment level rose to levels that were never experienced before. This trend was especially true for Western-Europe. The governments turned out to be unable to deal with this issue and the resulting social problems in themselves.

In the Central- and Eastern-European countries this shift and the resulting unemployment started after the collapse of the Soviet Union in the beginning of the nineties. Governments turning from socialism to market economies could not manage the significantly rising unemployment levels, and could only maintain the social, educational and cultural institutional systems on the cost of increasing national debts and taxes. As a result masses of people got economically and socially marginalized – amongst others people above the age of 50, disabled people, youth with lower education, single parents, inhabitants of marginalized municipalities, and especially Roma people.

## 1.2 Recommendations, statements and decrees of international organizations and the EU on the importance, role and support of social cooperatives

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From the mid-nineties international organizations (amongst others the International Cooperative Alliance, International Labour Organization, UN) issued statements, recommendations and decrees for the national governments. The essence of all these documents was to stress the importance and favorable characteristics of cooperatives and social cooperatives, while they made recommendations for creating favorable legal environment and supportive systems for disseminating and strengthening the form.

Based on the definition of the *International Cooperative Alliance (ICA)* 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>1</sup>

Cooperative **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 1995 year Congress of ICA also defined the cooperative **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

The *International Labour Organization (ILO)* in its Recommendation No. 193. states that “*the promotion of cooperatives guided by the values and principles ... should be considered as one of the pillars of national and international economic and social development... Governments should introduce support measures, where appropriate, for the activities of cooperatives that meet specific social and public policy 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>2</sup>

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<sup>1</sup> International Cooperative Alliance: Statement on the Co-operative Identity, 1995.

<sup>2</sup> International Labour Organization: Recommendation No. 193., 2002.

In January 2002, the 88<sup>th</sup> Plenary Meeting of the 56<sup>th</sup> General Assembly of the **United Nations** – after many years of preparatory work of member states – accepted its Resolution No. 56/114.<sup>3</sup> The Resolution on “*Cooperatives in Social Development*” draws the attention of member states to *take into account cooperatives while creating legislations, provide protection and create favorable environment for them. Utilize and develop “fully the potential and contribution of cooperatives for the attainment of social development goals, in particular the eradication of poverty, the generation of full and productive employment and the enhancement of social integration... Take measures aimed at enabling people living in poverty or belonging to vulnerable groups to engage on a voluntary basis in the creation and development of cooperatives... and develop an effective partnership between Governments and the cooperative movement.”*

On 23 February 2004 the **European Commission** adopted a Communication on the promotion of co-operative societies. In the Communication the Commission draws the attention of member states - and especially that of the perspective member states - on the importance of exploiting the potential of cooperatives and strengthening their role.<sup>4</sup> The Commission found the modernization of legal environment concerning cooperatives inevitable. Also, the document recommends that member states should create a supportive environment. The advantages of *social cooperatives* have been stated in this document for the first time.

### **1.3 Summary of findings of the international research - characteristics of social cooperatives and need for supporting them**

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*Governmental bodies in all the researched countries recognize the goals and added value of work integrated social enterprises*, and – with adequate, targeted regulations – provide them opportunity to take advantage of governmental supporting mechanisms and tax exemptions during their launching phase and later throughout their operation. Social enterprises were first launched by nonprofit organizations in Europe, and social cooperatives are still recognized as a nonprofit organizational form in many countries. Their role in the countries’ employment policies and employment generation practices have been significantly increasing since. However *in countries, where social cooperatives are considered to be for-profit economic entity, studies still classify them as a “hybrid” form possessing both nonprofit and for-profit characteristics*. Social cooperatives - that in many researched countries also take over governmental responsibilities to some extent – due to their characteristics *are in competitive disadvantage with other classical for-profit legal forms without targeted governmental support*.

As a result *distinguished support of social cooperatives on the governmental level is essential to ensure their long-term sustainability so that they can assist governments in enabling disadvantaged people to join the labour market and engage them in active, productive work instead of having to subsidize them*. Based on the example of Italy, Spain, Portugal, France, Belgium and UK it is visible that employment statistics are significantly

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<sup>3</sup> United Nations 88<sup>th</sup> Plenary Meeting of the 56<sup>th</sup> Assembly: Cooperatives in Social Development, 2002.

<sup>4</sup> Council of European Union, Communication on European co-operatives, 2004.

improving as a result of structured support of social cooperatives. Also, social and employment integration of disadvantaged groups is improving, and instead of being an expense item in the national budget, they produce GDP and show positive example both in their family and in their broader community.

International studies reached the conclusion that the social cooperative model will not be viable if governments would like to dissolve their economic disadvantages by further approximating them to the purely for-profit business forms. *Social cooperatives*, if we examine them through for-profit glasses, *are mostly not effective entrepreneurial forms. The cooperative model can only stay or become attractive by stressing their differences.* This implies that the *cooperative values and principles need to be recognized as useful instruments towards goals that would never be reached through purely for-profit enterprises.*

#### **1.4 Characteristics of the Hungarian social cooperative legal environment**

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In Hungary the cooperative law, which was worked out using international examples, entered into force following Hungary's EU accession on 1<sup>st</sup> July 2006. The *Law 2006. X. expresses that cooperatives are able to integrate economic roles with cultural, social, community development and personality development functions.*

The new cooperative law, which also refers to the concerning paragraphs of the Constitution, assumes that **“the cooperative form can largely mobilize social resources, strengthen the separated actors of the economy and meet community needs”**. As a result the law expresses that the regulatory environment **“... aims to support cooperation and intends to mobilize national resources to strengthen the cooperative movement”**.

According to the law **“the cooperative** is a legal personality entity, which can be founded with the amount of shares defined in the statutes, works based on open membership and changing capital values, and **aims to facilitate meeting the economic and other social (cultural, educational, social, healthcare) needs of its members.**” The law also regulates **social cooperatives** as **“cooperatives that aim to create work opportunities and facilitate in other means the improvement of other social needs of its disadvantaged members.”**

In the international jurisprudence regulation of social cooperatives is very diverse. There are countries where the form is considered to be non-profit, in others we find for-profit forms under state protection, or mixed, hybrid type of organizational forms.

In Hungary the national law and other connected regulations (accounting law, taxation laws, etc.) considers the basic type of *social cooperatives* to be **for-profit enterprise.**

On the other hand the law enables social cooperatives to apply for **public benefit status**, if they provide services mentioned by the public benefit law. As a result they become subject of the law 1997. CLVI. which regulates public benefit entities: these *social cooperatives automatically become non-profit organizations*, which grants them access to wider tax exemptions.

*This dichotomy may be considered problematic both from legal as well as practical point of view. Related fiscal and taxation policies do not consider (moreover in some cases even sanction) that **social cooperatives are not founded with the same purpose and do not operate the same way as traditional for-profit companies**. Besides their economic purposes they also provide employment, fulfill personal and community interests of their members - functions that are also important for the government and the society. These extra functions could be considered public benefit in themselves; as a result the government should provide structured, long term support to social cooperatives ensuring their sustainability.*

The Hungarian law adapted many modern elements from the international organizations' recommendations, but *positive examples supporting the successful operation of social cooperatives have not been benchmarked from other countries yet*. Consequently, even those social cooperatives that received significant grant from national and EU budgets for their launch are left alone, and their long-term sustainability does not seem to be ensured.

### **1.5 Experiences from the initial National Employment Public Foundation grant programs aiming to disseminate the social cooperative form**

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In Hungary the new *legal framework soon turned out to be insufficient in itself* to disseminate the new, social cooperative entrepreneurial form.

Initial steps to motivate information dissemination, launching and stabilizing social cooperatives were first managed by the National Employment Public Foundation (NEPF) through the call for tenders launched in 2007 and in 2009.

The National Employment Ministry entrusted NEPF to manage the grant and provided 945 million HUF<sup>5</sup> for this purpose for the period of April 2007 – December 2011. By the end of the period 50 sustainable social cooperatives were supposed to operate in the country. Based on the current research it seems that this indicator could not be fully realized.

#### **Summary of the main characteristics and results of the NEPF programs:**

- The general lack of information of the population on social cooperatives, which was especially true at the beginning of the program, was properly considered. As a result the program package put emphasis on training of trainers and mentors, building up and harmonizing their services, and launched a wide information campaign.
- **Cooperate 2007 call for tender** was launched as a *two-step program* to support launch and operation of social cooperatives, which turned out to be useful. In the first round the minimum 7 members (and among them 50% at least 3 months unemployed person) submitted a project idea together with a short budget plan. The managers and

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<sup>5</sup> Approx. 3765 thousand EUR using 2007 year average exchange rate of 251 HUF/EUR

project managers of the selected social cooperatives participated on a free project planning and grant writing training. Their detailed grant documentation together with their business plan and budget had to be submitted only after the education phase. The maximum grant amount was 20 million HUF<sup>6</sup> with 100% intensity. 36 cooperatives received support and started to operate. However, as agricultural activities were disclosed from the grant, only a small number of social cooperatives could apply with marketable products or services from the smaller settlements.

- **Cooperate 2009 call for tender** invited the previously supported and sufficiently operating social cooperatives, which could apply for grant to strengthen their position and improve their operations in the next operational year. The support could reach 10 million HUF<sup>7</sup> with 50% intensity. From the applying 20 social cooperatives 10 organizations received support.
- Typical activities of the cooperatives were:
  - outsourced local government services (gardening, cleaning, playground maintenance),
  - services provided to the local community (laundry services, household and garden maintenance, transportation to/from work),
  - elderly care,
  - childcare (family kindergarden, nanny services, freetime programs, clubs, handicraft activities, wide variety of summer camps),
  - traditional handicraft production,
  - production of food products (jams, syrups, dried fruits, sunflower and pumpkin seed oil),
  - wood industry activities (carpentry activities, outside furniture production, collection of agricultural and wood production waste, producing biomass and biobriquet)
  - construction,
  - social groceries,
  - etc.
- Involved disadvantaged employees were mostly trained to conduct semi-processes. Both training and work environment was carried out in good atmosphere while also considering personal life situations. However hardly any practices were developed for the use of the internal cooperative social fund.

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<sup>6</sup> Approx. 80 thousand EUR using 2007 year average exchange rate of 251 HUF/EUR

<sup>7</sup> Approx. 40 thousand EUR using 2007 year average exchange rate of 251 HUF/EUR

## Main problems and negative experiences of the social cooperative grant programs:

- Besides the widely used information campaign, main part of the society did not understand and did not legitimate social cooperatives with sufficient openness. Social cooperatives – except some cases – could not build necessary partnerships with the local governments and other businesses, while the local community received their products and services with mixed emotions.
- The majority of grantees did not carry out proper market research in the 2007 phase, especially regarding market need for their products and services. **Their business plan and marketing plan was incomplete.** As a result own income, one of the main indicators, was hardly met later.
- *Most social cooperatives were lacking access to sufficient capital and were subject of temporary liquidity problems.* Members' shares were minimal, and member loans in the first year of foundation and investor contribution by law are prohibited. Due to problems in both grantee and grantor sides, administration and transfer of disbursements was slow and delayed.
- *In some cases leaders and project managers of social cooperatives were lacking proper knowledge and/or skills to manage the grant administration, the project and the social cooperative.*
- *Work ethic and motivation of formerly unemployed - in many cases disadvantaged - members and employees was not satisfactory* in many cases. Based on the survey the *primary importance of the target group was on salary*, and they rather possessed employee as opposed to owner viewpoint.
- Experiences from the NEPF grant projects show that *international cooperative principles were hardly built in the management and operation practices at this initial phase. Especially substantive member equality was hard to achieve at cooperatives where member profiles showed much difference in levels of education, work experience, professional experience and other qualities.*

Based on the identified initial experiences we can draw the conclusion that *the supported social enterprises due to their dual – economic and social – purposes and as a result of the low level of legitimacy are having comparative disadvantage in their industry. Only a proportion of them are able to fight these difficulties alone under the current legal, financial, partnership and industry circumstances.* With the termination of the NEPF grants, approximately 30-40% of formerly supported social cooperatives could maintain their sustainability. On the other hand a larger proportion of the grantees had to be liquidated as a result of financial problems, or had to decrease the number of employees to minimum and now operate on “low heat”.



## 1.6 Next wave of improvements in disseminating and supporting social cooperatives – TAMOP 2.4.3.-B. grant and impact analysis

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The new call for tender launched at spring 2010 **aimed to disseminate the social cooperative form and support disadvantaged people through improving their employment opportunities and creating cooperative members from them** through a one-round application and grant process. As an additional requirement, the application document also expressed that supported projects are expected to eliminate factors leading to difficulties in the employment of disadvantaged employees through community development, social, cultural and educational functions of the social cooperatives. Closely linked to the grant a professional support system managed by NEPF also started to operate to provide support to the interested audience and later to the newly launched social cooperatives.

Interested groups were expected to found the social enterprise and get it registered by the court prior to submitting the complex application documentation, which also contained a needs assessment as well as a business plan.

The call for tender also described the *definition of the disadvantaged target group* as – amongst others – people having at most primary education, being at the age of 50 above, fresh graduates below the age of 25, employment seekers for at least 6 months, single parents, people with changed working abilities and ex-prisoners.

### Main characteristics and problems of the call for tender

- One of the requirements was the employment of minimum 4 disadvantaged employees for the period of 10-15 months. 75% of them had to become cooperative members by the end of the project period. In case of supported employees, the cooperative had to employ them further for 25% time of the full project period (in case of 10 months projects this means 2,5 months further employment).
- While evaluating the applications' content and formal quality, innovativeness of ideas, the needs assessments, quality of business plans and the financial plans were considered. Applicants could collect extra points by employing more than 4 disadvantaged people, or increasing the number of beneficiaries who would become cooperative members by the end of the project, or agreeing to increase the after-project employment of disadvantaged employees.
- **From practical point of view main problems with the call for tender were the financial restrictions and logical discrepancies:**
  - Only 15% of the grant could be dedicated to purchase of production tools and machinery. Even this money was only allowed to be spent on office installation and tools for disabled people. For instance raw material and transportation costs were disclosed. This restriction seriously decreased the width of activities that could be applied with. Agricultural activities – similarly to the previous grant – were disclosed by the call, thus only some cooperatives could find marketable activities in smaller municipalities.

- However an even more serious problem was caused – and if possible should be quickly resolved – by a difficult financial problem. The freshly launched social cooperatives should use the supported project time to set up the enterprise, start operating and get strength on the market that leads them to long-term sustainability. This also means that they need to have income from selling their products and services. On the other hand – based on the call for tender – income gets deducted from the grant amount, and even than can only be used to pay out expenses allowed by the grant. This unprecedented practice punishes cooperatives that really want to operate and not only train employees for the project period, and motivates them to find alternative ways for hiding income. No EU regulations are forcing the grantor to set such restrictions.

### **Main experiences from the TAMOP grant and ways to sustainability**

- There was a huge interest and activity on national level among potential grantees.
- Due to the complexity of the topic and call for tender documentation, there was only a short period of time available for social cooperatives to build up the membership, found the cooperative, find out the project idea and prepare the detailed application documentation. Based on the research most social cooperatives did not have sufficient human resources, skills and experience to carry out this task, they needed to hire professionals who would produce all documentation for them.
- Due to the required needs assessment and business plans, applicants had stronger business approach than in case of the previous NEPF grants. If they can overcome the previously mentioned difficult financial requirements, the start-up cooperatives can receive major support for their human resource, training and marketing expenses.
- 206 applications were submitted, 22% of them from the Central Hungarian region. The aggregate requested support was 9.3 billion HUF<sup>8</sup> as opposed to the available 2.3 billion HUF<sup>9</sup>. Evaluation was closed in August 2011 with positive decision to 57 applicants. The average grant support per grantee was 39,1 million HUF<sup>10</sup>

As a summary we can conclude that – besides many discrepancies in the call for tender – TAMOP grantees had higher chance to reach sustainability due to the innovative, business-oriented ideas, more integrated founding membership, and due to the – mainly – entrepreneur champions who saw a good opportunity in the grant and who may provide their network and financial resources to the cooperative when financial difficulties or delays would arise.

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<sup>8</sup> Approx. 33,7 mill. EUR using 2010 year average exchange rate of 275,41 HUF/EUR

<sup>9</sup> Approx. 8,35 mill. EUR using 2010 year average exchange rate of 275,41 HUF/EUR

<sup>10</sup> Approx. 142 thousand EUR using 2010 year average exchange rate of 275,41 HUF/EUR

At the same time there is a high chance that social cooperative values will not take roots thanks to the business attitude of founders and the short project period. We need to face the risk that without further, long-term support or advantages, these social cooperatives may gradually decrease the number of employees and shring the activities, or transition them to a business form that better suits the needs of fonders.

The grant was supplemented and supported by NEPF experts. Besides the own experts of the organization who gained experience through the initial NEPF grants, *external experts were also hired in the areas of finance, law, business planning, marketing, community development and human development* to support social cooperatives in preparing their application package, held lectures and provided one-on-one consultancy to cooperative leaders. Based on our research cooperative leaders were very satisfied with the support they received and would like to see the expert assistance be continued even after the October 2011 closure of the support project.

## 1.7 Important conclusions from the empirical research

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Besides carrying out a detailed literature review and using the most recent Hungarian social cooperative research results, *54 structured interviews were carried out with leaders of social cooperatives, local government leaders and experts of employment agencies*. Cooperative leaders were selected from both NEPF and TAMOP grant beneficiaries as well as from cooperatives having not received grant. *We also aimed to find synergies, causes and effects with experts and consultants* through discussions and workshops.

**Founded on the collected information the most important conclusions are:**

- Based on the interviews and expert opinions we found that **foundation of social cooperatives was mainly motivated by the available grants**. Those who knew the call for tenders and had business ideas found both the NEPF, but even more the TAMOP grants very appealing. Most of the leaders clearly expressed that they would not have founded social cooperatives without these grants, or would not have started to realize their ideas, or would have started to pursue their ideas in a different business model.
- Initial experiences show that social cooperatives can best meet their dual function and can easier adopt to external changes if leaders and members of cooperatives supplement each other, have different competencies and they actively use it to build up the team.
- In many instances careful selection and quality work of disadvantaged members and employees (mainly those with very low education), creating close link to the cooperative and having members' or owners' view caused major difficulties both for cooperatives and disadvantaged people. In some cases it was due to the problems in management style. However the research also showed that in many cases the hired, disadvantaged employess did not respect work discipline, found the compensation low, had low personal motivation to become cooperative members, and got in conflict with management even in case of smaller delays in payment. These problems could be

managed by socially sensitive leaders by discussions, education and community building. On the other hand we also found cases when temporary exception was made with employees not meeting the standards or having difficult personality in order to fulfill the grant indicators in the documents.

- Interviews and the submitted applications show that one of the main advantages of the social cooperative form may be that it provides ground for innovative business ideas. Many submitted materials contained some innovative elements in the project idea or implementation plan, or by providing special extra services that can help them overcome the competitive disadvantages of the form and become competitive in their market.
- *A major problem for most researched social cooperatives was the lack of sufficient partner relations with the local government.* 14 out of the 54 respondents scored 1 on the five-point scale for this question, which refers to hostility from the local governments' side. We may assume that many local governments had little information on social cooperatives and they were not aware of their essence. It is more likely however that many local governments consider social cooperatives as competitors concerning their social institutions and public employment system, and they avoid cooperation.
- Cooperative leaders gave high scores for the **practical realization of cooperative principles**. On the other hand interviews pointed out that they were not fully aware of their true essence, and only managed the principles as “nice slogan”. We found positive examples also where cooperative leaders showed high responsibility for improving personal and group competencies of disadvantaged employees and members, and they were committed towards cooperative principles.
- Based on the interviews we can draw the conclusion that – as opposed to our initial assumption – *most cooperative leaders aimed to achieve long-term sustainability, and were able to make every effort to reach this goal.* Leaders also expressed on the other hand that *long-term sustainability and further employment generation of social cooperatives can only be assured if further state support and tax exemptions are provided for them.*
- *Based on the research we can draw the conclusion that human factor is key in realizing cooperative principles and assuring economic, effective operation. Personality traits and management style and competencies of the leader (the “engine” of the cooperative) play a key role.*

The *government* seemingly plans to *give a strong role for social cooperatives in employing a great proportion of the large number of currently unemployed, mainly disadvantaged people living from subsidies – even through transit employment.*

This may be an alternative path for developing social cooperatives, which may *require the development of an alternative regulatory and supportive system.* We would recommend legislative bodies put emphasis on the cooperative principles which are so often mentioned by international bodies, and provide means for realizing them in practice.

## 2 RECOMMENDATIONS FOR IMPROVING SOCIAL COOPERATIVES IN HUNGARY

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Recommendations for improving more effective and sustainable operation as well as wider dissemination of social cooperatives were drawn from declarations of international organizations, international good examples, recent experiences from the Hungarian support system and employment goals of the national ministry.

Experiences learned from the research show that similarly to international examples Hungary would also need a complex, long-term national strategy to support and disseminate this social enterprise form, which integrates both economic, social and community building purposes. Within this framework a more supportive, stimulating coordinated legal and financial system is necessary to be generated.

**Considering the research results the following improvement pathes were identified:**

### 2.1 Grant system supporting foundation and initial operation of social cooperatives

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- ***Government is recommended to continue supporting social cooperatives*** in order to improve employment opportunities and personal improvement of disadvantaged people. International practice (e.g. Belgium, Germany) shows that ***cooperatives can make use of grants for 3-4 years in decreasing intensity***. We recommend that this medium-term approach should be adopted in Hungary. Social enterprises usually need at least this much time to get stronger, adopt cooperative principles and ensure sustainable operation.
- Experience has shown that providing 20-50 million HUF grant for freshly founded social cooperatives to use for the period of 10-15 months is not practical. We recommend that grant should be provided for 3-4 years in more phases supported with expert consultancy and monitoring. Cooperatives could get access to the next transfer of funds if they are able to meet their milestones, and/or adjust their business plans to the changed business environment.
- In smaller municipalities we find essential that agricultural activities should not only be allowed but motivated. This would enable cooperatives involving a large number of disadvantaged people especially in rural, underprivileged areas.
- A ***minimal amount of 10% own resources commitment*** should be required from cooperatives to complement grant resources. Call for tenders could diverge from this rule in case of seriously disadvantaged areas or employing people with multiple disadvantages (such as mosr Roma people are).

- Start-up social cooperatives should be able to use grant to ***purchase tools and machinery necessary to their production up to 30% of the total amount***. Besides new equipments we recommend that purchase of used tools (with strict compliance with the rules) should be tolerated.
- ***If EU regulations do not explicitly prohibit, income from operations should not be deducted from the grant amount***. Besides, income should be expected to be planned properly cooperatives should aim to reach it. Grantors need to build up proper monitoring system to detect potential problems on time, and be able to recommend proper corrective mechanisms.
- The ***indicator*** currently used by the TAMOP grant ***for measuring after-grant employment should be extended to be the same amount of time as the grant period itself*** (currently it is 25%).
- Current TAMOP call for tender is very complex and difficult for cooperation of disadvantaged groups of people. As a result they often hire professional grant writers to prepare the necessary, quality documentation. These cooperatives often only face their obligations, tasks and risks while they need to realize the plan. We recommend that two-phase application process should be adopted. ***After submitting simple project plans cooperative leaders of selected cooperatives should take part in a thorough, at least 6 months long training process. Cooperative leaders could identify with the help of experts if their business idea is feasible, if the concept has business potential, and they would be able to prepare their own business plans and application documentation with the help of trainings and consultancy.***
- The existence of necessary personal competencies of cooperative leaders should be considered more carefully, and indicators should be tightened.
- More emphasis should be put on the ***innovativeness of project ideas, quality of needs assessments and business plans, reaction on local needs, embeddedness of cooperatives in the local and regional environment, and more importantly the sustainability and perspectives of market opportunities*** while selecting the grant-winning applicants.
- Based on consistent expectation of grantees ***grant payment should be more flexible and timely, while the non-discounted invoice items should be paid out while only holding back the discounted ones***. In smaller cases contract amendment should be faster and more grantee-friendly. ***Current practices cause serious liquidity problems for grantees***. In some cases they are even unable to pay salaries and taxes. Tax payment delay is considered to be public debt, and further grant payment can be completely held back.

## 2.2 Long-term supportive systems

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- We find *development and implementation of long-term supportive mechanisms (such as tax exempts, supporting operations expenses) in Hungary indispensable*. This would enable social cooperatives reaching long-term sustainability.
- Similarly to other business forms *social cooperatives should also take advantage of simplified foundation procedure*. Their foundation expenses would proportionally decrease and foundation disadvantages could be eliminated.
- Social cooperatives – similarly to other countries – *should be able to receive 50-100% exempts from personality income taxes – especially for their disadvantaged employees*.
- *Tax implications of payments from the internal Cooperative Community Fund should be eliminated*.
- Similarly to Sweden, in some special cases, especially *in case of seriously disadvantaged people, social benefits should be further provided, even if they get employed by the social cooperatives*. This would allow cooperatives to provide employment to beneficiaries – and foster their integration – even if the business activity would not be feasible under market conditions. This is especially true for services outsourced by the government or local governments. Employees, under this scheme would only receive a “premium”, performance-based or complementary salary. This system would be able to motivate employment of these groups and increase their own motivation, and would also support cooperation between cooperatives and local governments.
- We also recommend - based on the international examples - that *social cooperatives should be able to get access to full, automatic state support for their social services* (for example family kindergardens, elderly care) similarly to other institutions. Quality of their services could be assured through an accreditation system.
- Similarly to Czech Republic and Slovakia, Hungarian companies need to pay *rehabilitation fee*, if they employ less than the compulsory number of disabled people stated by law. However, in the above mentioned two countries *companies can decide if they would like to pay the fee to the state budget, or buy products and services from the accreditation fee receiver social enterprises*. This method generates healthy competition among social enterprises, and improves the quality and their products and services, while also providing meaningful activities for their beneficiaries and also disseminates a more professional, self-supportive view among social enterprises. This method has very positive effect on the local and general embeddedness of social

enterprises, and also increases their social acceptance. This practice should also be launched in Hungary involving both social cooperatives and social enterprises having other legal forms.

### 2.3 State and local government orders

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In many countries of Europe state and local government orders are one of the main income sources of social cooperatives. In harmony with EU regulations, up to 200 thousand Euros the state, local governments and their institutions can select social cooperatives as their preferred suppliers in order to strengthen their mission. The International Cooperative Alliance made recommendations for institutions using public procurement to implement a so called “social clause” (a criteria referring to social or environmental preferences, or referring to the number of disabled or other disadvantaged beneficiaries that the applicants should employ) in their call for procurements – similarly to Italy. In most cases only social enterprises and social cooperatives can comply with these requirements – while of course also fulfilling certain quality requirements. Based on all these *we recommend reconsideration of current public procurement practices, and use of preferred suppliers as well as the implementation of social clauses in the public procurements. This practice would enable support of social enterprises and social cooperatives without extra expenditures.*

### 2.4 Outsourcing state services

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State services get increasingly outsourced in almost all researched European countries. International experiences show that *outsourcing such services is more cost effective in most cases than maintaining and financing state or local government owned institutions.* Innovation built on the needs of beneficiaries is faster, and social cooperatives can be more effective through decreasing heavy administration. Based on these experiences *we recommend the government to encourage local governments to source out certain social services to social enterprises and social cooperatives*, especially in regions where this does not affect other institutions negatively. A very strict accreditation procedure has to be built up as a condition of such cooperations.

### 2.5 Access to loans

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Recommendations and decrees of international organizations (ILO, Council of European Union, etc.) encourage that *social cooperatives should get access to investor capital, and states should support proper loan mechanisms for them.* Hungary should also consider implementation of such practices.

### 2.6 Expert support

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- Cooperation between support organizations having multiple years of experience in supporting social cooperatives together with higher education institutions would be very



beneficial in *developing educational modules on social economy, social enterprises and social cooperatives which may be built in the curricula of secondary schools as well as universities. Besides, free educational programs for social cooperative leaders and members would also be much welcomed and useful.*

- *We would stress the importance of continuously maintaining expert support services and centers (such as Corporate Development Agencies – CDAs – in most European countries). With closing NEPF support services in the end of 2011 there will be no such available, continuous service available in Hungary.*

## **2.7 Improvement of legal and regulatory environment**

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*Based on experiences and results of the research, current law (2006. X. law on cooperatives) and the connected regulation (141/2006. VI. 29. regulation on social cooperatives) require structured improvement.* In the following part we will list the most important suggestions.

- **Social cooperatives – while also acting according to the cooperative principles – should be able to have institutional (mainly local government) members.** It would foster local cooperation and would improve local embeddedness of social cooperatives. *Local communities would strengthen, and new forms of local employment and community building programs could be implemented as a result of cooperative and local government cooperation.*
- In harmony with the year 2002. Resolution of the European Union Council *social cooperatives should be able to take advantage of investor members and their capital also in Hungary* – with the condition that their decision right should be limited and cooperative principles should not be injured.
- Currently members can not provide *members' loan* to the cooperatives up to one year from the foundation date. This restriction should be resolved as it currently causes liquidity problems to social cooperatives and makes them finding alternative ways to get access to capital.
- *Law should clearly state that social cooperatives are not only purely for-profit business entities, but due to their very important social functions they are a modern, integrated, public interest and public benefit business form.* Due to their public benefit role – without any further legal proceedings – they should have access to benefits available for nonprofit organizations; they should be able to join the public employment system and to be able to apply for all concerning call for tenders.

## 2.8 Other recommendations

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- ***Nation-wide campaign*** (involving all media channels such as public and private TV channels, radio stations, newspapers, billboards, internet portals, community pages) ***should be launched for informing the public and disseminating this modern cooperative form which may have huge public benefits if they are properly scaled. Employees of local governments, government officials and leaders and employees of related institutions should have access to proper information and education on the essence of social cooperatives, their characteristics and their social and economic benefits.***
- The regional cooperations (built up by NEPF) should be further developed. ***Cooperation among social cooperatives, building partnerships and dissemination of good practices is essential.***
- ***The whole society would need a shift in attitude and perceptions. Cooperation, democratic control, community responsibility are principles that should be taught in the families and in school. Society would need cooperation on all levels. We should all raise our children in this spirit, and set good examples.***