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## INTRODUCTION (Mária Frey)

Social economy is a fast-developing achievement of the European economic and social space. Its recent uptrend relates to two problems: the growing demand for social, personal and public services, and the search for ways and means to satisfy the relevant needs cheaply, in a context characterised by budgetary restrictions and tax cuts. Another important argument in favour of the growth of social economy was the *high level of unemployment* typical in the second half of the 1990s in *Western Europe*, and the *incapacity of the formal economy to create a sufficient number of jobs to absorb that and especially to provide for the placement of persons at a disadvantage*.

Hungary encountered this problem after the change of the economic and social regime. The drastic drop in the employment rate drove out from the labour market the under-qualified, the elderly, and those with low adaptation skills in the first place, and prevented the re-entry of the majority among them, as was the case with many education-leaving youths without work experience and with mothers on parental leave, who exited the labour market for a longer period of time. The good news is that the – fortunate – concurrence of *unutilised labour supply on the one hand and unmet demand on the other* gives hope for the success of employment-oriented local initiatives.

*This Handbook is meant to foster the emergence and the consolidation of these initiatives. It was prepared with support under Component 3 of Measure 3.2. of the Regional Operational Programme (ROP), designed to build up and strengthen the professional capacities necessary for ensuring the long-term sustainability of local employment initiatives. This component is implemented through the Regional Operational Programme Network of the National Employment Foundation (OFA–ROP Network), which provides technical assistance and professional guidance for local employment projects through its central and regional offices, relying on the financing resources of the European Social Fund.*

The OFA-ROP Network has assigned consultancy tasks to the technical staff who have written this Handbook, including *Sociologist Dr Judit Csorba, Department Head, University of Debrecen; Economist Dr Mária Frey, Scientific Adviser of the Hungarian Public Employment Service; Geographer Dr Éva G. Fekete, Head of the Northern Hungarian Department of the Regional Research Centre of the Hungarian Academy of Sciences; Expert Márta Lévai; and Economist Dr Anikó Soltész, MD, SEED Small Enterprise Development Foundation.*

Given the composition of its authors, the *Handbook contains theoretical as well as practical information*, and it addresses both university students about to learn the profession and the active technical staff of not-for-profit organisations.

The Handbook is divided into two main parts. Part I gives a summary of the relevant academic knowledge, and the second offers technical inputs for solving everyday problems and new tasks.

*Part I* is recommended primarily to higher education students, but it will be equally useful to active professionals interested in the evolution of local employment development. It gives an overview of the motives underlying the developments which have called social economy to life; the concept of social economy; and its relationship to the traditional

non-for-profit sector. It presents the typical activities of social economy and their role in employment. And, since social economy is not a panacea, it confronts the Reader with its limits, too.

In order to promote the emerging social economy, some countries have worked out and introduced support schemes worthy of imitation. We shall describe the relevant French, Austrian, and Belgian examples.

Finally, this part provides an overview of the rationale behind the role in employment of Hungarian not-for-profit organisations, as well as its limitations and possibilities.

*Part II* is designed to assist the everyday work of professionals active in this field by discussing the foundation, operation, and promotion of social and community enterprises. It includes numerous examples to illustrate the most useful application of the various legal regulations, directives, and guidelines in the context of everyday practice.

After the presentation of the actors of social economy, Part II goes on to describe the main regulations governing the foundation and operation of social and community enterprises. It provides methodological aids to promote strategic planning, assess needs as the basis of this activity, and draw up business plans. It gives an overview the main business management, and in particular human resources management, tasks of social and community enterprises as well as and potential solutions to those tasks.

It is critical to the consolidation of the self-supporting capacity of the enterprises of social economy that their activity should have a recipient market. The chapters on the application of marketing and PR skills and the relationship between the actors of social economy and the public sector provide methodological aids to create that market.

The Handbook introduces the Reader to the goals, necessity, types, and levels of monitoring and evaluation, along with the system, selection criteria, and assessment of the indicators required for their application and for feedback.

Finally, it provides useful information on the information background of social economy, its special literature and websites of importance for this topic.

The Handbook includes charts and tables which support visual understanding to facilitate orientation. The Appendix contains examples designed to foster everyday work.

The experts involved in the preparation of this Handbook sincerely hope that they have created a book which will fill a gap in helping the donors financing social and community enterprises as well as the management organisations operating them, while also assisting the consultancy companies and independent experts specialising in this topic, together with providing a source of reference for professional training.

November 2006, Budapest

Dr Mária Frey  
Editor

# PART I

## SOCIAL ECONOMY – SOLIDARY ECONOMY?!

***“The effort to create a solidary economy, that is, to link the issues of employment and social cohesion, to create interpersonal relationships simultaneously with creating activity modalities, is the most respectful one” (Castel, 1998, p. 406.)***

Part I of the Handbook presents the evolution of social economy. It outlines the developments that have called social economy to life; it defines its concept and sheds light on the differences between traditional not-for-profit organisations and the organisations of social economy. It reviews the employment role of social economy and the sectors and activity areas where this manifests itself.

Social economy is not a panacea, but if we know its limits, its potentials can be put to our own good. Other countries have managed to do that – we shall highlight three examples worthy of imitation: the excellent French exploitation of the job creating potential of social economy; the system of support and operation of the Austrian socio-economic enterprises, and the creation of job-creating homes out of home-creating jobs in Belgium.

Chapter 1 of Part I ends with a summary of the reasons why not-for-profit organisations are necessary in the Hungarian labour market.

### **1. Developments that have called social economy to life (Judit Csoba)**

Long-term unemployment and the growth of the number and circle of the unemployed represent one of the most acute economic and social problems of our days. Despite every effort of the past years, the circle of persons out of work for more than twelve months has been widening from the 1990s to the present day, to 40% by the end of the decade. The transformation and development of the conditions of work and earnings challenge the earlier principles and practice of society's functioning. In practice, the principle of distribution according to work and performance – although still a core value – has gradually been relegated into the background. Growing masses are excluded from the division of labour, which has been considered the main organising force of society since Durkheim, or only have a small share in the volume of work. Since they possess no other form of capital, *there belonging to society and their subsistence are being called into question. Social cohesion is in a crisis.* The number of those marginalised or excluded from society has been rising, and there is plenty to think about how to keep together, operate in a uniform manner, and organise on the basis of a shared system of values an increasingly differentiated and individualistic society through an organising principle, which is governed by work as a general standard of value, when work concerns directly a mere one half or one third of the members of society.

The first signs of a labour market crisis manifested themselves in Europe and in the advanced countries in the 1970s. Emerging unemployment has rendered uncertain work as the general principle of distribution. This crisis, however, was regarded as a temporary one, and contemporary politicians had many recipes for recovery.

### **Efforts to maintain full employment**

*In the early 1960s*, the building of consumer society made significant progress in the western part of Europe but, by the end of the decade, the concurrent job expansion phenomenon had lost some of its intensity. The informal system of connections was unable to cover a sufficiently wide range of jobseekers to provide them information to enable them to find employment. *Job brokerage services* appeared, and they managed the threat of frictional unemployment with success. Neither the number of the unemployed, nor the nature of unemployment represented a serious threat at that time. The number of vacancies far exceeded that of jobseekers, and faith in full employment was unshakeable.

In the period from the *mid-1970s* to the mid-1980s, the economic crisis deepened. In contrast with the 1960s and the 1970s, in addition to spatial isolation or special life situations, unemployment could be a result of the choice of the industrial sector where the worker intended to earn a living. Production modernisation forced the productive sectors (agriculture, industry) into the background and pushed the services sector forward. The key instrument of the management of structural unemployment of former agricultural and rural workers was the extended and re-organised training system, which was meant to channel the workers from the obsolete branches to the new, dynamically developing ones. This era was characterised by the presumed “*omnipotence*” of training. It was generally accepted that every labour market problem could be solved by upgrading the training services of the tertiary sector. Since the number of jobseekers was near-identical to that of the vacancies, with a mismatch between the relevant demand and supply, training seemed to be the obvious solution to prepare the unemployed for the vacancies and to insert them there.

However, *in the second half of the 1980s*, it became apparent that globalisation, technological modernisation and sectoral restructuring reduced the volume of work to such an extent as led to the permanent and extensive exclusion of workers from the labour market. Consequently, since the work paradigm has not changed, and contribution to the creation of wealth has remained the main distribution principle, employees in a poor labour market position were excluded not only from work, but from social reproduction as well. They lost their capacity to work; they did not count even as cheap labour in the labour market since they had nothing to offer for sale – they had neither qualifications, nor special skills, nor an employee culture worthy of recognition. They could only sell their diminishing physical strength, but the new technologies represented an unconquerable competition in this respect, with much more favourable labour market features than human labour had. The reproduction of physical and social existence in these social groups had become a – permanent and extensive – task of the welfare systems. This, however, implies considerable expenditure for the welfare state in the long term and, moreover, as a result of lasting dependence on the welfare systems, it challenges the very basis of the functioning of democratic societies. The citizen and

the bourgeois as the mainstay of civil society are disappearing. And, finally, as a result of exclusion from the volume of work and the creation of wealth, the target group is written down also in terms of purchasing power since its consumption is reduced to the minimum, while its increasingly unfavourable situation poses a significant threat to social integration.

The labour market reintegration of this excluded, expanding, and differentiating target group is, on the one hand, a must *for the economy*, which cannot give up such an extensive consumer population of the *domestic market*. On the other hand, it is absolutely necessary for the *survival of the civil democracies*, as the bourgeois democratic state, the obvious form in the 21<sup>st</sup> century, is inconceivable without economically independent citizens capable of exercising their democratic rights. And, finally, the necessary conditions of social existence can only be provided and the lost *labour incomes can be replaced to the cost of the welfare state budget*, which implies growing and nearly unbearable burdens (growing deficits) on the central budgets and on *weakening social solidarity*.

Table 1.  
Main economic and social implications of long-term unemployment

**Main economic implications of long-term unemployment:**

- loss of income in the households concerned
- gradual impoverishment
- loss of revenues from social security contributions and tax
- growing demand for redistributive allowances
- stabilisation of unequal earnings conditions
- increasing financial dependence and vulnerability
- gradually decreasing purchasing power; contraction of the internal market.

**Main social implications of long-term unemployment**

- depreciation of work
- work performance as the main principle governing the distribution of social goods (the work paradigm) is challenged
- disappearance of independent civil existence, the basis of the democratic social arrangement, amidst financial insecurity (uncertain livelihood)
- moral crisis
- personality transformation to such extent as hinders job search and the capacity to work
- formation of social enclaves – social exclusion
- dual society, disintegration of social cohesion
- social rupture

In the 1980s, the aforementioned economic, social and political circumstances prompted the development of services promoting labour market integration and the establishment of the extensive range of special programmes. There seemed to be an infinite number of integration model experiments with a good hope for success. Both the researchers and the general public became increasingly aware of the differentiated nature of the life situations concerned, and of the varied and often cumulative nature of disadvantages. It has also become obvious that *this was not a short-term job-loss phenomenon, but a*

*social/economic process the victims of which got trapped in unemployment for years, and in the most extreme cases for generations.*

As is quite clear from the above, *unemployment* does not simply imply a lack of earnings, but *challenges the very basis of the functioning mechanisms of society*. It is not a short-term dysfunction, but the direct consequence of a specific form of operation in effect for a long time. The breakout attempts targeting a more balanced spatial distribution of the volume of work, a more even distribution of working-time (reduced/part-time work), the operation of a social levelling mechanism through the intensification of the redistribution structure (income supplements, passive provisions) and the results of the special (re)training programmes have regularly fallen short of expectations. The relevant research projects have shown that the traditional instruments referred to above offered no solution to this labour market crisis.

“The diffident proposals to reduce working-time ... clearly show that such tinkering cannot offer a solution to the problem”, Castel wrote as early as the mid-1990s (Castel, 1998; p. 413). “Whoever says they have a recipe for unemployment does not say the truth” – this was the conclusion drawn by his colleague Beck a few years later (Beck, 2000; p. 7.).

Why have these instruments proved ineffective in the treatment of the labour market problems that have taken shape? *The cause of extensive unemployment lies in the operating mechanisms of the economy*. The active and passive labour market measures, however, exert no essential influence on that.

### **Imperfect capitalism**

“Governments, forced to compete, have made it possible for employers to reduce labour to the minimum. Leaner companies produce as much or even more...” (Dahrendorf, 1994; p. 227.)

The factor underlying the emergence of unemployment is a specific feature of the current operation of the capitalist economy. To date, instead of the satisfaction of needs, the economy focuses on sustainable profit expansion. This “end in itself” prevents work from becoming an extensive form of social integration. Over the past fifty years, social integration was based on participation in work to produce value. The general spread of full employment has led to social integration in both capitalist and the socialist countries. Full employment, however, ended up in crisis in the 1980s, irrespective of the social regime concerned, and its reappearance is promised increasingly rarely nowadays. Guaranteed work is disappearing from the national constitutions, and even the Wim Kok Report produced for the European Council in Brussels – giving a summary of the achievements of the ambitious Lisbon target expressed in 2000 (full employment by 2010 in the European Union) – says that “the Member States... cannot successfully overcome the employment challenges facing them” (Wim Kok, 2003; p. 1.). That is, the current conditions threaten the achievement of the Lisbon objectives.

As for the basic economic conditions, the leading economic circles seem to have no intention to alter these in the near future. Every one of the current political trends proclaims continuous growth, whether by cost-cutting or demand-boosting or the development of new markets or new products. They say that growth will automatically lead to employment expansion. (Giarni-Lidtke, 1999; p. 39). Growth, however, does not bring about the desired effect in the world of work. A “capitalism without work” is about to

emerge, where economic growth is realised through productivity enhancement (less employed, higher performance expectations) rather than employment expansion (Beck, 1996).

Several authors, however, are of the opinion that *the economic conditions of full employment are present in the region*, for, in the past 20 years, the countries of the European Union became richer by 50–70%, and their wealth increased much faster than the population. Nevertheless, there are 20 million unemployed, 50 million poor, and 5 million homeless people in the EU (Beck, 2000;p. 7.). We live in the richest society ever. If we focus on the long-term trends instead of the short-cycle fluctuations, Trube writes, we may safely say that Europe has experienced the richest economic trend ever since 1980. In spite of that, unemployment is on the rise and the wage outflow is diminishing. From 1982 to 1997, for example, in Germany, productivity grew by 35%, whereas the real wages went up by a mere 2.9% (Trube, 2000; pp. 10.11.).

In other words, part of the researches say that unemployment, and especially long-term unemployment, can be avoided. *The short-term economic interests*, however, are such as will make full employment an ever-present and never fulfilled expectation, a strictly rhetoric promise.

”The work-and-performance ethos is a lie for nearly half of those of active age: for them identity through work has become impossible, since the economic regime does not need their labour, or does need it regularly”, as the renowned French researcher André Gorz writes (Gorz, 1991).

It appears more and more certain that the *promise of the working society*, i.e. the idea that “everyone’s future is secured by work, through labour income or through social provisions based on a gainful activity”, *cannot be realised, should the current interest relationships prevail*. Society is often confronted with the unfulfilled promises. However, it refuses to renounce the ideal of full employment, for want of some other distribution principle, generally acceptable to the majority of society than that of “to each according to their work”. The less transparent the situation, the more we hold on to this *idée fixe* that everyone should work, and live on work-based income/benefits. This expectation prevails in spite of the significant transformation of the political rhetoric regarding work and job safety in the past three decades. In the 1970s, the emphasis was on the right to work. It is the duty of the state to organise full employment – this is how most political statements and press communications read. In the 1980s, with the increase of the economic problems, the rhetoric of “work is your own responsibility” came into the foreground. This relieved the state from its obligation. In the 1990s, full employment came to be mentioned with caution in the press, more extensive employment being the main target instead. Politicians spoke constantly of combating unemployment and of employment promotion, skirting the issue of “full employment”. If it was mentioned at all, it was expressed as a long-term objective (Vobruba, 2000; p. 46.). The Lisbon European Council of 2000, however, put the concept of full employment high on the agenda once again. And, interestingly, due to the special interest relationships of globalisation, technical modernisation and society splitting into two, the more distant the chance of its realisation, the more frequents its inclusion, as a possibility, among the topical political promises. “Full employment” is much more of a particular interest than a general social objective, and hence the implementation of operational full employment is hindered not only by co-ordination problems, but *by conflicts of interest as well* (Vobruba, 2000; p.12.)

These conflicts of interest need to be highlighted – all the more so since what is at stake is *not simply the performance of socially useful activities, but also the distribution, or*

*non-distribution, of goods, based on such activities.* This is the most important cornerstone of shaping the social relations.

The special economic interests can be transformed, so George Soros writes: the competent economic actors will understand that they should pursue their long-term, rather than short-term interests, and employment promotion, as opposed to momentary profit maximisation as an overriding interest, may well become a realistic objective in the near future. (Soros, 1999.) For the economy needs quality labour and solvent buyers, not to mention bourgeois democracies based on solid foundations, to guarantee the stability of the economic operations. Others seem to contradict this assumption to some extent, drawing attention to the fact that the interest relationships will transform exclusively under duress. No social group will renounce any of its goods voluntarily, either in the short, or in the long run (Beck, 1996.). *Hence the necessity of an alternative economy, following a bottom-up approach, adopting long-term objectives and operating by other core values than profit maximisation.*

Other experts are of the opinion that *the economic conditions of full employment are not present in the 21<sup>st</sup> century.* G. Vobruba already drew attention to the dual challenge implied by wage labour work in 1989: such work would not be available in sufficient quality and quantity (Vobruba, 1989). The sign of the shrinking volume of work is that a very restricted segment of wage labour, hardly 20%, is strictly related to the production of goods (Giarini–Liedke, 1999; p. 39.).

Parallel with the decline in the production activities, apparently job creation in the services sector has also come to a halt, and technological innovation was conducive to significant lay-offs there, too, in the past decade. Since the second half of the 1970s, a gradually expanding labour stock has tried to occupy a contracting circle of paid jobs. The propensity for work of women has increased. Given the current high divorce rates, women can rely to a decreasing extent on marriage as a source of life-long security and living. Existential security, status, social recognition are accessible exclusively through the earning activities, so women do their utmost to get a fair share of these (in 1860, 30% of American women worked; in 1960, 60%. To date, a middle-class way of life requires a two-earner family in the US. (Sennet , 2000; p.72.)

Retirement age increased and the workers' level of qualification improved. From the second half of the 1980s, working time first stagnated and then decreased, which means that workers have to struggle much harder in the labour market to achieve the same standards of living. By the second half of the 1990s, the quantity of wage labour work had decreased: technological modernisation, branch restructuring and productivity growth had led to keen competition within the expanding workforce. (Giarini–Liedke, 1999; p. 36.).

The ideology of linear growth (let's secure growth, and we shall have work again), an oft-mentioned solution, does not solve the basic problem, i.e. that of the distribution and the possession of the goods that are produced. The expectations of unlimited productivity and performance growth consume the producer; they make the employee incapable of work (burn-out, physical depletion, disability etc.). Sustainable development will only bring about a change in the economy if economic growth outpaces by far the growth of the productivity of the people concerned. To date, however, performance growth exceeds market expansion by far. Hence, although every politician promises new jobs, the conditions of their creation do not exist. Dahrendorf drew attention a long time ago to the fact that in this labour market game, "broad social strata are dealt no cards at all", and hence they lose their interest in the game or even question its very rules. This,

however, challenges, in turn, the main component of social operation, namely the principle of the distribution of goods. (Dahrendorf, 1994).

That is, the advocates of the concept of full employment are characterised by forced optimism. *They believe in the renaissance of classical wage labour, or rather nostalgia is more typical of them.* (Beck, 2000., p. 21.).

To sum up the opinions calling the possibility of full employment into doubt, let us quote Vobruba: *“full employment was a historical and geographical curiosity”*. It was concurrent with the post-war economic miracle, and it could become general in a society based on monetary incomes (Vobruba, 2000; p.14.). In the post-industrial societies, however, work has become a “luxury article which less and less can afford. The full employment which we have known for years cannot be restored. To date, the issue at stake is not to create new jobs, but to establish the social conditions allowing maximum cultural participation to all on condition of minimum work performance.” (Ribolits,1997; pp 11 and 13.).

Consequently, the main question is the following: *If full employment cannot be restored, how can such social conditions be created as will ensure maximum social participation with a mandatory amount of minimum work to every person?*

### **The crisis of wage-labour-based full employment and its alternatives**

In addition to the above, the promise of full employment is misleading in that it does not refer to full employment in the traditional sense, organised according to the old norms. In the past fifty years, full employment was centred on industrial-type wage labour. *To date, it is not possible to promise wage labour at 8 hours a day to all.* For, wage labour is undergoing a severe crisis in several respects. The concept of its complex crisis was introduced by Vobruba’s definition of “the dual crisis of wage labour”, in his work *Arbeit und Essen* published in 1989. The idea referred to above, i.e. “work of insufficient quantity and unsatisfactory quality” suggests that, *its deficient quantity notwithstanding, wage labour is not satisfactory in health, social and environmental terms either* (Vobruba, 1989; p. 71.). It is especially inadequate as an instrument of full-scale social integration in our days, when even part of the existing jobs is a “mini job” in the low-pay category, insufficient for subsistence. “Half of the 8 million jobs created between 1980 and 1986 pay 60% less than the industrial minimum wages”, Castel writes about the new jobs created in the United States. (Castel, 1998; p.407.) If wage labour is insufficient and part of the existing jobs is unsuited for social integration, a change-over is a must. But is there a possibility to create a new type of employment outside the world of wage labour?

Many authors (from Marx to Hannah Arendt) expressed the potential advantages of the employees’ exit from the alienated wage labour system and of their efforts to create better forms of work and living. The only question remains how time can be shared between wage labour and the other, socially useful, activities. How to realise the vision of the dual economy described in many theoretical writings in the past years as a possible alternative, in which everyone performs other, socially useful activities, too, in addition to – or instead of -- wage labour? Many think that this would be feasible exclusively if the employees and the citizens got a guaranteed basic income. The essential questions of the relevant debate, however, are open yet: “1. How to define the circle of eligibility? 2. What should be the amount of the guaranteed income? 3. In what percent should the gainful activity be calculated into the basic income?” (Vobruba, 1989; p. 76.).

The idea of a basic income independent of work was popular in the 1980s. At that time, technological development was expected to generate such income as would be easy to distribute. At the end of the 1980s, however, the theories changed, and in the 1990s, the idea of basic income without work was replaced by that of *basic income combined with a gainful activity (dual economy)*. The advocates of this theory have expected this to help re-integrate into the labour market those with a poor performance capacity, and to reduce segregation due to poverty. However, this combined distribution principle, too, has implied certain dangers. On the one hand, the circle of poorly paid workers would be expanding and the standards of living of broad social strata would keep deteriorating; on the other, drop-out from wage labour might produce a double income loss due to the concurrence of the two incomes. Consequently, more and more will fall into the poverty trap, that is, get excluded from society. Owing to these severe consequences, a major part of researchers renounce the dual economy model and the idea of the social basic income, and look for other pathways to a new-type work organisation and income distribution.

Given the utopian nature of full employment in the classical sense and the lack of answers to the issues raised in connection with the dual economy, the following question arises: *What are the alternatives to this form, i.e. to classical 8-hour general wage labour and to the dual economy?*

The re-interpretation of the term of employment and a new approach to work could make it possible to extend the circle of those concerned and to enhance the degree of integration into society. A new definition is all the more necessary since the problems occurring in the old system of terms and values can only be answered through a new type of solution and a new system of concepts and values.

Parallel with the wage labour crisis, an old-new form of business management and, concurrently, of employment is about to be born. It is old and new at the same time: some of its types could be observed in the archaic societies, while others are being outlined in studies sketching the possible forms of employment in the future. (Beck, 2000; Vobruba, 1989; Soros, 1996; Castel, 1998.)

This new form of operation can best be illustrated with Polányi's concept of the substantive economy. It is worth noting that, in this model, the economy does not appear as an isolated, self-centred, sub-system, but it is embedded in the entire system of social activities and relationships. (Polányi, 1976) The ethnographers of the archaic (pre-industrial) societies have devoted lots of research to the operation of the substantive or embedded economy and they recorded its main distinctive features. (Malinowski, 1972; Fraser, 1965; Bourdieu, 1978.)

The historical analogy is justified, among other things, because it draws attention to the *historically changing nature and place of the economy* in the context of social reproduction. (Ferge, 1991.) Furthermore, it gives an opportunity to offer external solution options and answers to problems generated within a system.

Table 2.

A comparison of the distinctive features of the substantive and the formal economy

	<b>Substantive economy</b>	<b>Formal economy</b>
Goal of the economy	Satisfaction of needs The economy is no end in itself	Growth of the economy
Motivation of work	Many-folded motives, incentives and objectives	Profit and growth exclusively
Function of work	Work is a natural form of existence	Work is an instrument and/or goal
Nature of work	Primacy of the social content of work	Emphasis on the economic content of work
Independence of the economy	Economic activity is not independent: it is interwoven with the social relationships	Economic activity has become independent, it is an independent sub-system
Development of producer/consumer roles	The producer is a consumer, too	The producer and the consumer are separated
Presence of the principle of utilitarianism	Calculation and fairness are typical	Self-seeking thinking and the quantification of the profits are typical
Interest systems	Community interest in the foreground	Individual interest in the foreground
Degree of solidarity	The community undertakes responsibility for the individual	Growing individualism

Edited by Judit Csorba on the basis of Károly Polányi's study: *Az archaikus társadalom és a gazdasági szemlélet* (Archaic society and the economic approach) (Budapest, Gondolat Kiadó 1976).

A comparison of the specific features of the *formal economy* dominating business management today with the substantive, i.e. *embedded*, economy representing the opposite pole, projects the outlines of a new *modus operandi*, which sets new rules and proposes new possibilities with regard to employment. (Polányi, 1976). As opposed to the absolute dominance of the formal economy, to date – perhaps under the pressure of the unresolved problems – this old-new form of economic activity, of work activity, has reappeared and demonstrated its *raison d'être*. Although the contours of this new type of economy are uncertain yet, and they pose many questions with regard to the nature of work, its features distinguishing it from the formal economy are evident already.

"There exists... a "third sector" which is sometimes referred to as "social economy", which is inserted between normal employment and benefits, social integration and professional re-training, the market and the subsidised sector. Its activities are spreading, first and foremost as a result of the "social" treatment of unemployment, which sometimes makes it difficult to decide whether the objective is re-integration into work or the stabilisation of a state which is "midway" between work and benefits. These achievements, which concerned 400 thousand people in 1993, and which have a tendency to become an independent segment of the classical labour market, are useful in a catastrophic situation. However, it would be a euphemism altogether to describe them as 'employment policy'", Castel wrote in the mid-1990s. (Castel, 1998; p.406.)

"Social economy"? "Third sector"? These concepts were rather malleable in the mid-1990s, but the basic characteristics of the new economy have become clearly discernible. Obviously, the authors concerned conceive of the novel operation of the economy as opposed to the dominant market values; they challenge the omnipotence of utilitarianism, and put the social values into the foreground. Beck describes a form of

employment which makes socially valuable human activities and social cohesion at least as significant as the income-generating activity. The concept of "Bürgerarbeit" has social as well as economic features. It includes the income guarantee just as the option to dispose of one's working time and the right of active social participation. (Beck, 2000.) Soros draws attention to the fact that "the spread of the profit-making behaviour to the detriment of the civic virtues undermines the political system itself, too", and it has a negative effect on the economy. His model is that of the "open society" in which, according to his proposal, "happiness would be measured by the degree of independence of the citizens, and the form of participation in the economic processes would also be adjusted to that" (Soros, 1999. p. 235.) Fukuyama stresses the importance of social capital, which cannot be enhanced by financial investment. It is inconceivable for an economy to function in the long run without strong community norms, honesty, and loyalty. He proposes to build such communities as will promote the strengthening of social capital. (Fukuyama, 1997.) Giddens, in his work "The third way" votes in favour of work, which implies meaningful work, activities strengthening individual identity, as well as a bond enhancing social cohesion at the same time (Giddens, 1999. p. 144.).

An analysis of the features of the emerging social economy mentioned by the above authors reveals many similarities between what was said above and Polányi's "substantive" economy, which is usually understood as referring to the archaic societies.

Despite the marked chronological distance between the two eras, the presumed parallelism is actually stressed by Castel's sceptical comments. Economic activity is not the ultimate goal of social economy either. This economic activity has "social" objectives which override the drive to generate profits and returns, and these characteristics could hardly co-exist in a formal economy. They are "midway", as Castel puts it, "between work and benefits". That is, it would not be worthwhile to operate these organisations/jobs exclusively for the profit. Consequently, social economy is contrary to the myth of the *homo oeconomicus* conceiving of man as a naturally self-seeking and profit-oriented creature (Ferge, 1991; p.28.). Similarly to the archaic societies, where the "aboriginals spend lots of time and energy on efforts which are totally superfluous, at least from a utilitarian point of view" (Malinowski, 1972; p.32.), the actors of social economy organisations undertake many functions which serve the social integration of the participants, the expansion of their role repertoire, and the enhancement of their social contacts, rather than profit-making or profit maximisation in the economic sense. Thus these activities are not formal, but are "substantive" economic formations, which are meant to satisfy various needs. (Polányi, 1976). "The personal interest is not absent either, but it is subordinated, voluntarily and unconsciously, so to speak, to the community interest, that is, the interest of the survival of the community as community" (Ferge, 1991; p.30.). In these communities, as in the communities involved in economic activities in the archaic societies, "Work is neither an end, nor a virtue in itself. What is to be appreciated is not the activity aiming at an economic objective, but the activity itself, irrespective of its economic function, and exclusively if it has a social function of some sort. Anyone with self-esteem will always look for an activity of some kind... The lazy ones do not fulfil the function assigned to them within the group and hence put themselves outside the law and risk to be expelled from the group" (Bourdieu, 1978; p.328.)

That is, within social economy, the goal of the collectively performed function "is to strengthen the community by sharing the obligations and the enjoyment" (Ferge, 1991;

p.29.). Of course, this is not to say that no productive or value-generating activity takes place in the economic organisation. Of course it does, since the goal of this economy, too, is to satisfy needs, material (economic) ones included. But profit-making is not the primary objective, nor is it the main benchmark of the actors. These productive communities, too, make calculations to sum up the outputs of their activities, but the necessity of these calculations is not overwritten by the pressure stemming from the self-seeking approach.

Consequently, work is neither a constraint, nor an instrument in the service of some other goal, but a natural *modus vivendi* which is not separated from the other social activities. Accordingly, the organisations of social economy perform a major role in performing community-organising, protective, welfare, and communal functions as well. Unless these functions are preserved, social economy will immediately become devoid of its real meaning and be reduced to the purely self-seeking economic function.

As a result, social economy undertakes to play a major role. It tries to reintegrate the economy, having broken off from the other sub-systems in its pursuit of the interests/values of its own sub-system (profit, accelerating growth, cost-efficiency, productivity) into the other sub-systems of society, and to give priority to collective values over individual ones in the context of various economic activities. It revives the old-new values of the economy, such as the degree and quality of the satisfaction of needs, and juxtaposes the idea of long-term (or at least medium-term) utility, which cannot always be expressed in pecuniary terms, with the focus of an accelerated world on time often organised by the second (or preferably replaces the latter with the former). Instead of profit maximisation as the primary goal, its ultimate goal is to serve the survival and welfare of the community. It undertakes to satisfy, and sometimes even to give primacy to, the insolvent needs renounced in a spectacular manner by the market. It frees labour, which has been reified with the general spread of commodity relationships, from the purely economic, material context, and re-invests it with its personality and social aspect. As a result of this attempt, social solidarity, one of the main pillars of the “Europe paradigm”, an inevitable condition of the operation of society, will revive and/or consolidate of necessity.

That is, the attempts to create social economy are momentous indeed. Their aim is no less than to create, in the context of the dominant economic formation, the components of an economic and employment model which will replace the dominant system after some time. Furthermore, the elements of the emerging model are not the parts of some hypermodern theory, but are conclusions drawn from a reconsideration of archaic forms. One wonders how the 21<sup>st</sup> century, with its linear time concept – which proclaims continuous development and progress – will relate to such archaic models. Is it possible for an embedded economic form to emerge and spread in the advanced market era? Is it possible for an economic form, showing the features of an embedded economy, to take root and spread amidst such extremely formalised structures?

According to George Soros, this is the only feasible alternative, although he calls it “communal”, rather than social economy (Soros, 1999, 2004). Castel, too, argues in favour of the communal economy or social economy extensively when he presents the wage labour crisis. “*It was the discovery of the social element* which tamed the market to man to some extent and rendered capitalism somewhat more humanised. Economically advanced societies are the most vulnerable (*because they are the ones that rely on wage labour to the largest extent – Editor’s note*). Social functions need to be reinstated. Society’s social basis is the network woven by the welfare state. Its repression may lead to the emergence of a cohesion instrument/structure in the economy itself which could

ensure the enhancement of the social/societal functions, too, in addition to, or by, embedding the economic functions. (Castel, 1998; p.389.) The gradual retreat of the welfare state makes Castel's findings expressed 10 years ago ever more relevant. The modern societies create an elementary and pressing need for the development of a new form of economy and employment.

The fact that the contradiction between the formal and the substantive economy has become widely known is, in itself, a sign of progress. The identification and application of the methods suitable for resolving this contradiction, on the other hand, has become a crucial issue of the economic and social policy dilemmas of the near future. These dilemmas have provoked the emergence of many concepts, interpretations and approaches concerning social economy. There are branch-specific, organisation sociological, socio-philosophical and empirical approaches. But whichever approach is taken as a basis, ***embeddedness is to be highlighted as the essential element of social economy.*** The features listed in Table 2 are valid for every approach. If only one or another element functions, this will question the essence of social economy, and lead to no more than the appearance of the formal economy in a "modern rhetorical guise".

"Economic efficiency is the necessary element of every healthy, strong society, and its significance will only be underestimated by the irredeemable *bel esprits*. However, converting efficiency from a means to a primary end will destroy efficiency itself. For, in a complex civilisation, the basis for efficient activity is co-operation. And this, in turn, requires a consensus in terms of the goals of the efforts concerned, and the criteria by which the success of these efforts should be measured." (Ferge, 1991; p.50.)

## 2. The concept of social economy (Mária Frey)

The *not-for-profit sector* (= social economy = third sector = third system) carries an enormous social and economic power the world over, and it is *critical to the employment and social policies* of every OECD member state. The above terms cover the same concept: a sector in-between the state and the market; with an economic as well as a social mission; in the service of the public interests, and aiming at the re-investment of the profits into the activity of the not-for-profit organisations instead of their distribution. Each of these characteristics expresses one aspect of this sector. *Not-for-profit*, a term originating from the US, refers to the fact that *there is no profit distribution*; social economy (a term of French origin) expresses the *social mission of the sector*, its solidarity aspect; and *third sector* or third system refers to the place *occupied by the not-for-profit organisations between the state and the market*.

There is no generally accepted conceptual apparatus for the description of those activities which belong neither to the market-oriented enterprises striving to maximise profit, nor to the already institutionalised public sector. They figure under many names, e.g. social economy, third sector, informal economy, co-operative sector, voluntary economy, field for local initiatives, pilot labour market projects, collective self-help, alternative sector and so on.

At macro level, the “third sector” has been the subject of lively debates for a long time. This concept has become especially popular in the wake of Jeremy Rifkin’s book (1995: *The End of Work*), which assigned every non-state and not-for-profit-oriented activity there. There is a certain difference between the Northern American and the European use of the term. The former includes exclusively the explicitly not-for-profit organisations (associations, foundations etc.), and the latter co-operatives and benefit societies as well. (Six and Vidal, 1994.).

In the European debates of the 1980s on the “crisis of work and society”, the term “third sector” was used in a much more restricted sense. The emphasis was then on the “alternative field”: the work and living communities, the ideological and religious communes and other groupings which rejected the objective of capitalism. One decade later, the third sector was assigned the opposite interpretation. In the sociological literature of the 1980s, it was still used to describe the activities which rejected the capitalist labour market; to date, it expresses a way to the expansion of the labour market.

*Social economy is a different notion: it is the collective term for the not-for-profit, self-help and co-operative organisations.* It was used for the first time in France, and subsequently in the “Latin” states of Europe. The term came to be used in the official EU documents, too, including the European Employment Strategy. Westlund and Westerdahl (1997a) defined social economy as the totality of “democratically managed business organisations, which pursue activities which are not provided by the state sector. Neither do they generate such profits as could be the main goal of their operation.” In other words: *“Social economy means a third sector operated by the citizens, in between the profit-maximising market economy segment and the tax-funded segment of the state sector”.*

Another possibility to define social economy is offered by the use of the *welfare conceptual system*. Evers and Wintersberger (1990) used three dimensions: formal/non-formal, for-profit/not-for-profit; state/private. This approach assigns to social economy

the *not-for-profit, formal activities which have no primary profit motive*. In this sense, social economy depends on the current political, social and legal conditions, which may be different by country, by region and in time, too.

In their paper of 1997 (Contribution of social economy to Local Employment), Westlund and Westerdahl introduced the notion of the “*new*” *social economy*. This refers to such organisations as *pursue economic rather than idealistic goals, but preserve, nevertheless, the traditional values of the not-for-profit sector*. “New” is meant to emphasise the difference as opposed to the institutionalised co-operative movement, mutual life insurance companies and charity organisations. According to the authors, the new social economy is characterised by the following:

- it occupies an intermediate position between the profit-maximising activity of the market economy and the tax-funded one of the public sector;
- its organisations belong neither to the circle of the institutionalised producer or consumer co-operatives, nor to other self-help-oriented economic actors;
- they have local roots and a democratic structure (one man, one vote, or an overlap between ownership and influence);
- their legal form may change, but it is of secondary importance anyway.

According to Westerdahl and Westerdahl (1997b), the projects of the “new social economy” must fulfil three functions:

- *Protective function*: to offer permanent or temporary jobs to people who cannot be inserted in the world of unsubsidised work. The projects which focus exclusively on this function actually fulfil a traditional labour market role in order to make the hard-core long-term unemployed active members of society. These projects cannot become self-financing.
- *Bridging function*: (re)integration of the unemployed into the primary labour market by offering them temporary employment complemented with training, social and psychological support, guidance, coupled with job-search assistance. These are services provided by the employment service, too. The difference lies in how, for whom, and by whom the activity is organised.
- *Business function*: projects which produce goods or services for the market. These cover needs which are not profitable yet, and hence require state support, at least in the start-up phase. These projects are the closest to the mainstream labour market.

The above projects have some common features: they provide employment, training, guidance, social care to people who find it difficult to get a job in the open labour market. The objective is not to maintain these initiatives as isolated inclusions for “secondary” citizens. Instead, they should aim at showing the unemployed the way to unsubsidised jobs, to a new segment of the labour market which, however, operates by rules identical with the general ones. These projects are in need of state support, especially in the initial phase, but they generate their own revenues, too. In this respect, they pursue such business objectives as the other market actors, with the difference that profit-making is not their primary goal.

The projects concerned are diverse. Their activities, organisational structure, legal form, goals and relationship to formal politics change from country to country, and even within the same country. There are differences in the conditions and infrastructure of the projects, as well as in the need for them. In some countries, certain activities and services representing public functions elsewhere are carried out on citizens’ initiative; at other places, they perform activities which the market refuses to undertake. Elsewhere,

social economy is seen as an instrument for achieving the objectives of public service provision.

In *Italy*, for example, social economy is meant to perform social, health care, and educational activities for the disabled, the elderly, drug addicts, and to support the integration of disadvantaged persons who find it difficult to get a job. In *Austria*, it is expected to provide work experience to jobseekers under communal work projects, in the areas of tradition preservation, environmental protection, health care, tourism, sports, and the restoration of public buildings. In the *United Kingdom*, it is seen as an important means to combat social exclusion; one that provides welfare, training, labour market and health care services and, furthermore, support for those of pre-school age and to revive settlements with a disintegrating local economy. In *Germany*, this sector enjoys support on the ground of providing short-term jobs in the areas of waste re-utilisation and the social services. In the *Netherlands*, it is relied upon in caring for the old. And in the *European Union*, it is expected to promote physical and environmental revival: to answer the problem of social exclusion, to support training and help people start an entrepreneurial career, and promote employment in run-down urban districts. (EC, 2002, p.10.)

In order to define social economy on the basis of its *organisational characteristics*, one of the following two approaches can be chosen. According to the common definition, social economy consists of co-operatives, mutuals, associations, and foundations. Recently, these have been supplemented with the *social enterprises*. The latter term is used in the United Kingdom to cover every organisational form within social economy. The British social enterprise strategy applies the following definition: “*The social enterprise is an organisation with primarily social objectives, re-investing its profit driven by this objective – and not the profit maximising criteria of the owners or the shareholders, to develop its business activity or the community*” (MTA RKK ÉMO, 2006; p.9.).

The notion of the “new social economy” is adequate for the description of the general features of our own target area, too, with a few exceptions. The more profit-oriented initiatives, which therefore do not fit into the traditional social economy concept, might fit into ours. For example: there are some ecological and re-utilisation projects which provide work to the unemployed. These could operate as normal enterprises in the competitive sector. However, they may need state support in the initial phase, to build up the organisation and to create jobs. In the longer term, however, they may become part of the business world, without any need for state support.

So then *what exactly do we call social economy in Hungary?* As in the more advanced countries, it is impossible to identify unambiguously the limits of social economy, i.e. to tell which organisations are assigned to this sector beyond doubt and on the basis of what features.

For pragmatic reasons, we shall use a very simple definition: we shall consider such *local initiatives to be part of social economy which aim at integrating persons who are difficult to place into the world of labour, by offering them employment, the upgrading of their professional skills, and guidance.*

Furthermore, they share the following general features:

- They operate at local level, in between the public and the market sector,

- They respond to the local needs which are left unmet by the private companies and the public institutions,
- They create new jobs,
- They generate an income and it is their objective to become self-financing after some time,
- Their revenues include private financing to some extent,
- Their target groups include the long-term unemployed, the career-starter youth struggling with placement problems, women subject to caring obligations, the elderly and persons living with disability and those suffering from social integration problems.

In Hungary, in practice, social economy relies on the activity of between 300-400 not-for-profit organisations, which are capable of performing their employment, service-provider, and community development functions by and large continuously. Their activity is wide-ranging, but the majority manages employment projects designed for persons suffering from socio-economic and labour market disadvantages, provides labour market services, or social care. The Hungarian social economy has significant reserves on the organisational side, too, since it includes not-for-profit organisations initiating employment projects on an ad hoc basis, not-for-profit organisations implementing the social land programme, work organisations of small regional partnerships, as well as associations of municipalities.

### 3. The relationship of social economy to the traditional not-for-profit sector (Mária Frey)

The new not-for-profit organisations differ in several aspects from the traditional organisations.

- Their behaviour is governed by the producer and entrepreneurial quality. Since they want to produce products and deliver services which are not provided by the public sector, they have to organise the production activity and find economic resources for it.
- They have a marked propensity for renewing the social services, in terms of service types, target groups (often marginalised ones) and also the organisation of service delivery. (The emphasis is on activation and on putting the users into the foreground.)
- They pay special attention to the creation of new jobs, especially for those who are difficult to place.
- Their activity focuses on the local dimension; they co-operate closely with the local communities, taking their needs into consideration
- Although they do not distribute their profits, they do not expect the profit constraint to remain their primary distinctive feature forever. They consider it more important to define the social goal clearly, to represent their various founders and to exercise democratic control and monitoring.

In comparison with the European not-for-profit organisations,

- The new ones are less interested in donations, in patronising others, and if they are, that represents a secondary objective;
- They are more autonomous: they access resources based on the varied nature of the consumers, they establish contacts with public agencies as independent partners, often on a contractual basis;
- They are more eager to create jobs, especially for the underprivileged, and they are willing to co-operate for that purpose with the for-profit organisations;
- They are interested in the establishment of an ownership structure which is capable of guaranteeing the participation of every party concerned, as well as self-management;
- They focus on the settlements and they are of a smaller size than the traditional not-for-profit organisations which are bigger and have a national jurisdiction;
- They concentrate on the creation of new services and innovative products, not provided by others; they look for new ways to satisfy the social needs.

In terms of the *entrepreneurial quality*, four elements seem to be decisive:

1. Continuous product manufacture and service provision
2. High degree of autonomy
3. Presence of an economic risk factor
4. Use of paid labour.

Market orientation could be included as a fifth element, meaning that the organisation generates a major part of its revenues in the market (through the sales of services directly to the users) or through contractual transactions with public bodies.

The following indicators express the *social dimension* of these organisations:

1. The initiative concerned is one undertaken by a group of citizens,

2. The people concerned by the activity typically take part directly,
3. They are in command of a power which is not based on capital ownership,
4. Profit distribution is restricted,
5. The declared objective is to act for the benefit of the community,
6. Their mission is to prepare persons for activation and for earning an income in an active way instead of relying on passive provisions.

#### 4. Typical activities of social economy (Mária Frey)

The concept of social economy was outlined in broad terms in the White Paper of the European Union on Growth, Competitiveness and Employment, as one of the possible development courses leading to the 21<sup>st</sup> century. The essential idea was *to organise the local services available to households and individuals into a market, which was expected to produce millions of new jobs* (European Commission, 1994. 93).

The search for *new solutions* to realise the above was put on the *employment policy* agenda, too. These solutions should encourage job creation in the labour-intensive services sector protected from international competition. They *break*, in many respects, *with the traditional approach focusing on specific target groups* (the youth or the long-term unemployed e.g.). Instead, they *aim at activities which may lead to job creation* with a much smaller replacement effect than that experienced in giving preference to one or another problem group of the unemployed.<sup>1</sup> Another advantage of this solution is that these activities generate a mass demand for labour with low or medium-level qualification. Consequently, their development creates a job structure which matches the composition of the unemployed.

The new not-for-profit organisations perform diverse activities. These can be assigned to two major categories: *labour market integration* and *social/communal services*. They can be performed in combination, too, in which case the delivery of social and communal services represents the field of labour market re-integration.

*Not-for-profit or social enterprises active in labour market integration* are present in almost every country. They rely in part on the experiences of the sheltered employment providers, with two important differences: a) they are less dependent on public money and they pay more attention to the market dynamic and b) they strive to provide the underprivileged employment-based earnings on a scale with those of the other employees. What is more, many of these organisations were established expressly to provide work experience for persons at a disadvantage, and labour market services which promote their integration into the world of unsubsidised work. A major part among them is independent of the public sector, and exposed to the market conditions. Some undertake brand new activities, generally labour-intensive ones, from which the for-profit sector (used to) disassociate itself, such as waste re-utilisation. Some cover the expenses of the training of disadvantaged workers themselves, by producing goods and services for private consumers and for-profit enterprises. Often, their only state support is the employment subvention which would be granted to any other company, too, provided that they employed labour of the same type.

*Service provision* is the other activity type of the not-for-profit organisations or social enterprises. This, too, is present in almost every European country, but there are major differences, depending on whether the organisation has labour market re-integration functions, too, and on what services it provides.

The differences depend on the level of organisation of the welfare system of the nation state concerned. In the well-developed welfare states (e.g. the Nordic ones), the new not-for-profit organisations are present in specific sectors only, where the government or

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<sup>1</sup> The replacement effect means that the support cannot reduce the level of unemployment, it only restructures the distribution of the jobless: for example, if the youth are provided support, the adult unemployed will be relegated to the background, and if the long-term unemployed are given preference, the spell of the joblessness of those out of work for a short time will increase.

the municipality reduces its presence, but maintains its financier role. And, furthermore, where there are no organised public services.

In the other big country grouping (in continental Europe), the presence of the not-for-profit sector is uneven. It is more developed in some (e.g. France, Belgium), where it specialises in the provision of new services in the first place. It uses public resources which are not necessarily related to the sale of social services (e.g. employment subsidies). The differences in the presence of the new not-for-profit sector, and the fact that it is the result of the development of the traditional not-for-profit sector are attributable to the extensive participation of the traditional not-for-profit organisations in social service provision and, moreover, the existence of a well-functioning financial regulation system. In some countries (e.g. in Germany), the traditional not-for-profit organisations can compete with the new ones.

In the third country grouping, where public service provision is limited, the new not-for-profit organisations can undertake activities of different kinds, because they were established exactly to bridge the widening gap between the needs and the supply. Their development potential, however, is restricted by the limited social services funds, especially in countries characterised by a low per capita GDP rate (Greece, Portugal).

*As mentioned above, these two types of activities are often combined. Many not-for-profit organisations link social service provision with labour market re-integration.* This overlap is probably explained by the fact that the social services are suitable for the labour market integration of people in a disadvantageous situation, because they are labour intensive, and they do not imply excessive qualification requirements. Consequently, they may guarantee the full-scale social and economic integration of certain social groups, e.g. the addicts, in whose case service provision and labour market integration are inseparable.

In some cases, the overlap is due to the absence of a clear public financing policy for the new social and community care services, which forces the new not-for-profit organisations to hire unemployed people with employment subvention in order to develop the services concerned. As a result, they have managed to create real and innovative social and care services, by integrating the social and employment policies of the state, without being given adequate guarantee of medium-term survival, given the limited duration of the employment subventions.

The shift of the new not-for-profit organisations in favour of labour market integration and the social and community caregiver activities serves the development of the local economic systems as well. In some cases – cf. the Irish credit co-operations, the Finnish village co-operatives, or the British community enterprises --, contribution to local economic development is a declared objective of the not-for-profit organisations.

Finally, the analysis of the various national experiences suggests that not-for-profit organisations do not content themselves with the services provided so far. In most countries, they have extended their activity to other services, such as environmental protection, cultural services, and the satisfaction of other needs of the local communities. The specific activities ever depend on the constituent elements of the service structure of a given country, the characteristics of the way of living of the population and of the taxation system.

The EU White Paper (EC, 1994) mentions the following by way of example:

*a./ Local services*

- home help for the elderly and physically or mentally handicapped
- housework: cooking, washing, ironing, cleaning
- minding pre-school-age children and schoolchildren before and after school, including taking them to and from school
- assistance to young people facing learning difficulties, comprising help with schoolwork, provision of leisure facilities, especially sports, and support for the most disadvantaged
- acting as caretaker for blocks of flats
- local shops kept in business in rural areas, and also in outlying suburban areas
- home delivery of cooked meals, purchased goods

*b./ Audio-visual services, installation of the new information and communication techniques*

*c./ Organisation of leisure and cultural programmes, preservation of the traditions*

*d./ Improvements in the quality of life*

- renovation of old housing with a view to increasing comfort and safety
- development of local public transport services, which should be made more comfortable, more frequent, accessible (to the handicapped) and safe,
- provision of new services such as shared taxis in and between rural settlements
- selective waste collection and re-utilisation

*e./ Environmental protection*

- maintenance of natural areas
- canalisation, canal cleaning, water purification and the cleaning-up of polluted areas
- monitoring of quality standards
- energy-saving equipment, particularly in housing.

The development of these services is promising, anyway, in two respects:

- On the one hand, *it offers better life quality for the households,*
- On the other, it motivates and expands the employment options, because *these are such activities, close to the consumer, bound to a certain point in space and in time, which cannot be integrated into the international market and are therefore protected from international competition threatening the national jobs.*

## 5. The employment role of social economy (Mária Frey)

Little is known of the employment role and potential of social economy. It is well known that the backlog of the EU relative to the US in terms of employment levels manifests itself, primarily, in the area of the communal services, which are provided (in both groups) mainly by the not-for-profit organisations. This offers the conclusion that one possibility for catching up lies in the development of social economy. In addition, this promises a better quality of living through the more extensive and pluralistic structure of social and personal services.

The data of a pilot research (CIRIEC, 1999) allow to infer to the degree to which the Member States exploited this opportunity. Accordingly, some 8 800 full-time equivalent jobs are registered in social economy of the EU called the third sector, which corresponds to 7.9% of all the employed. This number

- corresponds to 39% of all the unemployed in the EU
- is more than the number of agricultural workers in the EU-15
- is one third of the number of the self-employed living in the EU.

The employment role of social economy differs by country. The relevant rates are around 12.5% in Greece and Portugal, 4--8% in Italy, Sweden, Germany Belgium, France, Austria, Finland, Spain and the United Kingdom, and 12.5 to 14.3% in Denmark, Ireland and the Netherlands.

In the territory of the EU, 71% of jobs are provided by associations, 25.7% by co-operatives, and the rest by others. The relative proportions of these forms, too, vary by country. For example, the traditional and new co-operatives show a fast spread in Italy, Spain, Finland and Sweden, where the share of those employed there reaches 45-55% of all social economy employees. The lively labour market of these countries is the result of the fast multiplication of the work and social co-operatives. The activity structure of the employees concerned changes as a function of the general trends ever: it shift from agriculture and industry in favour of the services, and from the standard towards the personal services.

## 6. The limitations of social economy (Judit Csoba)

Social economy has experienced a period of unprecedented boom in recent years – in the relevant professional and political rhetoric anyway, although perhaps not in reality. It is the subject matter of national and international conferences, and it figures on the agendas of organisations of entrepreneurs, of the government and of civil society. The European Union drew up statements regarding social economy; four European countries have ministers of social economy, and the topic itself is covered by the National Employment Action Plans and most regional development strategies. The electronic search engines indicate tens of thousands of hits to those interested in this topic, with the most diverse content, and the international browsers point to numerous websites where infinite data storage capacity is reserved for this topic. Social economy seems to be a universal instrument for the treatment of the economic, social, labour market, social and who knows how many other problems all at once. A universal instrument like that, however, raises the suspicion that, if it is so good for so many things, it is probably good for no specific purpose at all. In parallel, there is a well-justified concern that, with such extensive use, the concept may lose its special content, the one that the circle of professionals dedicated to social economy wanted to cover by it. In order to avoid this latter danger, *it is worth taking into account what cannot, in our opinion, be identified with the concept of social economy*, as well as the difficulties of and hindrances to its extension. Let us see the *constraints*, first the ones that we *impose ourselves* on the basis of professional considerations, and then the ones *imposed by the current economic and social context to social economy*.

### **Conceptual diversity: its advantages and disadvantages and the constraints arising from our way of thinking**

Social economy is a relatively new instrument in the conceptual arsenal of the EU, and consequently it has many interpretations. Its interdisciplinary quality makes it part of the economic policy, employment policy, and social policy areas simultaneously; it is both a market and a non-market concept. This diversified use of the concept reflects the related, *often unrealistic*, expectations. *Let us see some typical constraints in relation to this concept*.

#### *a./ Social economy equals activity performed in the social area*

The relationship between social economy and the social sector gives rise to particularly many misunderstandings. According to the representatives of one view, *social services represent the exclusive domain of the activity of social economy*. The same is confirmed by social economy definition expressed in the relevant EU White Paper. Accordingly, social economy organises its activities to cover the unmet needs of the local communities and private households. And, since the market satisfies needs represented by solvent demand, social economy has to content itself with those which are not, and which the practitioners of this field convert, right away, into social services. In Hungary, moreover, the social services domain is defined in a narrower sense than in the other European countries. In most European countries, *social* has the connotation of *'collective'*, in accordance with its literal translation, and hence it includes a series of communal services, which the Hungarian usage would not assign to the category of "social", such as the organisation of leisure programmes (e.g. social activities/events, the operation of hobby groups, the management of artistic ensembles etc.), the representation of citizens' rights (organisation of interest protection groups, operation of

civil rights offices etc.), or the operation of clearly profitable sports associations/clubs. In Hungary, the category of “social” does not include these collective activities, and its meaning is limited to activities concerning persons who suffer from social disadvantages, drop off from the average in the financial sense, or live with special disabilities. That is to say, in Hungary, “poverty” is the first thing that will come to your mind on hearing the term “social”, whereas in the other half of Europe, “welfare systems” seems a more natural first association.

*This semantic restriction implies multiple dangers for the domestic development of social economy. On the one hand, it limits the circle of the services offered to those target groups which cannot, or can hardly, act as buyers.* However, there is a wide continuum between the market-worthy consumers and the insolvent target group, where social economy can potentially exert its influence, be inserted in the operation of the economy, and achieve self-sufficiency and economic independence by minimising the relevant profits. That is, a restriction of the activity of social economy to a target group which can only buy the services concerned with the intervention of the state (or perhaps the insurance systems) as public buyer – that is, a financier whose solvency has been questioned and whose funds have been cut repeatedly recently –, will not provide a secure ground for extensive development and even less for the economic autonomy of the sector. Consequently, it cannot assert its intermediary role, i.e the third-sector status in between the state and the market, since absolute and maximum dependence on the state funds destroys its very essence.

Another factor which narrows down the social economy concept relates to its employees. Public opinion tends to *identify the latter with the members of the target groups of the traditional employment programmes*: men older than 45 or younger than 25, who are long-term unemployed, unskilled, live in rural areas, and are perhaps of Roma origin. It relates the circle of its activities, too, to the features of this target group. Social economy, however, is not the exclusive arena of this multiply disadvantaged target group. Those who engage in work in social economy may have other deficiencies which can be overcome by choosing a work option offered by this sector. They may be career-starters, without work experience, re-starters, back from parental leave or nursing with aid, middle-aged persons with limited contact capital, but also brokers burnt out due to their tight schedules or bankers who regret to spend a daily 16 hours away from their family. Of course, the members of the latter target group are offered opportunities in terms of activities other than those in the former one. A thorough examination of the HR stock of organisations active in the Hungarian social economy makes it evident at once that the persons concerned typically have secondary level qualification and belong to one of two age groups: they are career starters and persons above 40. That is, the HR capital of social economy organisations is better than presumed by public opinion on the basis of stereotypes.

#### *b./ Activities are limited to service provision*

Social economy is more than the delivery of social services to the social target groups, i.e. the elderly, the disabled, the homeless. The actors of social economy include, in addition to welfare associations and foundations, community enterprises of many other forms, *the primary objective of which is participation in production*. The new types of co-operatives, community enterprises, and ESOPs are all part of social economy and are active agents of the community of *workers taking part in the creation wealth*.

Amongst the prejudices and even criticisms of social economy, one often encounters the view that the actors of social economy do not contribute to the creation of wealth, they only use existing resources. Therefore, their number cannot be increased beyond a certain limit, because they only use the wealth produced by the economy. Consequently, this sector should be financed according to the residue-principle. What is left over after the optimum functioning, profit-generation, of the “wealth-creating economy” can go to social economy, to the social or employment objectives. Public opinion finds it difficult to understand that this sector, too, is part of that economy, and one that also produces, not only consumes value and money. Consequently, its growth cannot be limited directly by the availability/absence of residue produced in the economy. The organisations concerned produce and provide services; they generate their own sales revenues, they follow a certain business management practice, instead of “just spending public money taken out from the economy for social purposes”.

*c./ Social economy pursues voluntary charity activity*

According to another approach, social economy is an organisation which organises the volunteers and provides social services with their help, characterised, primarily, by charity. People who work there get no wages, because they work on a voluntary basis. What is important in this case is not so much the actual performance as the intention. Many fail to understand why someone who wishes to engage in a gainful activity instead of doing voluntary work in social economy does not look for a job in the first or second sectors. Why apply for a job in a third sector organisation? They find it difficult to understand that it is possible to organise activities which provide you with a living, an earning, in the third sector as well. According to these sceptical critiques, the charity nature of these organisations manifests itself also in that, instead of providing performance-based labour wages, they provide such benefits which the “worker” receives on a needs basis and not because it is due to them on the basis of the work activity.

*d./ Collective self-help or efficient economic activity?*

According to another group of sceptics, the achievements of social economy cannot be measured in economic terms. Its efficiency and effectiveness lag far behind those of the market organisations, and this challenges its viability and market survival. The performance requirements of social economy are indeed different from those of the market organisations. This difference, however, manifests itself on the side of quality rather than quantity. Financial profit is not the only criterion of the activity. The organisations concerned regard as success many achievements measurable by “soft” indicators which portray the quality and not the quantity developments. These include, for example, skills and competence development, the extension of the contact network, the shaping of one’s self-image. Moreover, the quantity indicators notwithstanding, the main criterion is the development of the quality of living.

In addition to the above, however, the economic activity is also of importance, since the organisations concerned need to be viable in economic terms, too. True, profit-making is a secondary goal of the economic activity, preceded by the preservation of the operational quality of the community, which can be achieved without profit generation, by producing the operating expenses. This imposes lower performance requirements, but economic activity, contribution to the creation of wealth, are indispensable.

*e./ No formalised business management is feasible in the informal sector and in informal jobs*

The most sceptical opponents question even the feasibility of the deployment of social economy. For, in their opinion, social economy operates in the informal economy, which was prevented from turning formal by the lack of solvent demand. Consequently, it is unrealistic to expect the “formalisation” of the informal economy. On the one hand, it is still short of funds, that is, the resources needed for legal employment and organisational operation cannot be extracted from it and, on the other, even if the minimum resources needed for that could be produced, the informal mechanism of the undeclared (black) economy, acting against it, would still represent an enormous competition and resist every effort aiming at formalisation. If this were not the case, the market would have invaded this area a long time ago.

This view is probably much more widespread in the Hungarian context than internationally. Given the high number of forced enterprises in Hungary, *it is much more difficult to find that market segment* which, although not profitable enough for a market entrepreneur, is still adequate for an organisation operating without profit, aiming primarily at providing for the survival of the community by carrying out some economic activity. At the same time, one should also take into account that there are such extra energies (synergies), reserves (standing on several feet, special skills adding up, joint risk-taking etc.) inherent in the community enterprises which are beyond the reach of the forced enterprises.

In summary, there is too much conceptual confusion with regard to social economy. *Users assign different meanings to the concept, as a function of their respective experience, prejudices and interest relationships.* This is not only true of natural persons, but also of sectors, branches, economic and political groupings. Each party understands the concept in a different way, but the terms “social economy”, “solidary economy”, “social enterprise”, “third sector”, “not-for-profit economy” etc. are nevertheless used as if they were synonymous.

Conceptual clarification is a must among other things because it makes it possible to eliminate the aforementioned constraints and clears up communication referring to social economy. It will be easier to specify uniform requirements for social economy if we get square with the “word magic”. Social economy is neither a panacea, nor another superfluous organisation, but something to be treated at its own value: an instrument suitable for the treatment of a specific circle of problems, and for putting the economics views into a new light. For taking the first steps from the self-centred economy towards the needs-centred one. If so, social economy will contribute to the more extensive social integration of labour and the creation of new jobs.

### **Previous employment models and social economy: constraints due to the old routine**

The lay observer often confuses the operation of social economy with the earlier employment programmes, i.e. the active labour market measures implemented in the secondary labour market. The popularity of these measures in the 1980s and the 1990s was comparable with the expectations regarding social economy in our days. Those programmes, too, used to be regarded as universal models to combat the increase in unemployment. This is how to German employment associations of the 1980s, the Hungarian transit employment programmes, or such traditional active labour market

measures as communal/public employment came to be organised. There are certain similarities between the two models and the two eras, in terms of the target groups, the employment intent or the efforts to develop the target group.

However, it has become obvious by now that the two models differ in many essential respects. One of the main differences is that *whereas those were temporary models, now everything is about sustainability*. The experts emphasised the interim nature and temporary effects of the traditional programmes. The goal was to strengthen the competences of the target group, to reduce their disadvantages, to help them return to the primary economy, the market sector, as soon as possible. Social economy, on the other hand, has organised its activities in the open labour market from the very start. The resulting organisations are not temporary ones, and the concurrent employment is not of a transitory nature, but aims expressly at integrating the workforce into the community, so that they should carry out the economic activities suited to their competences there. In the traditional programmes, the lead role was played by the public and municipal organisations, whereas social economy is organised in the non-public sector, with a firm foothold in the market.

The main hindrance to the organisation of social economy is that the new entrants often make no distinction between the organisational framework and form of operation of social economy as conceived by them, and the forms of employment in the traditional secondary labour market. However, if these distinctive features – that is, the differences manifesting themselves in terms of the nature, the organisational framework, the duration of the activity; the expectations to be met by the actors; the values and market presence – disappear, the very essence of social economy will be lost. We pretend to build social economy by expecting such achievements as are its unique specifics, whereas in terms of the form of operation, the approach, the value system, the success criteria, and the performance indicators we do not move away from the traditional active labour market programmes.

### **Parallel models: the spread of welfare pluralism to the economy and the constraints inherent in the tensions between social economy and its direct environment**

The changing economic and social conditions of the 1980s called to life and consolidated new roles and new actors. Given the shrinking market opportunities and the gradual withdrawal of the state, the third sector was given more and more emphasis. A new concept has been taken up: that of welfare pluralism. Its emergence had complex economic and social reasons:

- *Changed family structure*. There are more single persons, and the state finds it increasingly difficult to provide for their living. The material goods required for a living have to be acquired under market circumstances.
- *The growing employment of women*, too, intensifies the need for a pluralist economy. They ought to fit into the income-guaranteeing labour market. Cf. the growth of the divorce rates, of life expectancy at birth, of the number of singles. In these cases, the family provides no financial basis for the party excluded from work.
- *The ageing of the population*, the growth of life expectancy, challenges the stability of the pension funds. Pension contributions paid earlier no longer guarantees adequate standards of living for the pensioner. Retirement age is increasing, anyway and, given the performance requirements of the labour market, it is almost impossible to place the elderly.

- *The requirement to prevent environmental damage has intensified*, but the market tends to distance itself to a growing extent from the relevant tasks.
- *There is a growing possibility and pressure to re-utilise waste*, due to globalisation, market restructuring and the development of the energy situation, to mention only a few reasons in addition to the generally known ones.

These challenges intensify the need for the appearance of a new economic formation under the aegis of welfare pluralism, which should be both akin to and different from the public and the market sector. However, social economy will not emerge in the third sector on its own, driven exclusively by the laws of demand and supply, because its high labour intensity makes it very expensive, and it is bound to lose out in market competition so long as effectiveness is measured exclusively in terms of market indices and performance indicators. As a result, it can only be present in a narrow cross-section in the primary labour market, and even if it does appear there, it will mostly be forced to the black market. A change in approach and various forms of support would be needed for it to enter the legal economy and hence be accessible to the big masses – and hence raise the number of the employed, too. However, in social economy, support is not linked to the individual unemployed, as in the active measures of the 1990s, when the programmes were implemented with low efficiency and a considerable deadweight, but to the stimulation of the emergence of such new activities, organisational forms and services, through which this new form of operation, with its “embedded economy” quality, could become well-known and accepted.

Social economy, however, is not being organised in a vacuum. The emerging sector can hardly exempt itself from the environmental effects. The standards and forms of operation of the first and the second sector restrict to a large extent the deployment as well as the acceptance of the specific values of the third one. The values and norms of social economy are often diametrically opposed to the values and expectations of their surroundings.

*A./ Solidarity and social cohesion, the core values* of social economy, obviously promise less success in terms of profit, the overriding short-term indicator of our days, and costs higher in the economic competition than the traditional economy, which focuses on efficiency, excludes those with low performance values and proclaims the primacy of market laws. The simultaneous alteration of the form of operation and the core values regulating the system implies double burdens.

*B./* The core values include, furthermore, *social responsibility and commitment*, whereas the majority society is maximally individualistic and pursues individual career objectives. How shall this behaviour pattern be successful and play a model role if the adherents of the individual values gain advantages from the communal gestures of the adherents of the collective values?

*C./ Democracy and participation appear as basic requirements* in social economy, whereas the globalised and centralised structures are generally characterised by financial and cultural subordination and the incapacity for democracy. Will the organisers and staff members of social economy be able to comply with the basic requirements of democracy and participation in the initial context of financial and cultural subordination, ignorance of the democratic rules of the game, or will this lead to the development of merely formal democratic games (the boss will tell what should be done and we shall vote for it), and the loss of an essential element of social economy?

*D./* One of the biggest proceeds of social economy is that it provides *autonomy and independence* for those who used to be excluded from the first and the second sector

previously. But will it be capable of such economic performance as will put an end to vulnerability, to everyday existential insecurity, and maximum dependence, against the backdrop of the many kinds of simultaneous expectations (cf. the above points)?

The core values of social economy – the principles of fairness, the regulated free market, trust, reliability, co-operation, decentralisation, diversity, usefulness, comprehensiveness, inclusion, human-centeredness, sustainability, pluralism, civil status – are values which appear in opposition to the values governing everyday life, as an alternative, as values which act against the values of today’s “successful” market.

Will the groups in a disadvantageous situation, characterised by a low interest assertion capacity, be able to win this value conflict and remain economically competitive? How can the apparently unsolvable value and expectation dilemmas – between solidarity and competitiveness; inclusion and selection by competition; the entrepreneurial mentality and a marked communal spirit etc. – be eased?

### **Limits inherent in the current situation of the sector**

*Critical lack of funds:* Until now, the actors of the civil sector had to rely exclusively on international funds (Autonomy Foundation, Soros Foundation etc.) to organise complex programmes. They organised single-dimension modules (either training or employment), but the long-term effects of these are doubtful. For a long time, no complex programmes could be financed under the Hungarian labour legislation.

*Lack of qualifications:* Owing to the lack of funds, the third sector could only employ good professionals on a temporary basis and, therefore, until the mid-1990s, it was characterised by well-intentioned dilettantism. Expert training in the not-for-profit sector, too, started at that time only, and it will take a long time yet to have a sufficient quantity of experts and professionals of the sector. The technical staff has essentially human qualifications. It is a must for a community enterprise to be well-versed in economics, too. However, those with an economics qualification do not find the careers offered by the third sector very attractive as yet.

*Lack/weakness of the organisational background:* The functions and survival of the NGOs formed under the above conditions were subject to many uncertainties, and professional organisation development started only in the last five years. A “medium bracket” of organisations, proven already in international programmes, should be created/developed in addition to the existing organisations, otherwise the sector will be very narrow and its capacity to absorb funds will fall short by far of its potentials.

*Lack of partnerships:* Until the mid-1990s, it was assumed that the employment problems were to be solved by the central actors. The relevant instruments, too, were decisively centralised ones. In the mid-1990s, the municipalities moved to the foreground, but it became obvious by the end of the decade that they could not cope with this task on their own. The municipal public benefit employment companies used to be specialised in the organisation of traditional employment, until it was realised that the real problem was that the majority of those excluded from the labour market were no longer employable due to the implications of their long-term unemployed status. At that point, the not-for-profit organisations acquired partner status, and undertook the time-consuming and often seemingly hopeless task of “empowerment”, too. This partnership, however, is not a balanced one. The government, the municipal, and even the market actors question equal footing within these partnerships. Sometimes they refer to lack of

organisation (this is a scattered sector, it is impossible to keep in touch with it), sometimes to the uneven quality which hinders the emergence of authentic partnerships, or the professional deficiencies, labelling the partners considering themselves professionals “well-intentioned dilettantes”. Now that the agents of the third sector are seen as rivals in the competition for EU funds, even the attribute of “well-intentioned” seems to be getting lost...

Of course, the detailed list of the hindrances to the unfolding of social economy provided above was definitely not meant to discourage those who might be considering to take part in it. The analysis was meant to identify and describe the deficient areas, the potential intervention points, and the prospective difficulties which must be taken into account by those who undertake such major work.

“For something to change, something has to be changed”, so the thousand-year-old wisdom goes. So let’s now see a list of the items to be changed.

## 7. Concepts of support to promote the emergence of social economy (Mária Frey)

Several exemplary development strategies were designed in the various countries to promote the spread of social economy, in the framework of the European Employment Strategy. In what follows, we shall review three among them: the French, the Austrian, and the Belgian models.

### 7.1. The French practice

*France is beyond doubt in the vanguard of the development of social economy. The job-creating initiatives outside the mainstream labour market are supported by employment policy measures (employment promotion subsidy, integration of the new activities into association frameworks) as well as tax benefits (tax deductions). These are parts of a comprehensive employment policy to encourage the growth of the services sector, based on the recognition of its substantial job-creating potential.*

*According to the relevant estimates – adjusted for the demographic trends and the development trends of the consumer needs –, 300 thousand full-time equivalent jobs can be created in this area. This, however, would be difficult to realise on the basis of the spontaneous development of the relevant demand and supply. The exploitation of this potential depends on three factors: the generation of real demand, the organisation of the supply, and the professionalisation of the vocations required in this area. (Bedoucha, Janine, Okba, Mahrez, 1996).*

*The first and most important step is to make these services affordable to the households. This, in turn, demands such measures as will reduce their prices. The public funds required for this purpose will create jobs and are hence economically justifiable.*

There are several schemes to serve this goal:

- *Tax benefits:* a special tax refund was introduced (to the extent of 50% of expenditures, not exceeding FFR 90 thousand annually) to encourage the use of home helpers, mainly in the area of child-minding and care for the old.
- *Diversification of the pathways leading to the expansion of solvent demand:* a new law came into force on 29 January 1996, which allows the works councils or, where no such councils exist, the companies themselves, to provide support to workers who want to have recourse to external help for home work.
- *Lower wage costs:* employers pay progressively decreasing social security contribution on workers employed with low pay (i.e. those employed by associations offering household services to families), which moderates the relevant wage costs by 3.5-4%. The price of the services concerned is reduced further if the home helpers are employed part-time. For, in this case, their employers pay 30% less social security contribution, which reduces the wage costs by another 6.5%.
- *Support for associations:* since the family help services are provided in the form of associations, assistance to the latter (partial or full exemption from social security contribution payments, tax refunds etc.) acts in favour of the reduction of the relevant prices.
- *Subsidised work contracts,* of which there are several kinds.

*The second course of action is based on the recognition that incentives can make the composition of the services being offered more efficient and differentiated, to ensure a better match with the consumers' expectations. If the supply is not sufficiently well-structured, the demand, too, will stagnate, and that will hinder the expansion of the market.*

Therefore, a series of measures was taken, including the following:

- On 1 December 1994, the *service cheque* was introduced, to simplify the administrative formalities for those who wish to use household helpers. As a matter of fact, this is a *work contract*, concluded by a self-employed person and a private individual for the employment of household helpers. The contract makes the private individual eligible for tax refund on the price of the service.
- On 29 January 1996, an act was passed which stimulates job creation in the area of personal services by making it possible for the works councils, the regional and local municipalities and the welfare associations to support their workers in the form of *service vouchers* if the latter employ home helpers.

*The third group of measures starts out from the fact that, to date, the expansion of the services essentially depends on their quality, on whether the user trusts the service provider individual and whether the latter's qualification must comply with certain professional standards.*

This is promoted by the following:

- *Quality improvement actions:* Trademarks were introduced to rate service quality. Moreover, the service occupations available in an organised form already were included in the classification system of the occupations. This allows working out collective technical requirements for such occupations.
- *Actions to promote the professionalisation of the service vocations:* Professionalism essentially depends on vocational training and vocational qualification. These are inevitable for the following: (1) to meet the expectations of the families that would use a higher proportion of such services, (2) to reduce the employment of unregistered household helpers, hopefully, through the introduction of high professional standards. It is, furthermore, inevitable also (3) for this area to be attractive and offer stability to those who are reluctant to undertake such work due to the “negative image” of these “trivial” activities and the very limited career prospects involved. In the medium term, the French government wants to create vocational training systems to turn these activities into vocations and career pathways which offer progress. The first step in this direction for the household/personal helpers was the joint agreement concluded on 4 September 1995, which obliged the employers active in the area of the new services to finance the costs of the vocational training of their staff.

## **7.2. The Austrian socio-economic enterprises**

The Austrian Public Employment Service (AMS) co-operates with many not-for-profit organisations to deliver services and benefits to the most disadvantaged groups in the labour market. The public benefit organisations specialised in the implementation of the employment programmes are called socio-economic enterprises (SÖBs). They emerged in the 1980s, at the time of the appearance of long-term unemployment.

The AMS has recently renewed the rules of SÖB support. The Chairman of the Austrian PES signed the new guide for the support of the socio-economic enterprises (SÖBs) on 6 July 2006, which came into force on 11 July. In the following, we shall describe the characteristics of SÖB support on the basis of this document.

### **Labour market policy objective**

SÖB represents a labour market instrument which promotes the labour market integration of persons who are difficult to place by providing relatively sheltered, fix-term jobs, which are nevertheless close to the open market. This population includes the following:

- the long-term unemployed,
- the long-term unemployed facing placement problems, such as
  - persons having experienced the erosion of their working capacities,
  - the homeless,
  - ex-convicts,
  - persons in a debt-trap,
  - drug addicts, etc.
- persons out of work for a longer time,
- the elderly
- the disabled
- persons suffering from social integration problems, and
- persons with nursing obligations

The social mission of SÖB is, primarily, to help persons with a limited performance capacity re-build their capacities required for employment in a regular (unsubsidised) job. This implies the following tasks for SÖB:

- provision of temporary jobs
- organisation of care and training possibilities for persons at a disadvantage in the labour market, in the framework of socio-economic enterprises
- elimination of the hindrances to the placement of persons employed on a temporary basis, and their re-integration in the world of unsubsidised works
- improvement of the re-integration chances of transit employees by dedicated training.

### **Support types**

Various support packages can be assigned to the SÖB target groups, which are then delivered by the SÖBs.

- Long-term unemployed: Support package Type A, including the following components:
  - employment
  - social-pedagogical care and guidance
  - career orientation
  - job-search training
  - placement support

- Long-term unemployed suffering from placement difficulties: Support package Type B, supplementing the services provided as part of Type A with
  - on-the-job training
  - acquisition of deficient basic skills
  - work experience acquisition
- Long-term unemployed suffering from severe placement problems: the same as under Package Type B.

Main features of the *labour market performance* of the socio-economic enterprises:

- Fix-term employment of difficult-to-place persons (transit function, with consciously scheduled entry and exit dates)
- Provision of a socio-pedagogical offer package which is designed to achieve a definite improvement in the employability of those employed in transit jobs.

*Economic performance:*

In addition to the labour market objectives, the socio-economic enterprises pursue economic goals as well, the main characteristics of which are as follows:

- The söbs produce products or offer services at market price
- It is an essential feature of the söbs that they finance a specific segment of their total expenditure budget from the sales of their own products/services.

### **SÖB financing with AMS support**

AMS as one of the cost-bearers contributes to SÖB financing by purchasing the services it needs which are offered by the SÖBs, e.g.:

- costs of job provision
- training costs of transit employees
- costs of socio-pedagogical care/integration promotion which is indispensable for the transit employees and, furthermore,
- financing costs of the key staff/experts needed for the technical management and training of transit employees.

The SÖB performance expected by the AMS must be defined clearly and precisely, and it is to be incorporated, subsequently, in a contract (to be concluded by the SÖB and the regional and the local AMS office). The following key services may represent a possible framework structure for the expected SÖB performance to be specified in the SÖB/AMS contract:

- Training and employment of transit employees:
  - initial training
  - auxiliary training
- Socio-pedagogical care:
  - outplacement
  - job-brokerage
  - follow-up care

The composition and manner of selection of the underprivileged target group is defined by the regional and the local AMS, together with the SÖB. Transit employment will normally last for a maximum of one year. In the interest of stable and lasting integration,

however, this period can be adjusted to the problems and development needs of the individual concerned.

The socio-economic workshops are managed by public benefit organisations (mainly associations). If a for-profit enterprise is interested in the implementation of an employment project in co-operation with the employment service, it will be given preference over the former.

During the years, the socio-economic workshops have gathered under various umbrella organisations, of which the following are registered with the AMS:

Federal Umbrella Organisation of Social Enterprises (Bundesdachverband für Soziale Unternehmen, BDV)  
1070 Vienna, Halbgasse 7/4

ABS Association of Debt Management Societies  
4020 Linz, Scharitzerstraße 10

Promente Austria  
Austrian Mental Health Association  
4020 Linz, Figulystraße 32.

### **Support conditions**

- The regional AMS works out a complex programme as a function of the labour market situation of the federal state, the degree of exposure of the various groups of the population, the financial possibilities and the potential programme implementers, which specifies the focal points and the details of the action plan.
- The regional AMS and the SÖBs negotiate the agreement to be concluded between the regional AMS and the individual project owners and, furthermore, agreements which regulate the co-operation of the regional AMS with every socio-economic enterprise in their area of competence.
- The regional AMS co-operates closely with the programme implementers who deliver its measures to their clients. It also depends on the latter whether the AMS job offer will actually be exploited to the full. The programmes and measures should aim at ensuring the reasonable expansion of the vacancies, especially for the most difficult-to-place clients, through the co-operation of the regional AMS and the SÖB.
- To be eligible for support, the project implementer shall prepare a company concept including three parts: organisation, care, and business management. Maximum support for projects complying with the minimum business expectations shall not exceed the actual expenditures proven by invoice. *The minimum business expectation means that the SÖB shall cover at least 20% of the relevant costs from the sales of its own products and services.* This requirement may be disregarded for newly founded SÖBs.

### **Guaranteed AMS contribution**

Financial support by the PES is composed of several elements. One is the coverage of operating costs, including every personnel and material expenditure required for cost-effective, purposeful, and economical company management. The relevant justification should be provided by the project plan.

- *Costs of transit employees*

The following shall be taken into account to determine the eligibility of the costs of transit employees:

- branch-level collective agreements by activity area of the employees
- in the absence of the former, the internal wage system of the association – which shall not exceed the AMS wage items – shall be regarded as indicative
- the wages received at the SÖB should not diminish the chances of the transit employees for employment in the primary labour market

- *Costs of the key personnel*

- the wage items applicable to associations shall be regarded as indicative
- in the absence of the former, the branch-level collective agreements shall be relied upon
- for both wage systems, the AMS wage items shall be considered the ceiling values

It is essential that the SÖB should have the key personnel at its disposal. Their qualification and experience shall be certified to AMS. The strength of the key staff shall depend on the size and composition of the problem group and the size of the enterprise.

- *Deductibility of depreciation*

The depreciation of the assets shall be taken into account provided that the assets concerned are vital for the operation of the company and they are financed from a loan. No depreciation shall be posted on goods procured with investment support, irrespective of whether the support was provided by AMS or another party or the SÖB funded it itself.

- *Contribution to investment support*

The investment plan shall indicate own investments scheduled for implementation during the action plan period, and also investments to be financed by others (province, municipality, bank etc.). The extent of the AMS contribution shall be determined by special decision.

- *Umbrella organisation contribution*

SÖBs with certified umbrella organisation membership shall be eligible for posting 1% of the gross wages of their key staff and the transit employees as membership contribution. This, however, shall only be possible if the umbrella organisation is registered with the AMS centre or the competent provincial office.

Guaranteed contribution based on the relevant agreement shall be extended for a maximum of 12 months. The regional AMS directorate may specify a different support period.

## **Decision-making criteria**

The extent of the support shall be proportionate to the number of the transit employees and the depth of their problems. Furthermore, the previous and expected success rate of the labour market programme and the regional labour market situation shall also be

taken into account. Pursuant to the act on support to ensure labour market equality, special attention shall be paid to guarantee that women take part in the SÖB employment programmes proportionally with their rate among the unemployed. The labour market effect is measured on the basis of the so-called “placement quota”, but social effectiveness criteria can also be applied. The impact and effectiveness of the programmes should not be measured exclusively by abstract formulae. The progress of the projects is most important. Therefore, the project owner and the regional AMS shall agree upon a list of criteria as well as on appropriate measurement methods. The achievement of the objectives shall be inspected for every project. Such effectiveness criteria are conceivable as the following:

- Number of persons having moved on to the primary labour market
- Number of persons enrolled in training
- Number of persons having started/pursuing vocational training
- Number of successful eliminations of placement problems (e.g. By finding a solution to a housing problems/debt situation)
- Number of persons involved in the care-giving programmes etc.

Transit employees having dropped off during the trial period defined by the SÖB and the AMS shall be ignored in the evaluation of the achievement of the objectives.

The socio-economic enterprises are of utmost importance for the provinces and the municipalities, too. On the one hand, they share the responsibility for the integration of the problem groups and, on the other, they, too, can use the SÖBs as enterprises for the implementation of their regional objectives (demolition of town parts, refuse collection and waste processing etc.) Therefore, the provinces and the municipalities should be involved more decisively in the joint financing schemes. They should be expected to contribute at least one third of the support amount. In case of a lower contribution, the AMS will undertake to provide the difference, as a function of the labour market situation.

The regional AMS shall investigate the project concept submitted by the SÖB from the point of view of technical justification and feasibility. Should they have any doubt requiring further investigation (mainly with regard to workshop management issues), they may consult external experts as well.

The socio-economic workshops have to meet two types of requirements simultaneously: on the one hand, they have to satisfy the need of the AMS for adequate vacancies and, on the other, they have to comply with the business expectations of a company. This tension, although no doubt the engine of success, implies a major challenge to those involved. This is why the SÖB management demands that the essential issues between the SÖB and the AMS be specified by contract. The support guarantee is consequently recorded in a voluminous written agreement, which specifies the following:

- guaranteed AMS support
- number and composition of the target groups to be placed in the jobs to be created by the implementer of the project (key personnel + transit employees = employment obligation)
- the commitment to comply with the relevant social and labour law provisions
- the co-operation of the SÖB and the AMS in the selection/re-integration of the transit employees
- the specification of the care function, the vocational training and the vocational guidance

- the regular reporting obligation on those employed in the project, the success criteria, measurement methods and expected outcomes
- the commitments of the co-financiers.

If no subsequent contract can be concluded after the expiry of the first one for reasons beyond SÖB's control, the term of the previous one shall be extended automatically by another 6 months, so that the SÖB is not left without financial resources.

### 7.3. From home-creating jobs to job-creating homes, Belgian style<sup>2</sup>

Belgium already started to integrate the household services into the world of organised work at the end of the 1980s, primarily to reduce undeclared work, which was typical in this area. In order to do so, they had to invent a simplified procedure which allowed the private households to become employers without any concurrent administrative obligations. The introduction of the service cheque and the service voucher was meant to serve this purpose. In order to encourage the private households to have household tasks done under a legal employment relationship, the buyer is eligible for a deduction of 30% of the price of the said cheque or voucher from his/her personal income tax.

#### Service cheque

In Belgium, in the mid-1990s, *local employment agencies* were created at every settlement, in order to link the supply of the long-term unemployed to the demand for household work. Their legal form is that of a *not-for-profit association*, headed by a board of directors consisting of local politicians and social partners. Subsequently, it was allowed for the private households/individuals, public institutions, schools and agricultural entrepreneurs to buy *service cheques* (European Commission, 2004).

One cheque costs EUR 7.45, and corresponds to the wage for one hour of work. If a household needs help, it can announce that to the local employment agency. They will look for a suitable person in their register, and if they find one, the latter's work will be paid for by the client by service cheque. The recipient of the cheque can redeem it for cash with the agency. EUR 4.10 is due for one hour of work. *The difference between the purchase price and the redemption price of the cheque is allocated to cover the operating expenses of the system and to tax and social security contribution.*

If work under this form is undertaken by a *long-term unemployed person*, the fee is due in addition to the social aid, which may be disbursed further. Eligibility for participation in the programme, however, is limited to the following unemployed:

- persons over 45, unemployed for at least 6 months
- persons who are not unemployed, but receive the minimum social income.

The maximum working time is *45 hours a month*.

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<sup>2</sup>On 26-27 October 2006, the representatives of the Belgian government presented the operation of the service-voucher-based job-creation programme in the context of the Mutual Learning Programme supported by the EU Employment DG. The author of this section participated at the event as a representative of the Hungarian Government. The experience-sharing procedure, well-known in the EU, takes place according to the following schedule. Day 1: The host country presents practical information on the innovative process proposed for adoption to the others; Day 2: The countries interested in the best practice concerned express their opinion on the measure concerned and its potential adaptation in their home country. This section is based on information obtained in the context of the said programme.

Interestingly, temporary work remunerated by the service cheque is undertaken mainly by women. The following types of work can be undertaken in this form:

- For private households:
  - home help in any household work
  - caring for children/sick people
  - assistance with administrative tasks
  - minor garden work
- Local municipalities:
  - Any work needed by the local community, provided that it is not covered in the local labour market. Many settlements employ so-called “town supervisors” in this framework, whose work is to take care of the “good behaviour” of people (something like assistant policemen).
- *Schools and not-for-profit organisations*:
  - Any activity not provided by the local labour market
- *Agricultural entrepreneurs*
  - Many kinds of work, including seasonal/peak-time work

This programme has been operating since 1994. 37 million cheques were sold, two thirds to private households. The goal, as mentioned already, was to *combat black work*. According to an evaluation, 44% of such work used to be undeclared previously, and 84% of the users said they were happy they did not have to look for labour in the black market. At the same time, it was found that the temporary workers undertook part of the activities for a cheque and the rest undeclared. The system has no doubt managed to match the supply and the demand. It is also a fact that the programme drove out mainly women from the black market, because the types of work eligible for remuneration with service cheques were typically those which used to be done by women, without declaration.

Furthermore, efforts were made to *help the target groups re-enter the labour market*. In this, however, the programme failed: many remained in the sheltered employment system for years. Therefore, in 2003, the Belgian government decided to put the emphasis on another programme: *the spread of the service voucher system*. They wished to offer thereby an alternative to the workers of the local employment agencies, too, for employment under a permanent employment relationship.

### **Service voucher**

The Belgian government launched a major social experiment in May 2003, to convert latent needs into jobs and to give the undeclared workers a chance to legalise their employment. *Goal: to create 25 thousand legal jobs in the private households by end-2007*. The idea itself came from the Lisbon Strategy: the programme seems to allow realising several of its guidelines, namely

- To reconcile work and family life
- To develop the local community and the personal services

- To provide a work opportunity for persons with low qualification and permanently out of work
- To drive back unregistered work – by offering reasonable prices.

The instrument of the above is the service voucher which, similarly to the cheque, is a consumer subsidy. It is meant to stimulate the demand for housework/household chores, and to encourage the conversion of undeclared work in this area to declared employment. The voucher is used to pay for the service. In 2004, the local employment agencies started to gradually transfer every activity performed for the *private households* into this system. The other clients remain in the service cheque programme.

The service voucher, too, is easy to use. It is available to *families and individuals living in Belgium, exclusively for personal use*, for the following activities:

- cleaning, window-cleaning
- washing, ironing
- sewing
- preparation of food
- shopping
- transport of motionally impaired persons

No personal services (e.g. child-minding, care for the old/sick) can be purchased for this voucher, because these are assigned to the competence of the regional municipalities, and the relevant financing resources are also at their disposal. The system of service vouchers, on the other hand, is a central government programme, operated with considerable central budget support.

A household can buy a voucher for EUR6.7, the counter-value of one hour of work (indexed from 2005). *Of that, 30% is deductible from the personal income tax*, which results in a net price of EUR4.69. For this voucher, people can buy a service from any company *licensed* to accept vouchers. If the company employs an unemployed or a social-aid recipient, it can do so flexibly for 6 months, under short-term (min. 3 hours/day) work contracts. *After the 6<sup>th</sup> month, however, the company has to offer an indefinite term work contract for part time work to the extent of at least half of the mandatory working time.* For other workers (legalisation of undeclared employment), an indefinite-term work contract is to be offered after three months.

The wage conditions are to be determined in accordance with the relevant collective agreements.

*Which companies are licensed to accept/convert service vouchers? All sorts:* for-profit and not-for-profit ones, temporary work agencies, entities founded by the municipality, physical persons etc. The license is awarded on the basis of the proposal of the accreditation committee set up within the National Employment Office, by decision of the Minister of Labour.

The license is granted on the following conditions:

- Tax or social security contribution arrears are a disqualifying circumstance; moreover, the company shall not be subject to bankruptcy procedure
- A responsible person shall be nominated
- The statutes must include the activity to be provided for a service voucher
- Voucher-based activities shall be assigned to an independent unit (if the company's activity profile includes other activities as well)

- The work cannot be subcontracted
- Anti-discrimination policy
- The jobs created shall be new, additional ones
- Preference is given to the entity involving more aid-recipients in the programme (but: the advance registration of the unemployed is no condition).

*The address of the employer must not be identical with that of the user of the service.*

As of 1 September 2006, the paper-based service vouchers have been supplemented with the corresponding electronic format. A voucher is *valid* for 8 months starting from its purchase at the user and for 9 months at the service-provider organisation. Its *value* is EUR 21. The eligible households shall register with the company Accor, the distributor of the service vouchers. Registration is free of charge. The relevant data form can be downloaded from the internet or accessed at the local employment agency. After registration, the household can choose a service-provider from among those listed in the Accor website, and make an appointment by phone for the performance of the work.

Accord distributes the service vouchers in return for using the relevant funds free of charge in the period from the purchase to the conversion of the vouchers.

Work is compensated at one voucher per hour. The service-provider sends the vouchers within their period of validity to Accord Ltd, and receives the refund of EUR 21/hour within 10 days. The difference between the EUR 6.7 and EUR 21 (EUR 14.30) is covered by the federal government.

The accredited company covers from the EUR 21 the wages of its own staff, the related public burdens, and the additional costs associated with the service, such as travel expense reimbursement for cleaners going to houses – a company we visited solved this by buying SMART cars for “service use” and allowing a monthly 1000 km free car use to their employees. The same company has an ironing unit, where the households using this service can deposit what they want to have ironed. The 8 jobs there were created by the investment of the service-provider company, similarly to the 6 minibuses purchased to transport persons with motional impairment. Although these procurements are the precondition of the service activity, no state subsidy is available for them. In contrast, employment subsidy is available for a definite term for the employment of underprivileged workers in newly created jobs, and the employers mostly use this opportunity.

The EUR 21 hourly fee is supposed to produce a certain profit, too, to make it worthwhile for the employers to build up this new line of business.

What are the *advantages* of the system for those concerned? It gives the *employees* a work opportunity, at wage conditions adjusted to the lawful wage classifications. At the same time, it allows to certify a service period for the acquisition of eligibility for social insurance services. As for the *private households*, they find the 30% tax relief most attractive. From the point of the *employers*, it is important that private companies, too, can be among the accredited ones. And for *society* overall, the positive yield of the measure is the creation of new jobs, and the provision of deficient services to satisfy the needs of the families.

The act having instituted the system of service vouchers provides for its annual evaluation. Such evaluation was carried out in spring 2005 and 2006 by IDEA Consult (Peeters, 2006). As a first step, the service voucher utilisation data were aggregated, with the following result:

Table 3.

<b>Users</b>	<b>2004</b>	<b>2005</b>
No. of registered clients	120 247	251 182
No. of active voucher-users	98 814	190 737
<b>No. of employees</b>	<b>15 077</b>	<b>28 933</b>
<b>Enterprises</b>		
Accredited companies	785	1 092
Active service-providers	504	794
<b>Vouchers</b>		
No. of vouchers sold	8 111 261	20 313 813
No. of refunded vouchers	5 619 745	17 215 123

As has been mentioned, the objective of the measure was to create 25 thousand new jobs in the service sector by end-2007. This goal was realised by end-2005: the accredited service providers had employed 28 933 workers by that time. According to the researchers, they would have hired 3.4% of this staff without support as well, but then the candidates would not have been chosen from the ranks of the target group identified by the measure (replacement effect). Consequently, *by the end of 2005, the net employment development effect of the programme approximated 28 thousand, that is, it exceeded the target set for 2007 by 3 thousand.*

43% of employees hired by the accredited companies were long-term unemployed. Their average unemployment spell was 3.8 years. 67% had low qualification and women represented 98% of the population concerned; one third being single women or lone mothers. That is, the target group of the programme really came from *among people in a disadvantageous situation*. The fluctuation rate of the employed was low (14%). 60% of the jobs created this way were for an indefinite period; 70% were part-time ones, but more than half referred to work at more than 4 hours a day.

The introduction of the service voucher contributed to *making undeclared work part of the organised labour market*. This is confirmed by the following facts:

- 10% of the voucher-user households declared that, previously, they employed undeclared workers in the household.
- 25% said that, without the voucher system, they would have had the household work done by undeclared workers.
- 67% of the workers of the accredited companies were of the opinion that the service voucher represented a real way out of black work to registered employment.

The majority of both the users and the employees is satisfied with the voucher system. The registered service-provider companies also consider this scheme a good one, but they complain that *they cannot find enough labour for this task*.

An essential issue covered by the inspection was *the quantification of the financial impact of the measure*. The gross support cost covers the supplement provided to the voucher by the state, the tax deduction available to the households, and the

administrative costs of the operation of the system. In 2005, these totalled EUR 303 million. Of that, 93 million (one third of the expenditures) was returned to the state treasury in the form of unemployment benefits savings, social insurance contributions and extra taxes. Consequently, in 2005, the net expenditure of the measure totalled EUR 210 million.

In summary, the researchers came to the conclusion that this system is efficient and it is advantageous for all concerned. Its future sustainability and spread will be determined by the following factors:

- the growth of user demand (in 2005, the number of the users increased by 5-6% a month);
- availability of an adequate labour supply to satisfy the increasing labour demand of the service-provider companies;
- availability of growing budgetary support proportional with the number of vouchers being sold, to be provided by the federal government.

The unrealistically low prices payable by the private households are not expected to be raised in the near future, the next year being an election year in Belgium. However, the central government will reduce its contribution to cover the gap between the fee payable by the user and the refund by EUR1, so as to motivate the employers to act in a more cost-saving manner, albeit the latter already complain that even the current voucher fee fails to cover their expenses.

## 8. Not-for-profit organisations in the Hungarian labour market (Mária Frey)

According to the interpretation used in Hungary, social economy means *employment-oriented not-for-profit organisations*. Their number is not very high – with some exaggeration, one could say that they can be counted on one hand, if the *self-sustainability criterion* is applied as well. Here are some ideas on the connection points between the not-for-profit sector and the labour market, expressed along the following questions:

- Why does employment policy need the not-for-profit sector?
- To what extent are the organisations of the not-for-profit sector suitable for the implementation of special labour market projects?
- How can their activity be typified?
- What are the hindrances to progress?
- Why is it worthwhile to overcome these hindrances, that is: what do the special advantages of the not-for-profit sector relative to the budget and the market sectors derive from?

Here are the answers.

### Why does employment policy need the not-for-profit sector?

From an employment policy point of view, the not-for-profit sector is important in two respects. Firstly, as *employer*, it plays a growing employment role. Secondly, as *programme implementer*, it provides a work opportunity to persons excluded from the labour market. The former activity is *job creation within the mainstream labour market*; the second is *job creation without the mainstream labour market*.

The Hungarian Central Statistical Office has been collecting data on the *employer* performance of the not-for-profit sector since 1993; these show the continuous increase of the number of those employed in this sector. In 1993, the not-for-profit organisations provided work for hardly 50 thousand; in 2003, the corresponding figure was 87 thousand. Since in the same period, the labour market in general was characterised by employment decline followed by stagnation, the performance of the not-for-profit sector is remarkable, even if 87 thousand persons account for only 2.2% of all those in employment. *In terms of full-time equivalent jobs, employment growth was around two thirds between 1993-2003*. Nevertheless, the not-for-profit sector operates with a very small staff to the present day: in 2003, the 53 022 organisations had 63 thousand full-time employees, that is, hardly 1.2 by organisation. Their territorial distribution, too, was highly uneven. One quarter of the not-for-profit organisations is located in the capital, while in 500 villages there are none at all. Only every sixth organisation has a full-time employee, and the employers of only 8% of them come from community organisations.

That is, often, the not-for-profit organisations are absent where they would be needed the most.

The organisations concerned play an important role in the *local-level matching of unsatisfied household/communal needs with unexploited labour*, and in the identification of further job creation opportunities.

Why is that necessary?

- Because the current Hungarian employment rate is rather low (lower by 7-8% than the average of the EU Member States).
- Although the unemployment rate is more favourable than in most advanced market economies, the rate of the inactives is alarmingly high.
- At the moment, employment policy must find a solution for placing in work some 600-700 thousand people who are currently “attached” to the labour market more or less closely. This is an ambitious task in quantitative terms and, moreover, the majority of those concerned is in a disadvantaged situation.
- Two social strata suffer from multiple deficiencies: that of persons with reduced work capacities/disability and the Roma population. The placement chances of youths, mothers with young children, and the over 55s, although somewhat more favourable, are still worse than the average. Furthermore, some circumstances, such as low schooling, lack of vocational skills, and residence in employment crisis zones, reduce to zero the employment chances of persons who could take up work.

In the area of unemployment reduction and employment promotion, a *special division of labour* has evolved between the three sectors over the past ten years. *For-profit organisations* select and employ the most qualified workers and unemployed persons in command of marketable skills. The *Public Employment Service* focuses on the active jobseeker unemployed who can be trained, re-trained and placed with the help of the specific active measures provided for under the Employment Act. The majority of the *employment-oriented not-for-profit organisations*, on the other hand, *undertake and fulfil a unique task to improve employability and promote the employment of underprivileged persons* (the unskilled, persons with reduced work capacities, the Roma, the unregistered long-term unemployed etc.) *having drifted to the periphery of the labour market and hence of society as well.*

In the opinion of a prominent person of the sector, this specifically means the following. “To find the market niches and create jobs there for the long-term unemployed and persons in a disadvantageous situation: this is a task which can be undertaken with success exclusively by the not-for-profit organisations. The actors of the competitive sector find it inconceivable to deliver services for the purpose of helping others instead of profit accumulation. They would consider that a waste of assets.”<sup>3</sup>

### **To what extent are the organisations of the not-for-profit sector suitable for the implementation of special labour market projects?**

The Hungarian Association of Public Benefit Organisations Assisting the Unemployed and the Revita Foundation carried out a survey in 2005 among the employment-oriented public benefit organisations to map the system of their organisational, professional, economic and network contacts and HR and infrastructural features.<sup>4</sup> The survey of the relevant needs and demands included visits to 301 not-for-profit social economy organisations concerned in employment-oriented activities currently or, on the basis of

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<sup>3</sup> László Rajki Tóth

<sup>4</sup> The organisation carried out a research project among employment-oriented not-for-profit organisations in Debrecen in 2005 associated with the establishment of the OFA-ROP Network. The final paper including the identification of the needs and demands was edited by Tamás Varjú. The paper is accessible in manuscript form on the website of the OFA-ROP Network

their activity commitments and activity profile, prospectively. Consequently, *there are at least 300 not-for-profit organisations suited/willing to implement labour market projects in Hungary, too*. Their target groups are in the worst position in labour market situation: the long-term unemployed, the ethnic minorities, persons with reduced work capacities, women, people above 40 and career-starter unemployed persons without a degree. *One third of the not-for-profit organisations does not organise employment directly themselves for their target groups*.

The organisations concerned play a much more pronounced employer role than their peers. This is clearly shown by the average number of their employees, which was 17.1 in 2005. There are regional differences in this circle, too, but on a much smaller scale than the average (the average number of employees per organisation is 9.6 in the Northern Hungarian Region and 33 in Central Hungary). 7% only of the organisations concerned has no employee at all, 11% has max. 1 employee and almost 70% have max. 10 staff.

*Grants* represent the biggest revenue item of employment-oriented not-for-profit organisations (at 53%). In the past years, their most prominent public sponsor and professional manager was the *National Employment Foundation (OFA)*. OFA supported around 800 labour market service and/or local employment development projects and hence contributed to a significant extent to involving the Hungarian civil organisation in the amelioration of the employment-related tensions. Furthermore, it was an initiator and supporter of the organisation of the sector into umbrella organisations.

As of 1998, the Employment Act has made it possible for the county labour centres, too, to provide direct support to public benefit organisations committed to the employment promotion of the long-term unemployed, persons with reduced work capacities and unemployed career starters. Furthermore, as of 2000, it has become possible for the Public Employment Service to outsource certain labour market services to external organisations, mainly from the not-for-profit sector. Another novelty dating from the same year was complex assistance to the labour market programmes through the simultaneous and modular use of several individual active measures.

The employment-oriented public benefit organisations are indispensable for the municipalities, too, especially to organise communal work.

Hungary benefited from considerable international assistance to consolidate this sector, pre-eminently from the European Union, under bilateral inter-governmental agreements, especially to learn about/use the relevant Austrian and British experience. Access to international support funds (HRDOP, ROP, EQUAL etc.) is essentially limited to the not-for-profit organisations.

### **Activity types of labour-market-oriented not-for-profit organisations**

Thanks to the support schemes, the Hungarian not-for-profit sector developed four categories of labour market programmes, i.e. projects targeting

- alternative labour market services
- transit employment
- sheltered employment or
- long-term employment.

The not-for-profit organisations providing *alternative labour market services* identify the long-term unemployed, persons with reduced work capacities, unemployed Roma, and education-leavers beyond the reach of the Public Employment Service, to provide them customised problem management services for the purpose of labour market re-integration.

*The transit employment programme* offers the unemployed youth vocational training outside the school system; in this context, employment is both a goal and an instrument (work socialisation). The experience so far is that 70% of the multiply disadvantaged youth having finished the programme managed to find a job.

The *sheltered employment providing not-for-profit organisations* involve persons with reduced work capacities in *disability employment*.

*The long-term employment projects* implemented by the not-for-profit organisations are based on the following main components:

- Human resources development, to make people ready to work
- Employment in regular productive work and
- Support/services to promote job retention (social integration).

*They create new jobs in three ways:*

- Staff expansion of existing organisations, to respond to the growing needs or the introduction of new services
- Creation of new jobs, launch of new service-provider units
- Identification of new employment possibilities for the purpose of job creation.

These projects aim at the development of social economy. Their longer-term objective is to make social enterprises launched with public support capable of *self-sustenance* after a while, and hence to give the participants a possibility to return to the world of unsubsidised work.

### **Unexploited job-creation opportunities in the not-for-profit sector**

Before a discussion of this topic, let us explain why it is necessary to find new employment promotion solutions. The main reason is that the welcome and spectacular growth of economic performance since 1997 has hardly created any new jobs. Annual average GDP growth by as many as 4-5% was concurrent with a mere 1-2% growth of the number of the employed, which shows that, in addition to competitiveness enhancement, more attention should be paid to the development of labour-intensive activities.

The circle of unaccomplished work tasks is almost inexhaustible. The *communal infrastructure* represents a promising pool: flood and inland water protection, the deployment of the sewage/waste water system, environmental protection, afforestation, social residential construction, urban reconstruction, village embellishment etc. These areas offer vast natural job creation opportunities, especially for men. All the more so since public jobs there were lost at the time of the transformation crisis, i.e. people were left without a job and the relevant tasks were no longer accomplished, which has often caused serious damage (cf. the floods of the past years). The elimination of these deficiencies has started, in partnership co-operation with the municipalities, the

ministries, the public and private companies, small businesses and not-for-profit organisations – and it shall be continued.

The other big area is the development of *personal services*, where the desirable objective is to convert home-creating jobs into job-creating homes. Why is that necessary?

- The organised labour market has shrunk, and the circle of unregistered and unpaid household jobs has expanded significantly
- Part of the services representing the employment infrastructure has disintegrated, and the lost ones were often replaced by unaffordable private services
- The ageing of the population and its poor state of health triggered a demand for new services.
- With the elevation of retirement age, older workers can take care of elderly relatives/grandchildren etc. to a decreasing extent.

According to the data of the time survey of 2000, almost 40% of households include a chronically sick member, and one third at least one dependent minor. In these families, employment is hindered by the obligation to take care of these persons at home. From another perspective, potential personal assistance services in this area represent a source of job creation.

The National Employment Foundation has been supporting such service projects since 1996, and so far it has provided work opportunities to some 2000 persons. Furthermore, a *PHARE project* was implemented in 2003-2004 to promote the labour market integration of women on parental leave and of inactive women above 40, which provided jobs for the members of the target group at personal-service-provider not-for-profit organisations, to “free” for employment elsewhere those who requested such help. A total of 816 persons were involved in 17 projects, including 363 who were finally placed in the open labour market, 27 who became entrepreneurs (another 3 started up their businesses), and 239 persons were given an opportunity to work in the pilot sub-project. Through these three exit gateways, a total of 619 got a job, which corresponds to a placement rate of 75.9%.

### **Hindrances to progress**

Fortunately, the labour-market-oriented not-for-profit organisations are present in Hungary, too. On the one hand, they expand the service capacity of the Public Employment Service, allowing thereby providing customised and hence labour-intensive service adjusted to the highly diverse individual problems. On the other hand, at local level, they link the unsatisfied needs to the unutilised labour resources. Further progress, however, is hindered by several circumstances.

- The implementation of social economy as a local employment development concept can only create self-sustaining jobs if it is *associated with solvent demand*. The relevant financial schemes (tax benefits for the users of such service under the title of job creation; service vouchers issued under preferential terms to companies willing to relieve their staff of certain household obligations through the relevant services) are still missing.

- Simultaneous decisive and motivating measures need to be taken with respect to both the providers and the users of such service *to legalise the thriving black market of those services which could be performed within social economy.*
- *The territorial coverage* of the labour market service provider and local-employment-development-oriented not-for-profit organisations *is highly uneven*; they are present in sufficient numbers in the major towns, but there are hardly any at the small settlements.
- The professional know-how, resources and infrastructure of the not-for-profit sector are below the level required for balanced operation. There are few stable organisations led by a well-prepared management; many struggle with survival problems.
- Social enterprises meet with general incomprehension and mistrust; there is a high degree of political dependence in the sector.
- The Employment Act does not cover project financing; “support for the labour market programmes” means no more than a combination of several active measures.
- The assumption of public/municipal tasks, as well as co-operation with the market actors, is still unregulated.
- The fast upsurge and the forced retreat of the organisations concerned are simultaneous processes; often, there is a real danger of their termination, too, which represents a threat to the survival of projects supported for years.

**Why is it worthwhile to overcome these hindrances, that is: what do the special advantages of the not-for-profit sector relative to the budget and the market sectors derive from?**

The experience is that the not-for-profit sector is indispensable for access to the ESF resources and it is consolidated by the utilisation of the same. Why? Because *the not-for-profit organisations are more adequate in some areas than their for-profit peers are.* For example, in the area of *social economy*: household and personal, social and environmental protection services and the areas of culture, sports and the media.

What do the special advantages of the not-for-profit organisations derive from in terms of the establishment of a relationship of trust between their employees and the consumers, the flexible use of the workforce and, furthermore, the acquisition of resources available for free or at a low cost?

- A decision-making structure based on the participation of those concerned and the democratic management lays the ground for trust, and also for identification with the mission of the organisation.
- The pluralist ownership structure guarantees the participation of consumers, employees and often also the municipality in the management of the organisation.
- The presence of volunteers.
- Close contact with the municipalities in the areas of the identification of the needs as well as the allocation of the resources.
- Co-operation between the not-for-profit organisations, which often leads to the creation of so-called second-level co-operations (umbrella organisations), to offset the disadvantages due to the small size of the entities concerned.
- Commitment to innovation and experimentation in the assortment as well as the delivery of the services.

By exploiting the above characteristics, the not-for-profit organisations, even those which receive no public funding, can

1. provide services at zero profit, too,
2. encourage the conversion of the needs of the population ((lakossági oigények)) into solvent demand and, furthermore, thanks to their low costs, to increase the number of their consumers and hence produce a net employment growth,
3. bring to the surface and to formalise, through the differentiation of the offer and the reduction of the costs, part of the concealed demand, which would otherwise be met in the form of unpaid work in the informal economy or in a family framework.

To date, many not-for-profit organisations typically fulfil a *double function*: they provide social and household services, and they also address the issue of the labour market integration of the long-term unemployed and other persons in a disadvantageous situation. The majority of the organisations cannot evade that, especially not if they are closely linked to the local community which, on the one side, suffers from the lack of certain services and, on the other, of the unutilised labour capacities. Public policies, too, push this dual role, since support provided for the employment of the long-term unemployed often represents the only possibility for the not-for-profit organisations to start a new kind of activity.

## 9. Summary (Mária Frey)

The first chapter was devoted to the historical theoretical background of social economy and offers the following conclusions.

The processes having led to the emergence of social economy are governed by the shrinking volume of work and the consequent, permanent and extensive, labour market exclusion of potential workers. The traditional labour market policies offer no solution for this phenomenon, rooted in the characteristics of the current operating mechanism of the economy, i.e. the primacy of profit-maximisation over the satisfaction of the needs. This “self-seeking goal” prevents that work should be an extensively asserted form of social integration. Therefore, a bottom-up alternative economy is needed, which follows long-term goals and other basic values than profit maximisation.

Social economy is a fast-developing achievement of the European economic and social space. Its recent uptrend relates to two problems: the growing demand for social, personal and public services, and the search for ways and means to satisfy the relevant needs cheaply, in a context characterised by budgetary restrictions and tax cuts.

For pragmatic reasons, we shall use a very simple definition: we shall consider such local initiatives to be part of social economy which aim at integrating persons who are difficult to place into the world of labour, by offering them employment, the upgrading of their professional skills, and guidance.

Furthermore, they share the following general features:

- they operate at local level, in between the public and the market sector,
- they react to the local needs which are left unsatisfied by the private companies and the public institutions,
- they create new jobs,
- they generate an income and it is their objective to become self-financing after some time,
- their revenues include private financing to some extent,
- their target groups include the long-term unemployed, the career-starter youth struggling with placement problems, women subject to caring obligations, the elderly and persons living with disability and those suffering from social integration problems.

The specific activities always depend on the composition of the service structure of the given country, the typical features of the way of living of the population and the taxation system.

The EU White Paper (EC, 1994) mentions the following by way of example:

### *a./ Local services*

- home help for the elderly and physically or mentally handicapped
- housework: cooking, washing, ironing, cleaning
- minding pre-school-age children and schoolchildren before and after school, including taking them to and from school

- assistance to young people facing learning difficulties, comprising help with schoolwork, provision of leisure facilities, especially sports, and support for the most disadvantaged
- acting as caretaker for blocks of flats
- local shops kept in business in rural areas, and also in outlying suburban areas
- home delivery of cooked meals, purchased goods

*b./ Audio-visual services, installation of the new information and communication techniques*

*c./ Organisation of leisure and cultural programmes, preservation of the traditions*

*d./ Improvements in the quality of life*

- renovation of old housing with a view to increasing comfort and safety
- development of local public transport services, which should be made more comfortable, more frequent, accessible (to the handicapped) and safe,
- provision of new services such as shared taxis in and between rural settlements
- selective waste collection and re-utilisation

*e./ Environmental protection*

- maintenance of natural areas
- canalisation, canal cleaning water purification and the cleaning-up of polluted areas
- monitoring of quality standards
- energy-saving equipment, particularly in housing.

The development of these services is promising, anyway, in two respects:

- on the one hand, *it offers better life quality for the households,*
- on the other, it motivates and expands the employment options, because *these are such activities, close to the consumer, bound to a certain point in space and in time, which cannot be integrated into the international market and are therefore protected from international competition threatening the national jobs.*

Little is known of the employment role of social economy, and the relevant data are rather old, too: at the turn of the millennium, there were almost 9 million full-time-equivalent jobs registered in this sector, which corresponded to around 8% of the employed. This figure referred to the EU-15, i.e. the “old” Member States.

The experience to date is that the extension of social economy is often associated with unrealistic expectations, as if it were a miracle drug to every labour market and social problem. This misunderstanding is due, among other things, to the inconsistent use of the term itself, the stereotypes associated with the target groups of social economy, the narrow interpretation of the services assigned to its scope, and the opposition of the social and the economic mission of the sector. Of course, the detailed list of the hindrances to the unfolding of social economy provided above was definitely not meant to discourage those who might be considering taking a part in it. The analysis was meant to identify and describe the deficient areas, the potential intervention points and the prospective difficulties which must be taken into account by those who undertake such major work.

Over the last decade, several exemplary development strategies were designed in the various countries to promote the spread of social economy, in the framework of the European Employment Strategy. We reviewed three among them: the French, the Austrian and the Belgian models.

*Hungary, too, has at least 300 not-for-profit organisations suitable for/willing to implement labour market projects.* Their target groups are in the worst position in labour market situation: the long-term unemployed, the ethnic minorities, persons with reduced work capacities, women, people above 40 and career-starter unemployed persons without a degree.

The organisations concerned play a much more pronounced employer role than their peers. This is clearly shown by the average number of their employees, which was 17.1 in 2005. There are regional differences in this circle, too, but on a much smaller scale than the average (the average number of employees per organisation is 9.6 in the Northern Hungarian Region and 33 in Central Hungary). 7% only of the organisations concerned has no employee at all, 11% has max. 1 employee and almost 70% has max. 10 staff.

*Grants* represent the biggest revenue item of employment-oriented not-for-profit organisations (at 53%). The experience is that the not-for-profit sector is indispensable for access to the ESF resources and it is consolidated by the utilisation of the same. Why? Because *the not-for-profit organisations are more adequate in some areas than their for-profit peers are.* For example, in the area of *social economy*: household and personal, social and environmental protection services and the areas of culture, sports and the media.

What do the special advantages of the not-for-profit organisations derive from in terms of the establishment of a relationship of trust between their employees and the consumers, the flexible use of the workforce and, furthermore, the acquisition of resources available for free or at a low cost?

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By exploiting the above characteristics, the not-for-profit organisations, even those which receive no public funding, can

1. Provide services at zero profit, too,

2. Encourage the conversion of the needs of the population into solvent demand and, furthermore, thanks to their low costs, to increase the number of their consumers and hence produce a net employment growth,
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# PART II

## SOCIAL ECONOMY IN PRACTICE

Part II provides direct help for the work of practical experts.

It introduces the actors of social economy and how partnerships are built. It covers the main legal and financial rules of founding and operating social and community enterprises. It gives the reader an introduction to the methodology of strategic planning. It answers the question of why needs assessment is necessary and what it should cover. It looks at the business planning process in detail. With regard to the financial management of social and community enterprises it addresses conditions and contradictions that make it difficult or even impossible for certain organisations to operate in a social economy environment. It draws attention to the topical issues of human resource management particularly relevant to the development of social economy. In order to help the domestic dissemination of for-profit and not-for-profit marketing-driven thinking it informs the reader how marketing and PR work in social economy. It explores linkages and potential areas of cooperation between social economy and the public sector. It deals in detail with grant schemes that are available for developing social economy along with local and international sponsors. It provides an insight into the monitoring processes of development programmes and projects. Finally, it exposes the major elements of the information basis of social economy including recommended reading, web sites, umbrella organisations, and sponsors.

The knowledge contained in this handbook is accompanied by numerous tables, figures, and practical examples to enable the reader to better understand and implement it in their everyday work.

### **10. The actors of social economy and building partnerships (Éva G. Fekete)**

#### **1. The actors of social economy**

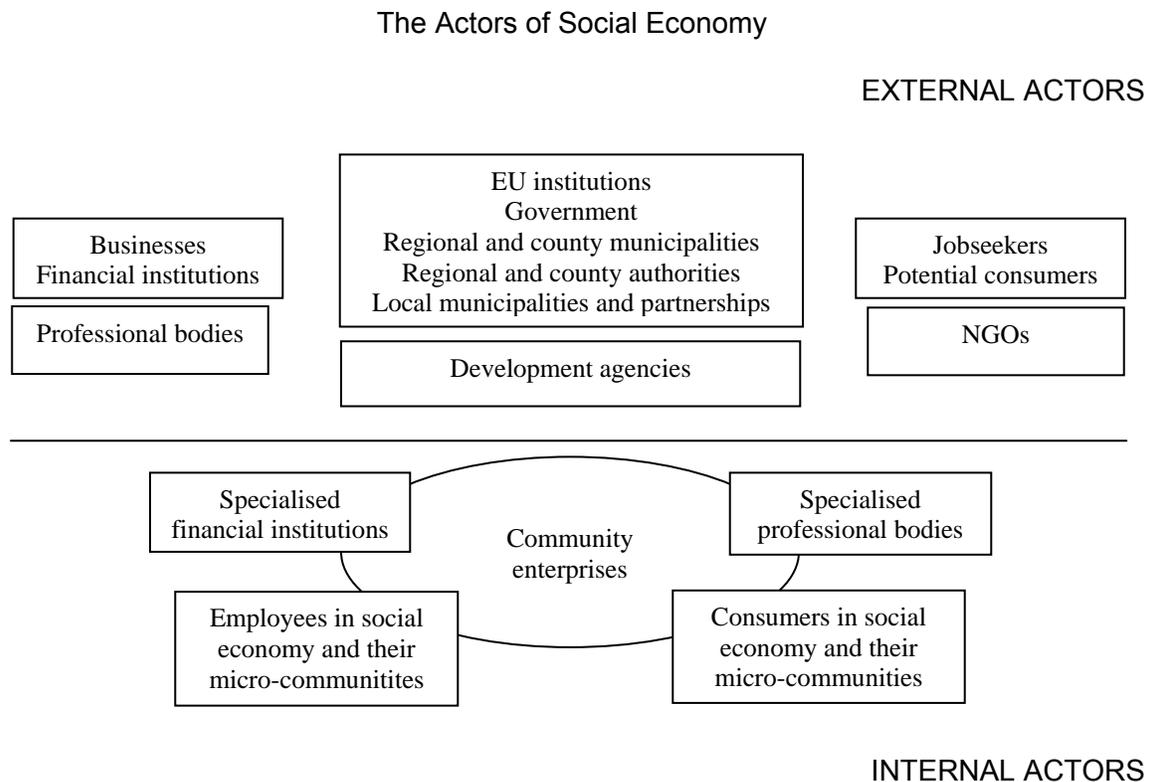
##### **The internal and external actors of social economy**

The operation of social economy is influenced by both internal and external actors.

*External actors* can mean persons and organisations directly or indirectly linked to, and participating in, the activities of the other two – the private and public – sectors. These external actors can include e.g. private businesses having a relationship with community enterprises, municipalities assigning them with the provision of public services, government agencies providing grants, advisory or advocacy organisations etc. The primary goal of external actors is not to operate social economy but some of those goals can coincide with those of the latter, and their activities have an influence on, or sometimes even set limits to, the activities of internal actors of social economy.

*Internal actors* include foundations, associations, co-operatives, mutual funds with their membership and management, financial institutions specialising in lending to community enterprises, professional bodies, as well as natural persons as consumers and/or employees along with their organisations. Internal actors primarily aim to operate social economy, and in doing so to satisfy hitherto unmet needs, improve employment opportunities, and increase the social capital in order to secure the future of a particular community.

Figure 1



In social economy you rarely come across hierarchical relations between organisations. Relationships are based on an equal footing between individual actors and structured horizontally, rather than vertically.

One of the features of the 21<sup>st</sup> century is that economic and social progress results not from isolated actions and decisions but is the product of interplay between a number of actors (Horváth, 1999). That is why relationships between partners are crucial for the outcome of development processes.

Vertical relationships between the actors of economic processes are generally governed by legislation, while partnership-based horizontal relationships (due to the different types, large number, and local conditions of the actors) can be regulated by law only partially. In this case relationships are regulated by the partnership.

*Partnership can be interpreted as a form of cooperation governed by a formal or informal agreement between two or more organisations, which is designed to attain an important*

*local economic or employment objective that is desirable to all of us.* Cooperation ranges from formulating shared goals to taking joint actions under a contract. Its most typical feature is that the economic and social benefit stemming from the partnership can exceed the benefits that the same partnering organisations could achieve individually.

### **The actors of social economy and their motivations to engage in partnership**

The basis of partnership is the recognition of mutual interests and trust between the partners. Both can grow as partners are getting to know each other. That is why, as a first step towards partnership, the interests of potential partners must be analysed and any conflicting interests blocking cooperation identified.

An analysis of interests (stakeholder analysis) can be done individually by the potential partners but it is advisable that they also clarify their interests, motivations, and the criteria of success together.

Naturally, individual actors can have their own separate interests and motivations but general features arising from the nature of the actors must also be borne in mind. For example, the main motivations of the actors of social economy can be as follows:

#### *a. Community enterprises*

Community enterprises are the lead actors of social economy.

Their functioning as not-for-profit organisations is guided by – primarily – ethical principles such as voluntary solidarity, generosity, philanthropy, ‘everyday’ democratic participation, self-actualisation, independence, trust, community renewal, environmental consciousness, social dialogue, partnership, tolerance, etc. This special motivational basis enables the sector to play a decisive role side by side with the private and public sectors in satisfying individual needs, which will ensure wealth, security, real attachments, values, freedom, as well as harmonious coexistence, genuine willingness to cooperate, trust, engagement and inclusion, and a real ‘home’ for everyone (Miszlivetz 1999, p 179).

The community enterprise is a company, a social institution, and an NGO at the same time.

- Its nature as a *company* is reflected by its production of goods and services, strong dependence on the market, and demand for fixed and working capital. These factors force its management to have a business approach.
- It is a *social institution* in that it has social responsiveness and social responsibility by participating in providing public services, hence its strong links with municipalities.
- Its nature as an *NGO* comes from its democratic functioning, its members’ participation in decision-making, and the involvement of volunteers.

By organisational form, a community enterprise can work as an association, a foundation, or a cooperative. It can function as a not-for-profit business association or a social cooperative as new forms of organisation in Hungary. The goals of community enterprises, hence their motivations to engage in partnerships, are linked to the overall objectives of social economy, i.e. they are interested in fulfilling unmet community needs as best as they can, along with maximising employment capacity and social capital. Besides, they also have business, social, and territorial interests arising from their specific activities and localities. *Mutual funds, credit cooperatives, development foundations* are stand-alone community enterprises operating within social economy

framework, which at the same time provide financial assistance/funding to other community enterprises.

The *associations and umbrella organisations of community enterprises* are designed to provide help to their member organisations in the form of information, expertise, and financial resources.

#### *b. Other voluntary and community organisations*

The *voluntary and community sector* includes a variety of groups of individuals and projects. This sector often works with local municipalities and their institutions. It provides advisory and a wide range of other services to the local community. Social economy organisations are linked to this sector themselves while having broad-based ties with other actors of the sector.

In developing cooperation the special features of the sector must be borne in mind.

- Their *organisation* is democratically structured, the leaders being accountable for their decisions to the membership. Collective decisions – depending on the Statutes and established practice – can slow down decision-making.
- Their *motivations* are always related to the implementation of an initiative, which has been selected by the members (and which has relevance to the larger community). Other than that, NGOs are also motivated to a great extent by their need to survive and develop. Research in North-America has shown that one of the greatest risks facing NGOs is the separation of community interests represented by members and organisational interests, by the latter overshadowing the former. This might create an undue pressure for projects and self-interested fund-raising, as is known in Hungary as well.
- *Financial contributions* can only be expected from them to a limited degree. However, in joint projects they are perfectly able to delegate representatives for consultation, take part in mobilising campaigns and external communication, or provide staff and office infrastructure for certain tasks.

#### *c. Public sector*

The *organisations of the European Union* come into contact with social economy organisations through grant schemes. There exist a great number of programmes designed to strengthen social cohesion and regional competitiveness through promoting local employment and social and economic development. The European Social Fund (ESF) and the European Regional Development Fund (ERDF) equally contain programmes to stimulate social economy. The former primarily supports employment and social services, the latter infrastructural and economic development. Let us not forget, however, that the key motivation of the Council and the Commission, the two bodies behind EU organisations, is to increase competitiveness relative to the USA and Southeast Asia. Improved competitiveness in part means having to overcome social and territorial disadvantages, along with dealing with the employment crisis as one the gravest problems of the continent.

The *national government*, in many cases as a key partner, provides legitimacy and funding for projects. The role of national government in a partnership is increased by its shaping the national framework of partnership, intermediating EU funds, and influencing through its measures the roles and powers other actors can assume. The national

government's key motivation, in line with EU objectives, is to mitigate employment difficulties and strengthen social cohesion in partnership with social economy actors.

*Regional and county-level public or municipal institutions* participate in partnerships mostly in a way similar to that of the national government and/or local municipalities, depending on their powers and responsibilities. Regional bodies often have considerable planning power. Their motivations include the achievement of regional development, intra-regional disparities, and access to resources and help needed for strategic measures for development. *Authorities* operating at any level are typically motivated by, among other things, the accelerated implementation and maximum impact of development projects, attraction of private funds to match public funding, and stimulation of local processes.

*Local municipalities* act as market-making factors in social economy. Their primary interest is in providing local public services and mobilising resources for local development. Besides, in an ideal situation, they can recognise their interest in strengthening the self-governing capability of the broader local community. Their collaboration with NGOs, including social economy organisations, is often blocked by jealousy and a desperate clinging to competence, information, and through that to power. This can only be transcended if municipal leaders realise that cooperation is the best way to provide better and cheaper public services, engage additional resources, stimulate public life, and by that retain their own power. (For how public tasks are transferred to NGOs see Chapter 18 on *Links with the Public Sector*.)

#### *d. For-profit companies and their organisations*

*For-profit companies* are important for the functioning of social economy. Reliable business partners are a must in the supply of raw materials, technological cooperation, as well as sales. At the same time the traditional business partners of social economy can contribute substantial resources to a partnership including management capabilities, expertise, and financial means. As the partnership expands the business sector becomes engaged by providing financial resources, sponsorship, part-time staff, and advisory services to social economy.

The motivations of the private sector include profit-making, doing business with low-risk organisations, having access to subsidies on favourable terms, and having a strong presence in community processes towards the achievement of community goals. This latter can be the result of internal identification with the social goals of social economy, or can be motivated by opportunities to create publicity or a favourable image in the eyes of consumers and business partners.

*Financial institutions* play a special role in social economy. Access to loans on reasonable terms is pivotal to the functioning of the sector. Lending to social and community enterprises raises special considerations, including the definition and extent of loan security.

*Ethical banks* specialising in supporting social economy have emerged as a new element. In assessing creditworthiness, they look at not only the applicant's financial parameters but also the social and environmental content of the project, through promoting social solidarity and sustainable development (FEBEA, 2006).

*Entrepreneurs' associations and groups* began participating as partners in local development projects in Western Europe only recently. These organisations can be chambers of commerce, employers' confederations, and craft associations.

*e. Professional bodies*

Local entrepreneurs' organisations and other social and professional bodies make important partners especially in training, retraining, and networking. They do not normally contribute funding to the partnership. Their key role is to act as a counterweight in purely governmental or business sector initiatives and provide technical assistance in formulating and implementing projects.

(For special professional organisations directly involved in social economy see final chapter.)

*f. Development agencies and public benefit companies*

Local development agencies are often local versions of a central agency (e.g. enterprise development foundations). Local municipalities can also set up development agencies to enable functions that can be fulfilled by municipalities to a limited, or no extent at all. (e.g. employment development public benefit company).

Law-making influences the special structure and functions of development agencies in every country. However, wherever they exist they actively take part in some or all of the following activities: investment, property development, support for small businesses, training, and job creation.

*g. Community target groups*

The *local population* as a source of potential employees in social economy, of consumers of goods and services, and of labour supply and consumer demand in general plays a decisive role in the emergence and development of social economy.

(For more information on them see Chapter 12 on *Needs Assessment*.)

The needs, wants, interests, and capabilities of *employees of community enterprises* also have an effect on the functioning of social economy through competitiveness influenced both by the performance of the labour force and the values and criteria reflected by decision-making. That is why it is essential to assess from time to time the competency level of those employed by community enterprises and organise training sessions on a regular basis to update knowledge and shape attitudes.

*Consumers of goods and services produced in social economy* directly influence the functioning of social economy through their consumer behaviour and individual decisions. Their feedback impacts on the production of goods/services, and through 'whispering propaganda' they play an essential role in marketing. If the community enterprise is flexible enough to take into account consumer feedback it will be able to increase its market competitiveness by involving consumers.

*Conscious consumers* are a special and increasingly well-organised segment of social economy (Capital Research, 2005). The spread of consumer behaviour focusing on, and reflecting commitment to, the social and environmental aspects of products/services, sustainability, and solidarity over price is favourable to social economy, which rests on the same principles. The 'conscious consumer' is becoming a part, as well as a supporter of social economy themselves.

## 2. Building Partnerships

### Selecting Partners

Generally speaking, a partnership is created for one of two reasons below:

- The partners have some kind of relationship and a shared interest in cooperating, or
- One of the partners wants to achieve something through the partnership with the help of other partners.

#### ***In social economy those partners can cooperate successfully who***

- Interpret development in a similar way and have compatible values
- Have shared interests and goals related to the same problem
- Can contribute to ensuring knowledge, information, and technical conditions required for project implementation, and
- Have their own resources and are eligible for subsidy in the target grant scheme.

Therefore, in selecting partners for achieving particular goals the first step is to answer these questions:

1. Who else is interested in achieving the same goals, and how can they contribute to getting there?
2. Who has resources for implementation? Are they interested in achieving the goals?

During preparation the task and the required expertise and resources are identified. Based on that, it is possible to select potential partners (with expertise, capacity, compatibility, stability, etc.) and to present the demand and supply to the partners.

In identifying partners the following must be considered:

1. Partners will bring with them their resources, capabilities, and experience, as well as their motivations, prejudices, and problems. You have to be careful in selecting partners, whether you are leaders of an activity, or whether you join an existing partnership.
2. In choosing partners the following criteria should be borne in mind:
  - Who performs at an outstanding level in the given sector/field?
  - Are there any potential partners?
  - Are there any programmes or projects in progress to which you could link your own programme, or with which cooperation is possible?
  - Selection of partners can be facilitated by the information days and workshops held on individual programmes.
  - Register on websites dedicated to searching partners.
  - Consider the fact that having more than 7 or 8 partners will substantially increase the costs of cooperation.
  - Choose partners that can carry an equal workload.
  - The lead partner should have experience in management and group building.
3. Naturally, the partnership should be established with the involvement of persons or organisations you already know. An existing relationship allows an insight into the motivations, interests, and working methods of the partners, and provides a sound basis for cooperation and avoiding misunderstandings.
4. However, there are cases where you do not have prior knowledge about the partners, and you are not in a position to select them. Unless you have first-hand information you should collect it about their working methods, recognition, resources,

track record, and organisational structure. You can contact other organisations that know them.

5. In a partnership the actors are often not on an equal footing, despite the best efforts of the partners, and can be quite different in terms of their financial resources and their chances of getting involved in implementing development programmes. Based on that you distinguish simple participants and lead actors.
6. In order for a partner to become a key player in cooperation they must have a clear understanding of the goals of development, its impacts on the region, the anticipated outcomes, and the actions to be taken.

After determining the range of actors you wish to partner with to achieve a particular goal you contact the potential partners, ask them if they are willing to cooperate, and then select the partners in a bargaining process.

You also have to be able to make a case for your choice of partners. In giving your justification you should refer to the following:

- Importance of cooperation between different sectors and levels.
- Need to join forces and tackle problems collectively.
- Potential economies.
- Financial benefits.
- Principle of subsidiarity.
- Previous experience with projects; references.
- Opportunity to share expertise, resources, risks, and responsibility.
- Transferability and dissemination.
- Innovation.
- Multicultural benefits.

Allow enough time for selecting a good team, it will pay off.

### **Determining and recording the goals of cooperation**

Preparations for a partnership should begin with discussing all the relevant issues. By clarifying these questions you can avoid later misunderstandings and conflicts. You also have to set up a communication system, which will enable you to solve problems quickly and painlessly.

**Each partnership is based on a vision to be achieved. This vision can originate from any partner but develops with the agreement of the partners and through the harmonisation of their interests. In order to formulate a vision a variety of goals must be determined. The goals and the actions needed to achieve them must be accepted by all the partners.**

E.g. if the shared vision is about regenerating a deprived urban district the relevant individual projects will have to be selected and their sequence of implementation defined. Your first project will be what is called a 'flagship project', such as building a new shopping mall, which can cement the partnership and provide resources for further projects. The next goal will be to allocate a land area for housing development. In setting goals you have to visualise all the specific things to be carried for the vision to become reality.

In the preparation phase there has to be a clear understanding of what it is the partnership will make as a difference as opposed to the participating organisations working on their own separately.

*Partnership building will be further enabled by detailed planning. The plan should include all necessary actions, the partners responsible for them, and the necessary resources and deadline for their completion. If you want to implement a large-scale programme or project they should be considered based on the implementation stages.*

When it has been clarified what partners would make up the partnership and for what activities, it will be necessary to look at how the partnership will be set up and managed.

#### *The organisational structure of the partnership*

As a first in partnership cooperation the framework or organisation of the partnership has to be defined. The organisation should reflect each partner's rights, responsibilities, and contributions, as well as the legal conditions of the particular country.

The following has to be laid down:

- Allocation of tasks to which each partner can commit themselves
- Contributions and expertise provided by each partner
- Motivations and attitudes of each partner
- Strengths and weaknesses of the partnership
- Problems that can be solved by the partnership.

The partnership can be organised *formally* or *informally*. Informal partnerships are based on trust and a non-contractual agreement. Formal partnerships use contracts and are managed by a company or other legal entity. For small projects, informal partnerships are more suitable with partners that have worked together before. Often, when partners have not met before, they tend to choose a more rigid organisational framework based on a contractual arrangement covering the parameters of the partnership, since each partner insists on being in control.

Although these partnerships can function they tend to hinder the specific activities and rapid response.

The potential *organisational form* depends on the type of the project, the partnering organisations, as well as the partnership's legal and financial background. The organisation has to determine the following:

- Tasks belonging to the competence of each partner
- Resources and funds contributed by each partner
- The way relationships between the partners are organised and managed
- The sharing of risks and benefits between partners.

At the same time, attention must be paid to the legal status of the partnership. You should check if the partners are entitled to join the organisation.

Selecting the right organisational form is crucial, just as you have to make sure that each partner is satisfied with the selected way of functioning.

Many partnerships owe their existence to *charismatic leadership*. This is what maintains interest in, and creates commitment to, the project, which could otherwise not be successful. A charismatic leader attracting resources and state grants can provide support from outside as well. But charisma is not all. You have to make sure the management have what it takes to cooperate with others before you go too far. Whether or not the partnership has a charismatic champion its governance will require strong management.

**Regardless of the size and nature of the partnership it is essential to establish an efficient management structure. The partnership can be headed by a board including representatives from each partner, or one or two persons, who are appointed by the partners.**

No doubt, there has to be someone who

- Ensures the goals of each partner are known
- Builds on the strengths of the partners in order to strengthen their agreements and participation
- Defines and supports consensus on the goals and plans of the partnership.

The manager(s) must obtain external support for, and internal flexibility of, the partnership. There is no success without strong leadership.

The partnership normally forms *working groups* to deal with specific tasks. The quality of joint work depends on their enthusiasm and capabilities. On implementing projects and shared tasks responsibility will be shifted back on the managers and key persons of the partnering institutions. They will act as contacts until a new project appears in sight.

*Usually 1 to 3 people represent a partnering organisation in projects. A project working group will perform at its best and cheapest if it includes no more than 12 persons. In an ideal working group there are 6 to 8 people. This ideal number of working group members – in the case of extensive multinational projects – is naturally not possible to maintain. The size of the team must reflect the project size.*

The strength of *informal partnership building* should not be underestimated. It gives an excellent opportunity to strengthen the sense cohesion, creates a relaxed atmosphere, and thus inspires new ideas. A less formal environment allows inexperienced partners to express themselves. Apart from having meals together there should be additional programmes for the members, such as sightseeing walks, cultural events, opportunities for celebrating together, joint sports events, excursions, and many other things, which are greatly influenced by the interests and mentality of the members. Informal networking is a critical tool to strengthen cohesion and *build trust between partners*.

#### *Building the partnership's communication system*

Many partnerships make a mistake by setting an external communication system while ignoring their internal communication needs.

*Attention must be paid to both formal and informal mechanisms of discussing the partners' activities. Formal meetings can be held periodically. They are designed primarily to control the operational process and make decisions. They can also serve as fora for solving problems.*

Informal meetings of managers engaged in daily work enable information sharing, promote the development of relationships, and help prevent misunderstandings. Managers must be incentivised for regular consultation through contact persons whose list is assembled jointly and circulated.

*External communication is crucial for all partnerships. Each partner seeks to create publicity, and gain recognition for their work from their target group. However, partners also include persons and organisations for whom/which publicity is critical. Local politicians or voluntary groups living on subsidy may find it strongly motivating to have*

*access to publicity. However, the need for publicity can cause internal conflicts. In order to avoid them, you must make sure that all partners agree on the following:*

- Person responsible for media contacts
- Person responsible for newsletters
- Persons and organisations whose names can be used in publications to represent the partnership
- Name by which the partnership is to be referred to in publications, correspondence, and answering phone calls.

### *Sharing risks and benefits among partners*

It is important to agree on how anticipated risks and benefits are shared among the partners. The partners should discuss and define the most reasonable and proportionate way of dividing up risks and benefits. For this they should consider the following:

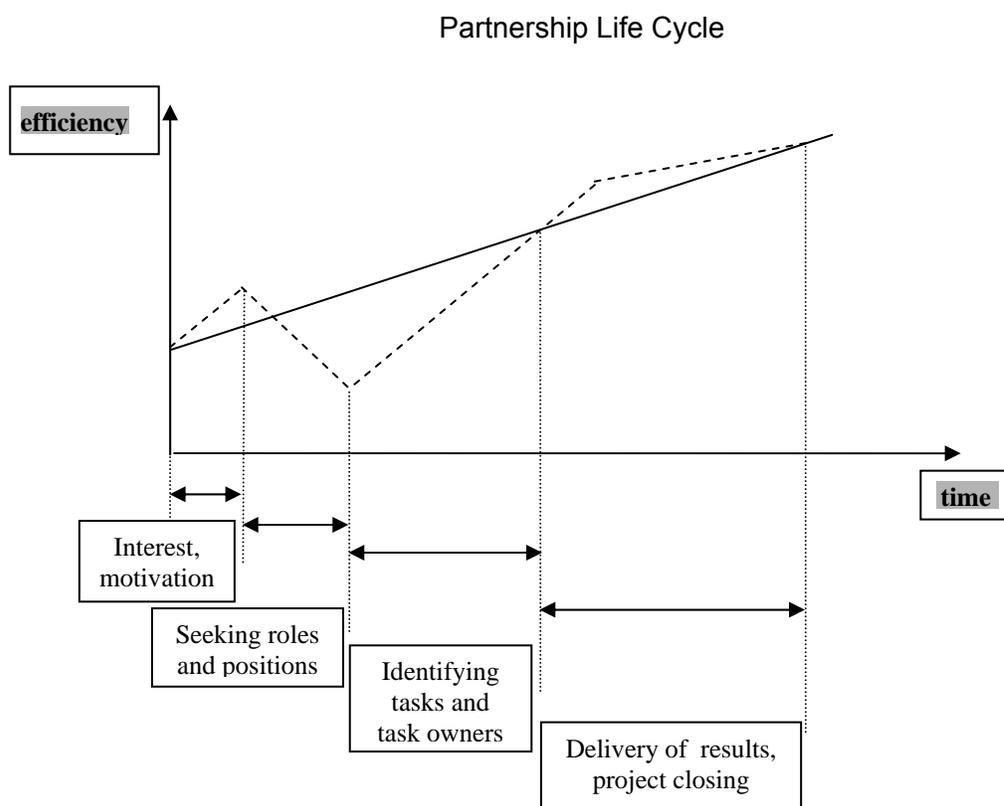
- The more risk partners take the more they strive for success.
- The level of acceptable risk for the partners will depend on the type of the organisation they represent and their share in the partnership. It has to be clear that financial security is not the only consideration for the partnership. Many partners are more concerned with creditworthiness and the loss of reputation or access to subsidies.
- Clearly, financial benefits are the most important but not the sole advantage arising from the partnership. Each partner wants to have a share in public attention and popularity resulting from successful implementation.
- The most essential benefits of a project carried out by an economic and employment development partnership must be enjoyed by the local community. No matter what type of project you are implementing, the outcomes must clear and undisputable for the community by the end of the partnership. You should define right at the outset how the community will benefit from the project, and guarantee that this goal will be kept in sight during implementation.
- **Before work begins you should try and make sure that there is agreement on how financial and other benefits will be shared.**

**During the life of the partnership communication with the public at large is essential. Key politicians, office holders, community leaders, and influential businessmen should be invited to contribute their ideas and responses to the partnership. Effective consultation can attract public for the partnership, and reinforce the message to both the partners and outsiders that the project meets community needs to the maximum extent. At the same time the partners must be aware that consultations can also create a negative image of the project, and should prepare for this possibility.**

### *Conflicts within the partnership*

A partnership brings together people and organisations with different motives, weights, and interests. This also means that there is an increased likelihood of misunderstandings and disagreements. Often the partnership fails for a simple reason, e.g. because one of the partners wants to dominate when making the project public. Participation in the partnership will vary according to the lifecycle of the project. Each phase can be accompanied by different types of conflict.

Figure 2



*Communication, flexibility, and development-stimulating thinking are the elements of successful cooperation.*

An essential feature of partnerships is the management of conflicts between partners. Conflicts should be viewed as part of the reality of any partnership, rather than as a disaster. Conflicts can be caused by anything: historical envy might flare up again, a partner might feel inferior and weak compared to the others, or public attention might pose problems. Although the reasons may be difficult to get rid of, it is possible to sink differences, especially if the partnership rests on a solid basis and yields tangible results.

*The partnership's involvement in designing projects*

**The members of the partnership design the project together. Their involvement in the initial phase of planning is desirable also because that is how it is possible to harmonise goals and build a project plan making efficient use of actual capacities.** After assembling a logical framework the partners decide on the allocation of tasks and responsibilities, and prepare an agreement or consortium contract.

During project generation attention must be paid to additional tasks arising from the operation of the project. Therefore the information flow, the method and system of communication, as well as consultations and community-building actions must also be incorporated in the project.

*In working out the project the partners collectively define the organisational structure best suited for the purposes of project management, monitoring, decision-making, and representation, together with an implementation schedule, which will also be covered by the partnership agreement.*

## The partnership agreement

The partnership is best defined in the form a framework cooperation agreement. The framework agreement provides literally a framework for cooperation. The partnership agreement has to include the following:

- Names, addresses, and representatives of partners
- Purpose of cooperation
- Name of project
- Duration of cooperation
- Partners' declarations of intent to cooperate
- Partners' tasks with deadlines
- Partners' shares in costs, amounts of cash contributions, and payment schedule
- Extent and schedule of contribution of resources
- Control of assets during project life
- Method of joint decision-making
- Representation
- Method of, and persons/organisations responsible for, supervision
- Sanctions in case of failure to meet commitments
- Sharing of responsibility, and issues of mutual liability
- Date and signatures.

With grant schemes, the bidder and the project partners must also make a *declaration of partnership*. This declaration must include the data of the partners (full official name, nationality, legal status, official address, contact person, phone number, fax number, e-mail address, number of project staff, expertise, history of cooperation with the bidder, description of current role in project). The declaration of partnership must be attached by the bidder.

If the partners sign an agreement in which designate a lead partner, then it is the lead partner who will be authorised to sign the grant agreement as the beneficiary (on behalf of all the partners) and will be responsible for project implementation.

*The downside of an agreement like this is that the delivery of results (e.g. necessary collective decisions) can hardly, or cannot, be enforced by legal means, and if any of the partners should withdraw from participation the project may even fail. Legal mean can be used with difficulty with municipalities and municipal institutions, in whose case financial liability can only be enforced in indirect ways, as opposed to private organisations. In addition, the timeframe allowed for project delivery is often insufficient, and does not cover litigation. Therefore, in the preparation phase the partners must share information, based on which all the partners can decide responsibly on their participation in cooperation.*

*As the interests or positions of some of the signatory partners may change in the meantime, efforts must be made to define the terms and conditions of the agreement in as much detail and as clearly as possible, including procedures in case any of the partners fail to meet their obligations. Consideration should be given to the manner of exclusion on the one hand, and to different forms of compensation (e.g. liquidated damages) on the other.*

In drawing up the cooperation agreement, not only implementation but also issues of ownership and operation must be clarified in detail, since if problems should arise, it will be difficult to revise an agreement after so many partners have signed it. Questions like

assigning the lead partner as owner in the grant agreement and the restriction of ownership transfer – normally for 5 years –, while own resources will be pooled by the partners, should be covered in a clear and detailed manner.

In order to avoid the problems described above, it is advisable that the partners consult a legal expert, preferably the expert of the organisation providing the grant, in the project design phase and during preparations for cooperation.

## **11. Legal and financial regulation of the foundation and operation of social and community enterprises (Anikó Soltész)**

To date, the social and community enterprises are characterised by an enormous action potential and less-than-ideal market opportunities. This may be one of the reasons why the number of organisations operating in the form of enterprises is estimated at no more than a few hundreds. But, their legal form notwithstanding, self-declaration would not lead us any further either, since those organisations that “act without knowing it” also have a tendency to declare themselves “civil entities”. We shall begin our enquiry in this dimension, that is considering the actors we may encounter in this sector potential task delegating parties, partners or rivals.

### *NGO-based service providers in the recent past and today*

According to the definition of the European Economic and Social Committee (EESC), “civil society is the sum of all organizational structures whose members have objectives and responsibilities that are of general interest and who also act as mediators between the public authorities and citizens” (EESC 1999, 7.1). This concept covers every economic, social and employment organisation, which represent fundamental elements of organised civil society and self-governance and promotes the achievement of certain collective goods, i.e. public welfare activities such as schooling, health care, legal protection. The Treaty of Nice approved in 2000 confirmed the necessity of creating the aforementioned NGOs in the accession countries. The Copenhagen criteria mentioned the stability of the democratic institution system, the rule of law and the protection of the general human rights and of the minorities as preconditions of EU membership. The employment objectives of the Lisbon Strategy expanded the entrepreneurial repertoire, and made the NGO partnership a prominent element of the accession process.

The organisations participating in social economy realise their founders’ goals within diverse legal frameworks, and there is keen competition between the organisations within the sector and between the different sectors with regard to the satisfaction of the various needs, access to the resources and interest assertion. Competition for the clients and for support and co-operation laying the basis of quality service provision make the legal status of the organisations more important than ever, and the most recent legislative amendments settle long-standing unresolved issues by expanding the range of available options.

### **Changes in the forms and contents of the organisations**

In response to shortages, the existing social economy organisations raised to the status of organisational values such important personal values as dedication, service, altruism, voluntarism, independence, and courage – the type of civil courage which makes one stand up for a cause, for us, and also do something for us and for others.

In terms of breakdown by size and organisational culture, the NGOs representing the framework setting of the activities concerned follow the relevant European traditions, insofar as

- They are not profit-oriented, and although they do pursue income-generating activities occasionally, they do not distribute the relevant income among their members, but re-invest it to the core activity of the organisation;

- They are established by the voluntary decision of their founders, and their members often work as volunteers;
- Their basic documents define their mission, goals, and the main principles of their self-governing operation. Their entire activity is transparent and financially accountable to donors and members alike;
- They are independent and
- Their public purpose operation focuses on the improvement of the situation of people, on certain groups of people, or society as a whole.

*In terms of their functions*, NGOs pursue their redistribution-of-goods and human services together with the state, complementing the activities of the latter; they take part in interest identification and articulation either autonomously, or by initiating dialogues or acting in co-operation with the business and the private sector (on an outworker basis, through personal and collective services).

In Hungary, the not-for-profit or third sector, that is, social economy, is the terrain, primarily, of what we call, collectively, the non-public organisations. Its scope is narrower than that of civil society which comprises NGOs without a legal personality, too. On the other hand, the public foundation, public body, and public benefit association, too, are assigned to this category, although these forms are not established on citizens' initiative. So, in this respect, the term has a wider meaning.

**Over the past one-and-a-half decade, in terms of organisational and legal form, the service providers encountered in social economy were associations – associations of persons, foundations – , that is, organisations operating assets allocated to public purposes on a permanent basis, or public foundations/public benefit societies – that is, public-purpose business enterprises – or, more rarely, public bodies.**

*Associations*, i.e. associations of persons, organised by the citizens themselves, have a membership. Although they cannot be devoted to business activities as a main goal, in addition to interest protection and representation, they are mostly active in service delivery. The beneficiaries are most often the members themselves, who can either satisfy a certain demand in this manner or have access to the relevant service at lower costs. After a while, the activity of a well-managed association extends beyond both its membership and its original geographic scope, and its interest protection and representation options, too, are extended thereby. (Act 2 of 1989 on the right of association).

*Foundations* are established to realise a specific, permanent, public-interest objective, through the definitive assignment of assets dedicated for this purpose. From the moment of the foundation, the founder's rights concerning the assigned assets cease to exist and there are legislative guarantees to ensure that he has no decisive influence on the operation itself. In addition to other, external, funds, the activity is mostly based on the increment of the assets or, more rarely, the assets themselves. If the foundation has fulfilled its mission or is terminated for some other reason, its assets shall be transferred to other, similarly public interest, foundations. (Source: the frequently amended Act IV of 1959 on the Civil Code, into which the concept of 'foundation' instead of the previous 'public interest commitment' was inserted by Government Order No. 11. of 1987). From the point of view of the NGOs, it is important that, especially the association – but the foundation, too, which, however, requires attorney contribution by all means – can be

established at relatively low expenditure, and no mandatory minimum initial capital is specified. The registration and incorporation proceedings investigate the match between the founders' goals and the assets allocated to the goals. Although the relevant responsibility lies with the proceeding judge, the consequences are actually borne by those concerned, and under-capitalisation is one of the classical "false starts" of NGOs.

### **Milestones of legal and organisational development**

The two most popular organisational forms of the civil economy, the association and the foundation, have undergone numerous changes since the early 1990s. Organisational culture has been shaped to a significant extent by the involvement of foreign donors, whose individual grant agreements insisted on the opening of a separate bank account at a time when, according to the Hungarian legislation, one undertaking could have no more than one bank account. They referred to the tax payers' money, and by way of adaptation of their respective national legislations, they requested transparency and accountability and actually enforced these with the help of the biggest auditor companies, often stipulating repayment obligations, too. Sustainability represented the most important criterion: the beneficiaries had to face the fact that their dependence on donors, a convenient situation despite the strict rules, would sooner or later come to an end and someone – the state, the consumer, other donors, or NGOs – would have to take over the role of the financier. It was a development up to the European standards when, under civil pressure, Parliament passed Act 126 of 1996, the so-called 1% act, which ruled that individuals could transfer 1% of the personal income tax first to NGOs and according to a subsequent amendment, to churches, too, at their will.

***Political neutrality figured as yet another criterion in addition to the above under Act 156 of 1997 on public benefit organisations, passed with reference to the already almost 50 thousand NGOs. To date, there are 28 goals on the basis of which an entity can be awarded public benefit or special public benefit organisation status, which entitles them to various preferences and exemptions, and the institutions and conditions of asserting transparency and accountability in relation to the utilisation of public funds have also taken shape. To protect the priority of the civil objective, and also in reaction to the negative judgements expressed in connection with the sector, the Act rules that a public benefit organisation shall only pursue an entrepreneurial activity in subordination to the founders' objectives, without threatening those, and the effective tax legislation specified a sales revenue limit, too. (See the table in the Annex which, although in need of updating, projects a good picture of the enterprises concerned.)***

***This last regulation had no effect of merit on the activity and NGOs of the social sector. Those who work there simply do not think of their activity as 'entrepreneurial', for several reasons: firstly, because the activity relies, to a decisive extent, on public or municipal support, whereas own income from sales revenues is sometimes not even sufficient to cover the expenses. But even if that income is bigger, the social objective overrides that of profit generation, if the latter is present at all, and hence, unfortunately, profit re-investment and organisational development, too. The absence of 'enterprise' or an exclusively negative connotation of the word in the civil sector vocabulary is often due to a considerable extent to deficient management skills and also the lack of measurable success criteria. If the activity is not benchmarked, the risks, too, will get glossed over.***

The Act on Public Benefit Organisations failed to mobilise the entire sector. Many organisations have not registered under it to this day, because they consider the legislative requirements difficult to fulfil and excessively bureaucratic. What is worse, the Act makes accountability rather difficult: it is a framework act which specifies no sanctions of merit. Acts of this kind, passed from the early 1970s to the present day – see the Youth Act or the Act on Equal Treatment and the Prohibition of Discrimination of 2003 – are in a way an admission of the powerlessness of the state as far as these issues are concerned. Nevertheless, they are significant gestures: they call the attention to groups with weaker interest assertion capacities and they also serve as a reference base.

The public benefit reports show that the entities taking the Act seriously have managed to develop their organisations in the past period and to establish the basic routines which give them a certain competitive edge in the struggle for social recognition and support. The latest development in favour of the acquisition of public benefit status was Act 50 of 2003 on the *National Civil Core Programme*. This source, more predictable as far as its conditions are concerned and less so in terms of its accessibility, aims at establishing the economic background conditions of civil self-organisation, in order to enhance civil society, partnership and labour division between the government and the civil population; to promote more efficient public, state and municipal, task delivery.

### **Related organisations in an “NGO guise”**

Since certain forms created on other than civil initiatives may have to be taken into account either as rivals or as partners, let us discuss them briefly here.

A *public foundation* may be established by Parliament, by the government, or a municipality. Its services are meant to satisfy the needs of major social groups or to fulfil important public functions. Their budget is part of the state budget, of the public finances system. Apart from the name itself, the public foundation ranks among the NGOs on the basis of its especially important objectives at the most. The traceability of the utilisation of the decisively public funds is protected by special guarantees – independent auditor organisation, publication of the management data etc. –, but these data do not always convince one of the justified existence of this form. The majority of the public foundations is, moreover, defenseless against the influence of politics ever. In most cases, for example, the founder has a say in the composition of the fund manager body, which makes it difficult to predict the realisation of the founders’ objectives. In case of termination, the remaining assets go to the founders, and the latter shall allocate them to public purposes.

The *public benefit organisation (not-for-profit corporation)* is an interim form between the public and the market-based service-provider institutions. Its establishment is regulated under the Civil Code; its goals and guarantees originate from the Act on Public Benefit Organisations and their activities and rules of operation from the Act on Business Associations. It carries out not-for-profit as well as for-profit activities; it may not distribute its profits, but re-invests them into the core activity. Act 4 of 2006 on Business Associations, to be discussed in more detail below, prohibits the establishment of public benefit organisations as of 1 July 2007, and rules that the existing ones shall be converted into not-for-profit business associations or terminate without succession by 30 June 2009.

Although *public bodies* are not NGOs in the classical sense, they possess the 'accessories' of the regulations applicable to the latter, the prohibition on for-profit activities included. In Hungary, the best-known public bodies are the chambers, which fulfil extensive training, event organisation etc. functions, the revenues of which are re-invested into the core activities. In addition to their public functions associated with their membership, the chambers occasionally exercise supervisory and official powers as well (see Act 92 of 1993, which inserted the public foundation, the public corporation and the public benefit organisation into the Civil Code).

Despite their helper's role and altruistic activities, the churches are without the range of our studies, since the regulation applicable to the lay not-for-profit organisations does not apply to them, and the same is true of the voluntary self-help insurance funds where, despite some shared features, the profits may be distributed.

That is, as far as the *public benefit organisations* are concerned, there are statutory guarantees – lists of objectives, restricted entrepreneurial activity, the criteria of transparent and accountable management etc. – to ensure the actual assertion of the benefits associated with this status, such as easier access to state resources, generally better application criteria etc. However, due to management problems, this does not automatically guarantee prudent financial decisions. The macro-economic processes, and in particular the shadow economy, leave prominent marks on this sector. And despite a strong temptation to do something good, the prospect of no consequences fosters grey deals, too. The spectacular waste, instead of accumulation and expansion of fortunes sometimes undermines the reputation of the traditional institutions of the civil sector and urges the institution of new guarantees. Another argument in favour of the amendment of the relevant legislation is that, although in the process of the registration of public benefit organisations and of foundations, the courts like to see an almost word-by-word reproduction of the sections of the Act, the actual evaluation practice is different in almost every county. The long-awaited uniform not-for-profit act would create a stable background for a coherent legislation concerning the sector, which could be complied with.

### **New acts – new options for changes?**

*Two new acts have been passed recently, which offer the new social economy organisations, about to be formed, a choice, and which might stimulate the existing ones re-consider their identity. Act 10 of 2006 on co-operatives (and Government Order No. 141/2006 on its execution) allows the employment-oriented organisations to create social co-operatives for their unemployed and underprivileged clients. Unless the law provides otherwise, a co-operative may be established by at least seven founding members, with the obligation to underwrite shares. (The share embodies the financial contribution or relevant commitment of the co-operative member.) The founders may include domestic or foreign natural persons, legal persons, and business associations without legal entity – the last shall not be in majority among the members. The extent of the necessary initial capital and the lack of relevant best practices currently puts the brake on the spread of the co-operative form in social economy. However, in case of adequate interest, the Act might offer a framework for the existing co-operation processes and trigger the accumulation of assets for collective purposes, community purposes, and, furthermore, it may restore to its traditions and rights the co-operative movement, which used to exist and was discredited at the time of the change of regime.*

**Section 4 of Act 4 of 2006 quoted already in connection with the future of the public benefit companies states that “Business associations may be established to engage in joint business operations for objectives other than for making profit” (as of 1 July 2007). “Not-for-profit business associations may be established and operated in any corporate form. The corporate name of such business association shall contain the designation “not-for-profit” with the corporate form.” It is very important that “Not-for-profit business associations may engage in business operations only in the form of ancillary activities; the profit from these operations may not be distributed among the members (shareholders) since it shall be retained by the company”.**

**According to the legal regulation, the preconditions and requirements to be met by a not-for-profit business association to qualify as public benefit organisation shall be specified under a separate act. This wording probably refers to the amendment of the act on not-for-profit organisations. The one-year period of grace gives the legislators as well as those concerned a good opportunity to think over the available options.**

The legislators responsible for the codification of the details should take into account, first of all, what would be unwelcome: unclear property and membership relations, the primacy of business criteria over social sensitivity, loopholes to the grey economy. We may, on the other hand, want further simplifications in the area of company registration, with the concomitant accelerated registration procedure, as of 1 October 2007. Or such sector-neutral background regulations as will respect the freedom of enterprising in this sector, too, and will not create further “forced” enterprises.

The following criteria should be taken into account to review the solvent demand, market opportunities, and other resources of our activities and to take a qualified decision as to whether we should proceed with our social and/or community enterprise under the new or the old conditions:

- What does the vision of the organisation look like? Is self-sustenance – which makes profit-oriented business activities compatible with the social objectives a must – a realistic objective? How will our mission change, our objectives and tasks expand under the new arrangement? Do we command sufficient competences to implement the new ones?
- What are the advantages for our client and partner relations of a change of legal form implying more conscious organisational/for-profit operation?
- Won't we lose volunteers and members by enterprising (consider the occasional trust deficit deriving from the civil form when pondering this issue)?
- Are we aware of the fact that the ancillary business activity implies more risks and an enhanced responsibility, too, as compared to the previous state of affairs?
- Will the circle of our supporters expand or narrow as a result of the change? What type of lobbying is necessary to make the social activity eligible for support from every operational programme affected by its activities and if that is ensured, what further criteria should it meet? (It is worth reading through Act 34 of 2004 on support for the development of the small and medium-sized enterprises, although social economy is beyond the scope of this act as yet.)

*Things you should know about the optional legal forms of associations*

It is important to know the most frequent company forms for two reasons. Firstly, to be able to choose the optimum business management form for our own social economy activity and, second, to be familiar with the legal forms our contractual partners or other actors encountered in the market may take. Let us present some legal concepts which may be of relevance to our own choice.

### *Legal vs natural person*

- The natural person is a human individual. The organisation called ‘legal person’ in the legislation may acquire rights and undertake commitments. The rights and commitments apply to the organisation, not the natural person acting on its behalf, since the former is distinct from those who act within its framework. From among the associations, the general partnership and limited partnership lack the legal status of a legal person, but they nevertheless have *legal capacity*. Under the law, they may obtain rights and undertake commitments, such as acquire property, conclude contracts, sue and be sued. The private limited liability company and the (public or private) limited company is vested in legal personality; the provisions and guarantees associated with their operation presume that they have paid employees with adequate professional grounding.
- The entities in the first two forms are micro-enterprises with few staff members; the private limited liability company and the public or private limited company are possible legal forms of medium-size or large companies. The costs of the foundation and operation of organisations vested with legal personality are significantly higher than the corresponding ones of simpler organisations, except if they use standard contract templates for the foundation process (general partnership, limited partnership, private limited liability company).
- The other important criterion of relevance for the choice of the legal form is the *liability* issue. *Limited liability* means that the legal entity participating in the business activity separates a segment of its property, the initial capital/share capital, for the purpose of the undertaking. The undertaking shall be liable for any losses to the extent of the initial/share capital, and even if the outstanding claims exceed that, it shall not be obliged to pay the rest from its own property; in the latter case, the unsettled debt is the loss of the creditor. *Unlimited liability*, on the other hand, means that the business entity earmarks a certain capital for the purpose of the undertaking, and if that is not sufficient to cover the debts, the undertaker shall be liable to the extent of his entire other property. Note that the above apply to the *liability of the members of the business association*. *Each of the associations presented above has unlimited liability, that is, they are liable for the debts of the association to the extent of their entire capital.*
- *The two modalities of personal liability for outstanding claims are especially important for the value-based organisations of social economy.* If several persons are collectively liable, they may bear unlimited and joint and several liability. *Joint liability* means that the creditor may demand any of the debtors to settle the entire debt. In case of *joint and several liability*, the creditor may demand each debtor to settle his/her own segment of the debt. In case of joint liability, none of the debtors may refer to having contributed a smaller amount to the debt itself, but must settle the entire debt. In comparison with the customary internal relationships of the NGOs, joint liability establishes very tight links between the members, as each member is responsible for the debts of another to the extent of his/her own property. (The general partners of limited partnerships, for example,

typically bear joint liability.) In private limited-liability companies and in limited companies, the members have limited liability, to the extent of their initial capital in the first and the nominal or issue price of their shares in the latter case.

- The choice of legal form is influenced to a large extent by the statutory *minimum capital* required for foundation. There is no such limit for the general and the limited partnership, but the members have to provide the association an initial capital. The minimum capital is HUF 3 million for private limited liability companies and HUF 20 million for limited companies.
- In view of the typical *modus operandi* of the social enterprises, it is worth weighting the fact that *personal contribution* is not mandatory, but possible and typical, in a general or limited partnerships; it is possible in private limited liability companies and not possible in public or private limited companies. The number of the *founders* may also be a criterion: general and limited partnerships may be founded by several persons only, and private limited-liability companies and limited companies by one or several persons.

The above criteria are important for the entrepreneurs, too: it is no accident that the association top list is headed by the limited partnership, due to the simple foundation, capital withdrawal and termination regulations applicable to it. Private limited liability companies, made attractive by their relatively low initial minimum capital and limited member's liability, are second. Other selection criteria include the relevant provisions of the accounting and tax legislation and the advantages and disadvantages implied by them; the bigger or smaller time demand of management and administration; the expenses of a more sophisticated operation procedure; mandatory auditor contribution or the necessary extra expertise requiring further training. The various legal forms are furthermore associated with different degrees of prestige and some are more fashionable than the others.

The most important criterion, however – and our standpoint is unchanged in this respect – is the nature of the activity and the determination to pursue a for-profit economic activity: *the form is defined by the contents and not vice versa*.

There are numerous other details to be taken into consideration in the selection of the legal form, which can be reviewed with the assistance of a lawyer or legal counsel – the founding documents must be countersigned by an attorney anyway. It is not a good idea to listen to those who encourage copying a memorandum of association from a computerised database and having it drawn up in a notarised document. Every case is different and, especially, the participants are different: if the wrong liability form is chosen, after a bad business year, we may not only weep together with our business partners, but risk the family property, too. These, however, are already the risks of operation – but these, too, can be reduced by a review of the rules of *company registration, the company registers and other information* to determine whether our contractual partner is an authorised signatory, whether it commands certain assets and the memorandum of association actually contains the activity which is to figure in our contract.

### **Foundation of business associations**

*Act 4 of 2006 on business associations* allows founding the following as not-for-profit business association:

- general partnership (kkt),

- limited partnership (bt)
- private limited liability company (kft) and
- limited company (rt).

The instrument of constitution of the business association is, usually, the *memorandum of association*, or, for public or private limited companies, the *articles of association*. These documents include some items which are *mandatory under the law*, and others which are *subject to the agreement of the parties*.

According to the Act, the instrument of constitution shall be drawn up according to a standard form, i.e. *qualified formal requirements*, or in an authentic instrument prepared by a notary public or a private document countersigned by a lawyer. This provision serves market protection purposes. For, as of the date when the memorandum of association is countersigned or executed in an authentic instrument, the business association may operate as the *pre-company* of the business association, and may commence to engage in business operations, with the exception of any activity that is subject to prior official authorization, and some organisational activities. It would be detrimental to the contractual parties if the court would annul the memoranda of association on a mass scale in retrospect; therefore, the foundation regulations have been tightened instead.

The association is established upon registration by the court of registry in the register of companies. In what follows, we shall briefly outline some features of the potential legal forms of not-for-profit associations; it is suggested to read through the act, too, to have a reassuring background knowledge of the topic.

### **General partnership**

The members of the general partnership (Hungarian abbreviation: kkt) undertake to jointly engage in business operations with unlimited and joint and several liability, and to make available to the partnership the capital contribution (cash, contribution in kind, valuable rights/interests).

The general partnership (kkt) is one of the simplest business association forms. It is typically a form of association of persons, closely related to the members, which has no legal personality, but may acquire property, conclude contracts, and be sued. .

This form is selected, usually, if the entrepreneurs have little capital for an activity pursued jointly by several persons, or the undertaking is not capital-intensive (consulting, mediation, training/re-training, information and other service provision). If our contractual partner is a general partnership, it is worth asking some guarantee – surety, lien – or requesting a bank guarantee, since no mandatory minimum capital is required for this legal form.

Any member of the partnership may participate personally in the activity of the partnership and they shall provide, exclusively, the management and representation duties.

The *business manager* shall decide on such issues of the association as, for example, the definition of the business and financial plan, the specification of the business strategy, the operational business decisions, work organisation etc. The *representative* may acquire rights and commitments on behalf of the association, e.g. conclude contracts. The rights of business management and representation shall lie exclusively

with members, as a general rule, with all members. The law provides *control rights* to those who do not exercise management/representation rights.

The members usually decide on the issues of the association with a *simple majority*, but in some cases the Act provides for three-quarter qualifying majority or unanimous decision-making. The members, too, may specify such cases in the memorandum of association.

### **The limited partnership**

The members of the limited partnership (Hungarian abbreviation: bt) shall undertake to jointly engage in business operations, where the liability of at least one member (*general partner*) for the obligations not covered by the assets of the partnership is unlimited, and is joint and several with all other general partners, while at least one other member (*limited partner*) is only obliged to provide the capital contribution undertaken in the memorandum of association, and, with the exceptions set out in the Act, i.e. fraud or certain abuses, is not liable for the obligations of the partnership. The previous unlimited and joint and several liability of the limited partner mentioned in the company name has been cancelled.

The capital of the bt, which may be cash, contribution in kind or valuable rights/assets, shall be provided by the members to the association. Personal contribution is usually the task of the general partner, but the Act makes it possible for the limited partner, too, to take part in the activity of the association, and a limited partner of a limited partnership founded after 01 July 2006 may be entitled to represent the association if the memorandum of association so provides. According to the old rules, the limited partner may control the management and information and request to have an insight into the documents, and may object to a planned measure of the general partner appointed as business manager and representative if he considers that it represents a threat to the association. As for the *decision making mechanism* of the limited partnership, the *members exercise their member's rights at the members' meeting or by way of fixing their votes in writing or in some other verifiable manner voting in writing or any other certifiable manner*. The Act defines the circle of those decisions that require qualified (3/4) majority or unanimous vote. However, it is also possible to regulate the circles of cases subject to the latter under the memorandum of association.

### **The private limited liability company**

*Private limited liability companies* (Hungarian abbreviation: kft) are business associations with legal personality, founded by one or several persons, with an *initial capital* (subscribed capital) consisting of capital contributions of a pre-determined amount, in the case of which the liability of members to the company extends only to the provision of their capital contributions, and to other possible contributions as set forth in the memorandum of association. The company shall bear unlimited liability to creditors, to the extent of its assets. The private limited liability company is one of the most popular legal forms of association; its special terminology is the following.

The *initial capital* represents the capital of the company, and it consists of the totality of the capital contribution of the individual members. The *capital contribution* is the capital provided by the members to the company. That is, the initial capital is owned by the company and the capital contribution by the individual members. The Act specifies the minimum amount of the initial capital, which may not be less than *HUF3 million*. The new

regulation cancelled the mandatory cash contribution rate, that is, the kft may also be founded with contribution in kind. The capital contribution defines the extent of the *capital contribution of the member*. Each member shall have one capital contribution, which may vary in value, but the minimum amount is HUF100 000.

Following registration of the company, the rights of members and their share from the assets of the company are embodied by their *business shares*. The capital contribution is a numerically definable nominal value, e.g. HUF300 000. The business share is a ratio, that is, in a kft with initial assets of HUF3 million, the business share based on capital contribution of HUF300 000 represents 10%. This 10%, however, may be worth more or less than HUF300 000. For, if the assets of the company increase as a result of its business activity, the members are entitled to the increment, too, in proportion of the rate of their capital contribution to the initial capital. Consequently, a business share of a kft boasting growing assets can be sold at a much higher price than the equivalent of the original capital contribution. If a kft has initial capital worth HUF3 million and assets worth HUF6 million, a business share of HUF100 000 is worth HUF200 000. And, vice versa, if the initial capital of the kft is reduced by half, the capital share of the member in the company will be exactly half of the capital contribution. The rights of members and their share from the assets of the company are embodied by their business shares. The rights and obligations of the transferor attached to his membership shall pass to the party acquiring the business shares. The rights and obligations are associated with the capital: the profits (or losses) shall be distributed among the members in proportion with their capital contributions. It is also possible to define different privileges – more votes, dividend etc. – for the same capital contribution in the memorandum of association, to acknowledge thereby the bigger contribution of the member concerned to the profit-making activity thanks to his extensive market skills and business contacts. Or, to quote another example, if one member commands certain technical skills, it is reasonable that he should command more power in decision-making on technical issues, that is, he should be entitled to more votes.

During the company's existence, members may not reclaim from the company the capital contributions which they have provided, apart from capital reduction. This strict rule is attributable primarily to market protection reasons. The members have *limited liability*, and the creditors' only cover is the capital of the company. If the exiting members could take out their contribution, that would be detrimental to the creditors. Therefore, if a member wants to reclaim his contribution, he can only do so by selling his business share. In this case, the other members of the company and the company itself have *pre-emption right*. By regulating the pre-emption right, the legislator can ensure that the company be based on trust, that is, that no outsider, not welcome by the members, should enter it.

The kft, a legal person, has a *differentiated inner organisation*. *The members' meeting* is its supreme body, consisting of the totality of the owners (the members). The Act defines the exclusive powers of the members' meeting, such as the distribution of the profits, the increase/decrease of the initial capital, supplementary contributions, organisational and personnel issues, e.g. selection of managing director, supervisory committee, auditor, issues pertaining to the relationships of the members such as the initiation of the exclusion of a member, cancellation/division of business shares, amendment of the memorandum of association, termination of the company. The *order of operation* of the members' meeting is also defined under the Act. The representative body of the private limited liability company, responsible for the *operative tasks*, the keeping of the books

and the management of the administration, is the *managing director*. The company may have several managing directors, as well as a *supervisory board*. The supervisory board is the body of the owners, operating in their interest, and its main task is to *control* the management. In a single-member company, and if the capital reaches a limit specified under the Act, an *auditor* shall also be chosen. The auditor's main task is to ensure the compliance of the operation of the company with the provisions of the Accountancy Act.

### Limited companies

Whereas the private limited liability company is typical of the small- and medium-size enterprises, the *public limited company* is the legal form of large organisations. The capital of the public limited company is the *share capital* (subscribed capital) consisting of shares of a pre-determined number and face value, in the case of which the obligation of members (shareholders) to the public limited company extends to the provision of the face value or the issue price of shares. *Shares are equity securities representing membership rights*. *Securities* are documents embodying the right included in them. This means that the claim and the security are so closely intertwined, that it is impossible to enforce a claim deriving from a security without the paper. Another feature of the security is that the owner of the security does not have to certify his/her actual right to the claim embodied by it. Possession of the paper is equivalent to the possession of the entitlements: the person presenting the security has neither more, nor less right than what is included in the paper.

Since the security represents rights, its *formal requirements* are rather tight. If a contents element, e.g. place of issuance is missing from the document, it can no longer be regarded as security and hence it is not associated with the legal effects of securities. Securities may represent different rights, e.g.:

- Pecuniary claim (bill, cheque, bond)
- Commodity claims (warehouse receipt, bill of lading)
- Member's right (share).

Shares representing identical rights constitute a *share type*. The public limited company may institute various share types in its articles of association and make a distinction among the shareholders that way. The public limited company is a large organisation, usually with thousands of shares and shareholders. Therefore, the Act imposes certain quantity limits on the share types and also the quantity of shares issuable within one type.

As for their types, shares may be *inscribed* (personal) or *bearer* shares. On the first one, the name of the shareholder shall be indicated, and in case of transfer, the name of the new owner shall be inscribed on it and the transfer itself shall be reported to the public limited company. The Act makes a distinction between public and private limited companies. The shares of a limited company operating privately are not offered to the public/traded on a regulated market. These are usually companies with a smaller staff. This makes it possible to have the management tasks performed by the general director instead of the management board. The Act also allows the management board to convene the shareholders' general meeting by personal invitation, without announcement in the official journal. The rules of operation of a private limited company approximate those of a private limited liability company.

A public limited company usually includes a high number of shareholders who do not know one another. This feature is reflected in the rules of operation. The supreme organ of the company, the *general meeting*, operates according to strict rules. The sessions are to be announced publicly, and the agenda items to be made public. If the company fails to do the latter, the omitted agenda items cannot be discussed. The minutes of

every general meeting are to be forwarded to the Company Court, so that the latter may be able to exercise *judicial oversight*. It is mandatory for the company to choose a *supervisory board* and an *auditor*. The operative body of the public limited company is the *management board*, operating as corporate body, which is its body of representation. The constitution instrument of the public and the private limited company is the *articles of association*. In a public limited company, the articles of association have to be voted by the general meeting, and a certain proportion of the shareholders, as defined under the Act, must accept it. This makes it possible to extend the scope of the provisions of the articles of association to shareholders who voted against it, provided that it was voted for by a sufficient segment of the shareholders.

## **Recommendation**

To date, the social and community enterprises carry out their no doubt important activity under varied legal forms, but most often under public benefit associations established by small NGOs or by the municipalities. According to the new Act on Business Associations, the legal form of public benefit company cannot be chosen any more in the future, and those who have such associations are given a certain period of time to consider the transformation of the legal form of their undertaking.

To date, the existence of the social and community enterprises is an achievement in itself, and hence their form and effectiveness are secondary issues until the activity itself outgrows the framework setting and provokes a change in the interest of progress. Despite the obvious dysfunctions, the legal and regulatory reactions tend to be belated, and the self-development and renewal of the organisations themselves are also less frequent than necessary. It is also known that there are entities worth billions or hundreds of millions especially among the profit-making not-for-profit organisations. The latter consider their civil status something of a bed of Procrustes, and neither is it certain that it is justified that they enjoy its benefits, but they would not alter their status so long as it implies such advantages. Without intending to restrict the freedom of the choice of legal form in any manner, we would risk the statement that social economy does not always exist under the most appropriate forms. The above was an attempt to highlight the necessity, options and risks of change through the presentation of the past period and the identification of its contradictions. The reader may have felt more and more perplexed by the time we got to the limited companies, but let's hope that the options of supplementary capital attraction through the issuance of not-for-profit shares and the consequent enrichment of the social capital will nevertheless ring a bell. And if this is so or will be so by the time the section on the not-for-profit business associations will come into force, we have a good chance to initiate changes which are not overdue.

## **12. Needs assessment (Márta Lévai)**

Before the commencement of activities in the area of social economy, needs assessment also has a special role both on the medium- and short-term. It is a basic element of strategic thinking described in the first chapter.

### **Why is needs assessment necessary?**

The implementers of social economic activities financed from EU development funds in more developed member-states of the European Union largely face up to the issues of sustainability and further financing exactly at the same time with the concept of this Handbook. Since in the 2007-2013 programming period the sources of the Structural Funds supporting the implementation of the European cohesion policy are available to a large extent for the new accession countries, the governments of old member-states, as well as the players of social economy will be forced to re-value the resources invested in the maintenance of subsidised activities, and the scope of new funds to be raised. This example should motivate the players of new member-states to take serious notice of the outcomes to be achieved from subsidised activities, and the issue of sustainability already in the phase of planning.

Before launching the activities, a cautious assessment of the needs and the actual situation may help clarify the problems to be addressed by the planned activities in the case of a given target group or region. It should be looked at to what extent the person initiating the activity has a chance for success (market revenues) in an open-market competition on the medium-term, and where it is necessary to lay larger emphasis on the solution of local social, community problems, and target for subsidised activities that are more protected from the perspective of the market. The thorough exploration of needs, the snapshot of the current situation, and interim evaluation in the course of action may better justify the role of an organisation, acting for addressing a problem, and the role of the supporting decision-makers.

Unfortunately, grant schemes in Hungary have not encouraged sufficiently the current or potential players of social economy to base their activities on thorough, up-to-date and target group oriented needs assessments. Bidders in this area often consider the “writing” of a needs assessment report as another redundant burden in addition to numerous administrative requirements, and instead of preparatory, analytical work, they come up with a set of data and information gathered from the Internet and from literature. Thus it could happen even to organisations with long traditions and high technical experience that after successful bidding, they had to re-adjust the methods and activities chosen for the solution of the problem because the originally identified target groups of newly created services described in the bidding documents simply did not need the service offered to them. Or, in some of the regions, it was a typical Hungarian problem that the same unemployed person was targeted as a target group member by several successful bidding organisations at the same time, thus organisations “competed” with each other for the unemployed. Similar problems can be avoided by prior information collection and analysis of the services of the target groups and areas.

A direct contact with target groups established already during at the beginning of the preparation, and maintained later may facilitate the fulfilment of expectations in connection with the activities of social economy, such as focusing on local problems and

unmet needs, searching innovative solutions, and articulating the ideas of target groups, reinforcing their “ownership approach”.

### **The theoretical aspects of needs assessment**

Needs assessment is a structured form of information gathering and analysis based on the following aspects. It

- Should explore targeted information (on a specific economic sector, geographical area, target group, employers of a given sector, etc.),
- Should contain up-to-date, regularly and easily refreshable information (to facilitate the drawing of trends),
- Should support decision making on development priorities and projects rather than being a scientific research,
- Should strive for the collection of comparative data, however, not assuming the conduct of overall or statistically representative assessments.

### **What should be the scope of needs assessment?**

Needs assessment may have several dimensions depending on the author, the aim with which, and the situation in which it is made.

In an attempt to review and transform the regional social policy with the aim of utilising the opportunities offered by social economy, the work aimed to map up and analyse needs or to define priorities should be broad and overall involving the representatives of regional economic development, employers, social, employment and training services, disadvantaged target groups, and regional/municipalities. The scope of a thorough assessment of needs shall cover:

- Identification of those with disadvantages on the labour market within the group of unemployed and inactive persons, and definition of the size of individual groups;
- Identification of common, recurrent or specific factors hindering employability;
- A review of regional services provided for the unemployed and the inactive population (also including training opportunities in addition to social and job brokerage services) with special regard to the extent to which services are able to provide individual support, and are flexible;
- A review of the responsibility and competence sphere of support services, their network of relationships, the technical readiness of service providers with special regard to the relationship with employers;
- Assessment of new job creation opportunities with special attention paid to the activity of regional businesses, and the availability of support services given to the starting and incubation of businesses;
- Assessment of job vacancies;
- A review of the coverage of community services, and the efficiency of currently available services;
- Medium-term funding opportunities for social economic activities.

Before an organisation starts a new activity in the interest sphere of social economy, it will have to collect effective information about the following needs:

- The launch of the planned servicing or production activities is based on a market research including the assessment of unsatisfied community needs and the

- potential group of customers – (see chapter 14. On the preparation of a business plan for more details about business plans);
- The sphere of those to be considered as an employment target group (size, composition, etc. Of the target group);
  - Factors hindering the target group's reach of the labour market, and their employability (e.g. Lack of vacant jobs, geographical accessibility, lack of work experience, deficient labour market skills, lack of basic competencies, intra-family caring obligations, lack of part-time job opportunities, health status, etc.);
  - Current, work-supporting qualification, work experience (even if informally acquired) and labour market competencies of the target group ;
  - The requirements and needs of the target group in connection with working and employability (e.g. Working time, the kind of work suitable and desired, potential scene of working, specific training/development requirements, debt management, management of mental and psychological problems, etc.);
  - Support/development services provided for the target group in the region, or the lack of services – service providers' willingness to cooperate;
  - Cooperation opportunities with other market players in connection with the planned business activities (e.g. Assessment of supplier opportunities, labour-transfer, etc.);
  - Conditions facilitating the active participation of community members in connection with social/community activities.

The status exploration activity does not only mean the collection of information, but also the multi-faceted analysis of phenomena behind the data, the figures and the needs expressed by the target groups, and their comparison with other similar regional or national data. This fact-finding and analytical work leads to the definition of the priorities of the strategy/programme or project, and the setting of development directions.

While collecting the data, it is worth noting that if the affected players need external support (e.g. from the EU Structural Funds) for launching their activities, then the financier will have specific aims with the funds made available, the achievement of which will be measured with different indicators. During the needs assessment, it is worth collecting these up-to-date indicators to make our life and the lives of external evaluators/monitors easier later by being able to demonstrate the contribution paid by our own activities to the achievement of overall objectives. (There is a complex set of indicators to measure the objectives of the European Employment Strategy, from which some of the most important ones are: the employment level of the population in the active age-group – separately highlighting the employment levels of women and elderly people -, participation of the employable population in labour market trainings, their level of school qualification, the knowledge of foreign languages, etc.).

### **Information sources**

Information and data for the purposes of needs assessment may be used from the following sources:

1. Internationally reconciled indicators (available through EuroStat at the European level)
2. Official statistical data (always data officially published by the statistical agency of the given country, in our case the Hungarian Central Statistical Office)

3. Research findings (may be research or assessment activities conducted by ourselves or other organisations, in the case of which we know of the research methods and the population of respondents)
4. Administrative data from different agencies or bodies (e.g. data from municipalities, municipal institutions, employment organisation, chambers, etc.)
5. Partial information (e.g. information relating to the members of an association representing the interests of target groups, or information from business associations)
6. Data from monitoring systems, and the results of programme or project evaluations (e.g. scope and size, etc. of the target groups of ESF subsidised projects with contracts in the local region)

In the above list, the sequence of points also indicates the weight attached to the credibility, and international or national acceptability of these sources of information. The internationally reconciled statistical data (e.g. Eurostat data) are verified, their content is defined and exact, they are collected and updated consistently at an international level – however they may probably not compete in terms of their freshness or territorial accuracy with the administrative data about job seekers at local job centres, or in terms of their relevance with data and information collected by an organisation on its own target group.

The purpose of needs assessment and the available needs assessment capacities is to determine the type, the sources, and the frequency of information collection and analysis. In choosing the sources of information, we would recommend the following aspects:

- if we want to influence national or regional trade policy makers, we should build in information from the first 3 categories,
- If we wish to base our plans on the most recent information, we will probably have to give up the idea of information verification (job centres mostly have more recent labour market data than the central statistical office),
- We should get convinced whether the data apply to the target area or target group defined by us (e.g. The more easily accessible job centre data do not cover the target groups of social benefits),
- There will be no more relevant information source than the research made for current plans by the proprietary organisation, so it is best not to save the time to be invested in this,
- Before comparing the data we should make sure that they are comparable (e.g. Due to the changes of data service obligations, the data collected in the same area for two different years may often not be comparable),
- In collecting data in relation to the target groups, we should pay attention to gender and age group related information, because certain aspects of subsidising employment developments may be reinforced with this information (e.g. The horizontal aspect of gender equality, employment of older employees, etc.),
- We should always meet the requirements of the data protection legislation,
- Being down to the point and screening out redundant information are always important elements of the needs assessment work, and in the course of this extracting work we should always remember to accurately state the content and sources of information, also protecting ourselves from any irritations later.

## Research and forecasting

Needs assessment, problem analysis, and the definition of objectives consist of hierarchical, multi-cycle sets of activities. The problem tree, or goal tree, set up after the analysis of information available from external sources, and generated within our own organisation may raise further questions in our planning activity. We wish to get familiar with the needs and future expectations of a certain target group, a potential owner and customer circle or a cooperating employers' group, but this information cannot be obtained without directly enquiring from the representatives of the targeted group. For this purpose, it is recommendable to conduct our own survey, make our own forecast, and smaller assessment. It should be stressed that the assessment made in this way should not be of a scientific depth, or of a statistically justifiable dimension, as in most cases there is not sufficient organisational capacity for this. At the same time, however, we should endeavour to elicit answers to our questions in the investigated topics in the highest possible number among the interviewees, as this will ensure that our needs finding activity will be most efficient. Therefore, we recommend that the contact should be personal (eventually through the telephone) (in the form of interviews, focus group discussions), as these methods can better address the selected persons than a questionnaire sent in a letter or e-mail.

For the purposes of preparing a questionnaire-based survey, questioning, analysing and documenting the answers, there is serious scientific literature available, and there are renowned businesses working in this field. It is not our aim here to discuss either its scientific background or the business opportunities inherent in this work. We wish to encourage organisations active or starting up in social economy to devote time to getting familiar with their own region, the local society, and their target groups. Tapping on the technical know-how available within the organisation, or at the support services, they should start structured information collection and status reporting, which will make their planned activities more founded, and the representation of their target groups' interests more efficient.

*Three major questions* should be addressed in planning our assessment:

### Question 1 – What do we want to get an answer for?

We should define and articulate our questions for which we want to get answers in the simplest possible form. We should always keep in mind that the respondents are also busy, or may have no trust if they cannot share our goals. Therefore, we should try to put our questions accurately, in the shortest and simplest form possible. We are often enticed by our hunger for information to preparing lengthy questionnaires, but it is better if we can consciously focus on the main point.

As social economy tries to find opportunities for solving social problems generated by the market economy, in our needs assessment we have to strive for getting familiar with the needs related to the strengthening of the tissue of local economy, labour market, social capital and local society. Economic information can give a lot of assistance to starting up our enterprise, and due to their more systemised nature, they are more suitable for influencing decision makers. Gaining knowledge about the situation of the local society and communities (human motivations, willingness to cooperate, trust or the lack of trust, etc.), however, may help in better planning for time and energy consuming

activities which will enable our target groups to actively participate, initiate and develop an ownership approach.

We should always do a trial questioning before we launch our survey. We should ask someone to answer our questions, which may help in assessing to what extent we managed in formulating clear-cut, intelligible questions. We can also see whether the answers ensure the information searched by us. If necessary, we should modify our string of questions.

Example: In a region, it is sufficient to put a few job vacancy exploring questions to a defined group of employers in order to know the jobs in the case of which the labour market of the region does not respond to demand. The questions may be the following:

What is the current number of employees?

How has the number of employees changed for the last 6 months?

In which jobs has there been a change?

Have there been any situations for the last 6 months where job vacancies could not be filled?

Is the answer is yes, please specify:

- the job for which you were looking for a recruitee?
- what was the number of vacant jobs?
- what qualification or competence were you looking for in an employee?

## Question 2 – How should we elicit answers to our questions?

We should define the form in which we wish to get answers to our questions, and the way in which we want to get in touch with the respondents.

Since social economy is aiming at the development of the local society, we can legitimately assume that it is possible to establish a contact locally with the potential respondents. We should make use of this opportunity, and should strive for personal and direct questioning. This will probably mean more respondents in the sphere of those contacted. We can put our questions privately, or in the form of small group discussions, and we can also create an opportunity to introduce our objectives, and initiate partnership relationships. A personal interview often gives us additional information, impressions and news that otherwise we would not have been able to obtain.

Example: Continuing the above example, in which we questioned employers about vacancies in search of measurable information that is easy to structure, it is worth asking the questions also personally during a short visit, where we can also talk about our goals to the selected employers, that is our potential partners. Thus, we can personally get acquainted with the employers, and can gain impressions about the work culture.

Then we should arrange the answers received from the employers into a consistent database. We may published summary data, or use them in influencing local decision-making without naming the individual employers. If we repeat the questioning half-yearly, we will be able to depict local trends on the labour market.

It may, however, happen that we already have information about job vacancies in the region, and we are rather after the answer of what keeps job seekers from taking up these jobs. In such a case we have a more complex question to find the answer for. As in such a case we are investigating economic, social and psychological reasons behind

human decisions, it is a good idea to have focus group interviews with one or two groups of the affected job seekers.

### Question 3. –Whom should we ask?

We should define the number of people (members of the target group, representatives of employers, other institutions and organisations, etc.) that we will contact, and the way in which we will select the respondents, the interviewees from the specified population. In our preliminary information collection we have already defined the target groups for the purposes of our investigation, and the main categories within those, therefore we know their size. This should be compared to the needs assessment capacity we have. It is important that at least 4 different representatives of the targeted main categories should give answers to our questions, because only this can give us a truthful, comparable picture based on the answers. If we wish to question the representative of an organisation, institution or business, we should make sure during the first contact whether we have are meeting the person who is competent in answering.

We should directly contact the selected persons with our questions only after the sample has been picked.

Example: Continuing the example of mapping out earlier vacancies, we should explore which of the business sectors are dominant or important for our investigation in our region. We will probably find micro, small, medium and large businesses (or eventually affected public figures) locally in these economic sectors. We should contact at least 4 business representatives in each category. As the number of large businesses is usually small in the individual regions, and at the same time, they are the largest employers, therefore their questioning will cover a major part of the information relating to employees and jobs.

It is important to brief our colleagues asking the questions, or documenting and analysing the answers for the survey. They should be clear on the nature of information targeted by the questions, the confidential and ethical background of interviewing, and we should define the way and content in which answers are to be documented together with the members of the research group. If the questions are posed by different interviewers, it should be assured in advance that they interpret the questions in the same way, because this is the only way in which we can get information from the answers suitable for analysis.

Having collected the answers in a structured way, we should notify the output of our survey to the representatives and experts of partner organisations operating in the region, and possibly to the experts of as many technical areas as possible: economists, lawyers, social experts, labour market specialists, experts of regional planning, etc. We should get their opinions in interpreting the findings, formulating conclusions, and later forming objectives and activities.

Trust is always a very important element in a survey conducted in this way. First of all, we are naturally bound by confidentiality, which means that – unless otherwise agreed – we shall not make the name of the information source public, and shall thoroughly analyse our materials to be published from this perspective. We may cause harm especially to players in the competition, if we accidentally leak out news about their plans or intentions.

Trust, however, has another facet, also, which should be kept in mind: the question is whether we believe the interviewees, and whether we are willing to base our future activity on their answers and the findings of the surveys. There is a lot of distrust in local societies. It is worth contemplating this question in advance, because it will be superfluous to conduct a survey the outcome of which will not be able to affect the plans of our organisation.

Example: If we stick to the example of job vacancies, and assume that the result of the survey is that several contractors were unsuccessfully looking for persons to be hired for certain construction works (e.g. surface covering), will the author of the survey believe this information, and plan a rapid reaction programme that may broaden the offer of this trade, skilled work in the local market? If the author of the survey, due to some other information or beliefs (e.g. he thinks that building contractors do not abide by law when hiring employees, do not pay the expected wage, etc.), does not consider this information in his work later, then the survey was a redundant work investment.

### **The needs assessment report**

We should summarize the methods, results and most important conclusions of the needs assessment work in one document. We should use it for the justification and reinforcement of decisions brought at different levels. Let us share it with our partners and the stakeholders. We recommend that the document is built with the following content and in the following structure:

1. Introduction: which specifies the aim and time of the needs assessment, and its most important questions for exploration.
2. Executive summary: in which we briefly demonstrate the most important findings of the needs assessment, and our conclusions.
3. Introduction of the region: in which we give a concise economic, demographic, and social picture of the target area of our investigation with statistical data and institutional administrative data underlying our statements, also depicting the local human and community care system.
4. The needs assessment: in which we give information about our assessment work: the questions investigated, the methods of the survey, the way of sampling and the size of the sample.
5. Introduction of the findings of the needs assessment and conclusions – this part introduces, if necessary, in several chapters, the results of our investigation, and our conclusions drawn from the results in relation to local social and labour market developments.

If we wish to use it as an independent report, the document relating to the status assessment shall be published, with a short summary in the closing chapter of the planned activities decided upon after the analysis of the status report.

The needs assessment document shall be in all cases shared with our partner organisations and our interviewees.

## 13. Strategic planning (Éva G. Fekete)

### 1. The importance of strategic planning

*Strategy* is the basis of forming the future. *Strategic planning* is a precondition to building the future, and a means of change. It is a continuous activity for bringing to life ideas and principles reflecting given interests under certain environmental conditions, and with the help of a systemised plan.

A *strategic plan* is a result oriented plan depicting objectives and expected results, an action plan leading to the achievement of results, an ability plan relating to the means necessary for implementation, and a management plan for the allocation of expenses and yields, the order and scheduling of partial operations, all together. (Korompai, 1995)

In the course of employment development based on local initiatives, strategic planning helps the community preparing the plan in

- clarifying the directions of its development
- highlighting priorities most reflecting their interests
- enabling them to manage resources in a way that minimises conflicts within the community, and increases efficiency by combining parallel efforts
- clearly managing the pursuit of action
- channelling both state and private business sources
- motivating those participating in the development, and involving stakeholders.

In addition to the above, during strategic planning

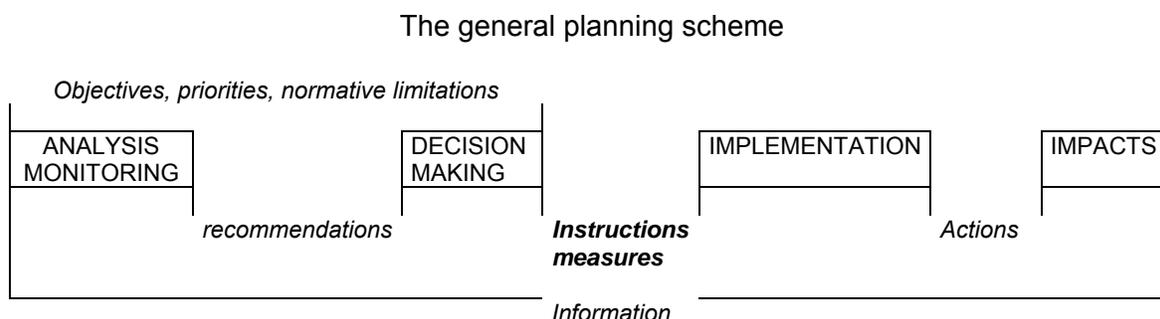
- an information system is created, which is both suitable for the continuous provision of information necessary for well-founded decisions, and the continuous follow-up of changes in the implementation of the strategy,
- creativity and the spirit of innovation hidden in the region is surfaced,
- contribution is given to changed mentality, and a reformed set of values,
- the abilities of the participants improve, and their commitment to the region increases.

The above listed favourable impacts can be achieved if the strategic plan is really future oriented, creative, flexible, initiative, programmable, change oriented and focused on long-term success (sustainable). (Csath, 1996.) Therefore, it is by no accident that grant schemes also set as a basic precondition of access to subsidies the preparation and submission of a strategic plan.

### 2. The process of planning

The process of planning is not a one-off action. Therefore, it cannot be ticked off by preparing a plan document. The acceptance of the plan document means the closing of a planning phase, which then is immediately followed by the founding of the next phase, which is the indication of changes in the original situation, and of necessary strategic modifications by way of monitoring results. Therefore, planning as a process, and the preparation of the plan documentation should be distinguished. However, the second is a very significant stage in the former one, because ideas can only be communicated to others if they are written down, otherwise an important impact of the strategy, the gaining of partners and their involvement in implementation cannot be expected.

### The usual elements and process of planning



Source: based on L. FARAGÓ (1997)

There are several basic types of planning known.

- a. Allocation planning strives for the optimal and possibly most effective allocation of safely existing or envisaged resources among development needs and the participants of the development.
- b. Innovative (development-oriented) planning does not focus on the allocation of resources, but surveys the opportunities of renewal, and tries to find the opportunities of resource mobilisation, and the novel forms of implementation for this purpose.
- c. Radical planning is a string of actions going against the prevailing trends of the socio-economic order, and aiming at basic structural changes.

None of these types can be propagated as the absolutely progressive one, and it depends on the actual situation, which may be the most effective.

### The course of developing regional development strategies based on local initiatives

During the planning of the employment strategy – similarly to any other strategic planning – we are trying to find answers to four major questions:

1. Where are we?
2. Where do we want to go?
3. How can we get there?
4. How do we know we have got there?

Before we start looking for answers to the above questions, we have to clarify “the interests we are serving”, that is who we are making the strategy for? This question for clarification also includes the definition of the spatial scope of the strategy, and the group of stakeholders. There may be different interests even within the same region. For instance, small entrepreneurs, multinational companies wishing to settle in the region, the central government, ethnic minorities, etc. all have clearly definable interests. Employment development strategies based on local initiatives are usually based on the broadest interpretation of the interests of the locally resident population. Normally, the

solution of the employment problems of the population is formulated as a basic objective, the nature and scale of which solution depends on local conditions.

**The development of employment developing strategies based on local initiatives may be most successfully done in a joint effort by the local work group affected by the strategy, and external experts. The participation of local people is indispensable as the point of such a development method is active participation in planning, and building on local knowledge and willingness to act. The role of external experts in the proper application of methods surfacing local opinions and ideas, and in the transfer of general solutions and those experienced in other regions is in revealing values and problems noticeable with the eyes of “an external person”, as well as in the proper documentation of planning. In the course of planning parts of the work to be done by the local taskforce, and by the experts can be distinguished. Therefore we can talk about:**

- *local group work*, when the basic questions of the strategy are outlined and decided with the involvement of the local taskforce
  - main actors: politicians
- *field work*, when the local taskforce and the external experts establish a direct contact in the form of some sort of work distribution with those living in the region in order to get deeply familiar with the broad public opinion and the local conditions
  - main actors: implementers
- *expert work*, when the external experts carry out analyses and work out recommendations based on their technical expertise.
  - main actors: planners

The different work phases are intermittent during the preparation of the strategy.

In the following part we will overview the individual steps of employment development strategy making based on local initiatives.

Table 4

### The sequence of developing strategies for micro regions

	<i>Local group work</i>	<i>Field work</i>	<i>Expert work</i>
<b>PREPARATION</b>			
Involvement of the right people	Proposal	Convincing and motivating individuals	Development and evaluation of a personality assessment test
<b>Clarification of basic interests, setting up a starting hypothesis</b>	<b>Creation</b>		<b>Facilitation</b>
Drawing the geographical boundaries of the plan	Information collection Creation		Assessment making Facilitation
<b>WHERE ARE WE NOW? – status evaluation</b>			
Definition of the process and means of the assessment	Proposal		Preparation of means
Analysis of the external environment			Analysis
Assessment of local resources	Information supply	Information collection	Analysis
Assessment of regional relationships and potential partners	Information supply	Information collection	Analysis
Analysis partner and competitor activities		Information collection	Analysis
SWOT analysis	Creation		Facilitation
Brief status report	Creation		Facilitation
<b>Approval of status assessment</b>	<b>Decision</b>		<b>Documentation</b>
<b>WHERE DO WE WANT TO GO? – OBJECTIVE</b>			
Clarification of basic values	Information supply		Analysis
Development of vision	Creation		Facilitation
Definition of objectives and tasks	<b>Creation</b>		Facilitation
Priority setting	Creation		Facilitation
<b>Approval of development objectives and priorities</b>	<b>Decision</b>		Documentation
<b>HOW CAN WE GET THERE? – FORMULATION OF DEVELOPMENT PROPOSALS</b>			
Consideration of the application of basic strategies	Proposal		Briefing
Looking for and consideration of alternatives	Proposal	Information collection	Analysis
Articulation of development proposals (programmes)		Partnership building	Proposal
Proposals to ensure a system of development conditions (human resources, technology, capital, partners)			Proposal
Proposals for the institutional system of development			Proposal
Proposal for the development of regional marketing strategy and the PR background of the development		Probing proposals of	Proposal
<b>HOW DO WE KNOW WE HAVE GOT THERE? – MONITORING</b>			
Setting up of a monitoring system			Proposal

<b>Approval of the proposal making phase</b>	<b>Decision</b>		Documentation
Feed-backing	Information supply	Information collection	Analysis
Integration of feed-back results	Creation		Facilitation
<b>Initiation of the preparation of a new document</b>	<b><u>DECISION</u></b>		Proposal

### 3. Application of the logical framework method in strategy development

The *logical framework method* comprises two elements. The *analytical phase* helps to bind the project to real problems and to concentrate on the causes of the problems, while the application of the *logical framework matrix* aims at the logical, consistent and transparent build-up of the whole project.

**In addition to ensuring relevance, feasibility and sustainability, the logical framework method enables stakeholders to recognize and analyse problems, to define objectives and activities that support the solution, and also helps implementation and evaluation.**

In the middle of the logical framework method stands the logical framework matrix. This is a 4x4 table (or 5x4 in a modified version), in which the most important parts of a project may be summarized. Thus, it discloses:

- the logical hierarchy of the intervention strategy comprising project activities, outcomes and the targeted strategic objectives,
- indicators relating to the individual objectives, and providing their quantitative and qualitative specification,
- the definition of information sources giving an idea of the achievement of the indicators,
- resources existing for the purposes of project achievement, and conditions that are still missing,
- the cost requirement of implementation.

Although the following items are not part of the logical framework matrix, but should be disclosed for the overview of the whole project:

- Partners
- References
- Subsidies received earlier for the same or a similar purpose.

Figure 4

Logical framework matrix

	<b>intervention strategy</b>	<b>indicators</b>	<b>indicator sources</b>	<b>assumptions</b>
<b>strategic objectives</b>				
<b>project goal</b>				
<b>Results</b>				
<b>activities</b>		<b>sources</b>	<b>costs</b>	
	<b>partners</b>	<b>references</b>	<b>subsidies received earlier</b>	<b>precondition</b>

**The logical framework matrix makes logical relations more transparent between activities, results, missions and objectives, and forces the plan developer to define conditions, risks, indicators and their information sources.**

***Definition and justification of development needs with the application of the logical framework method***

The status assessment is normally closed with the SWOT analysis highlighting the strengths and weaknesses of the area, as well as external opportunities and threats<sup>5</sup>

Problem analysis

In order to define the intervention implemented through the project, in the first step we have to highlight the problem, for which we want to find a solution with the project. The priorities in the already completed development programme or the call for bids will naturally define the highlighted areas.

**Then we have to explore the cause-effect relation system belonging to the highlighted problem.**

**It is important to continue with the definition of causes until we find a sensible answer to the question of “why” that derives from the specificities of the area. Finally, we get a problem tree similarly to the one underneath.**

Goal analysis

As a simple grammatical exercise, we should re-formulate the individual boxes of the set problem tree into goals. If the cause-effect relations have been set up properly, the goal tree will show what problem solution requires the implementation of what partial tasks. This is the way to ensure a tight correlation between project goals and revealed problems.

A detailed and logical problem analysis may help us not only depict the system of goals, but also justify the project – for the purposes of bid writing. In the justification of the project all we have to do is introduce the individual elements in the problem related cause-effect system. This method ensures a clear logical link between justification and goals, which will convince supporters of the relevance of the project.

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<sup>5</sup> The method of the SWOT analysis has become generally accepted by now, therefore we do not wish to describe it, but we would like to call attention to some – often error generating – aspects: 1. We should not forget, that strengths (S) and weaknesses (W) based on the development topic and the person of the developer comprise internal factors, while opportunities (O) and threats (T) comprise factors to be considered as external. 2. We should provide a rank order of the factors classified in individual groups based on their importance, because this will help a lot in the articulation of the short status evaluation, vision, and strategies. 3. The analysis does not come to an end with the set up of factor groups, it rather starts then. We should weigh the interrelation of the factors, based on which we can best define the strategic areas most suitable for the given situation, as well as the (offensive, defensive and maintenance) strategies.

Figure 5

Problem tree

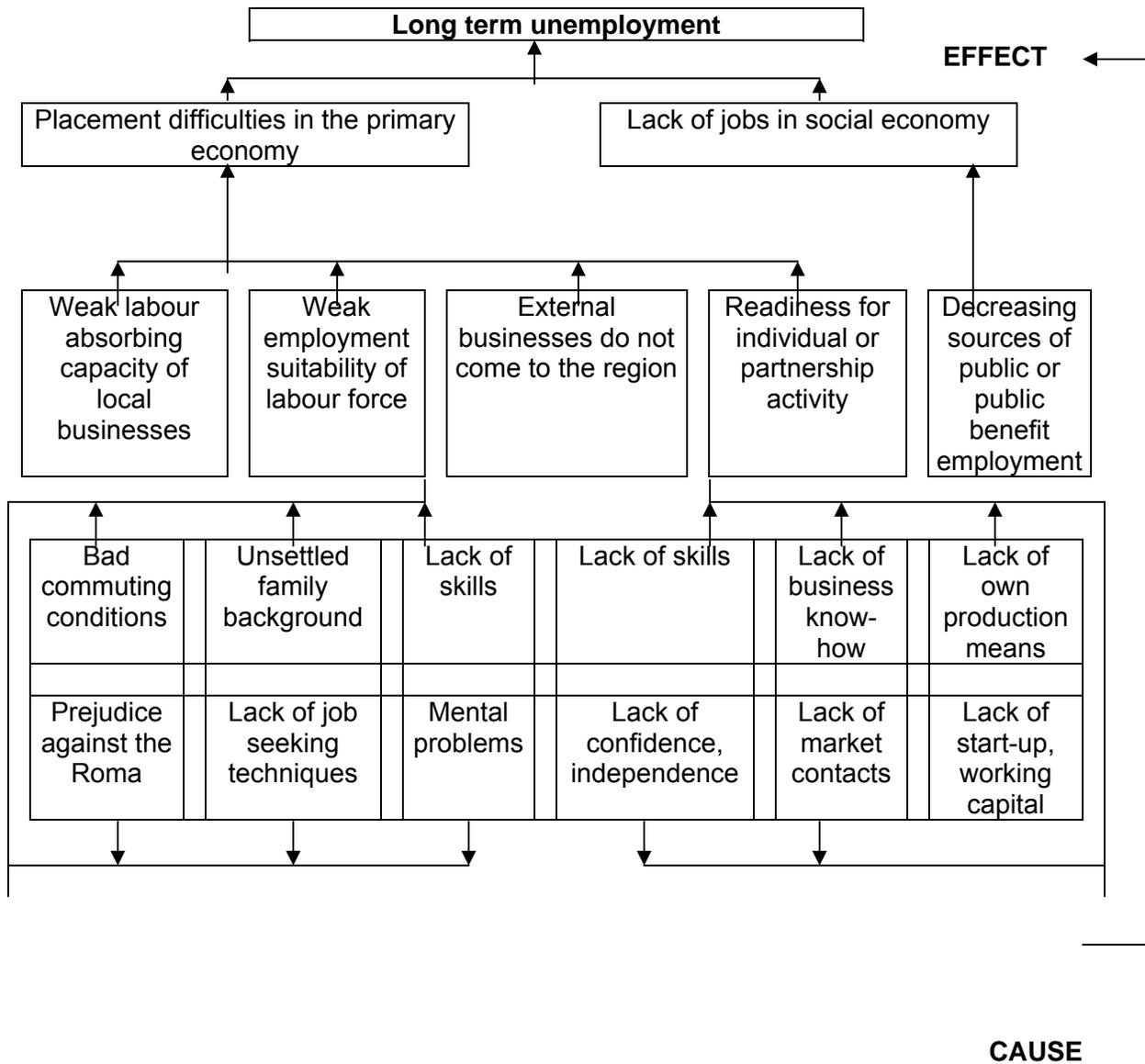
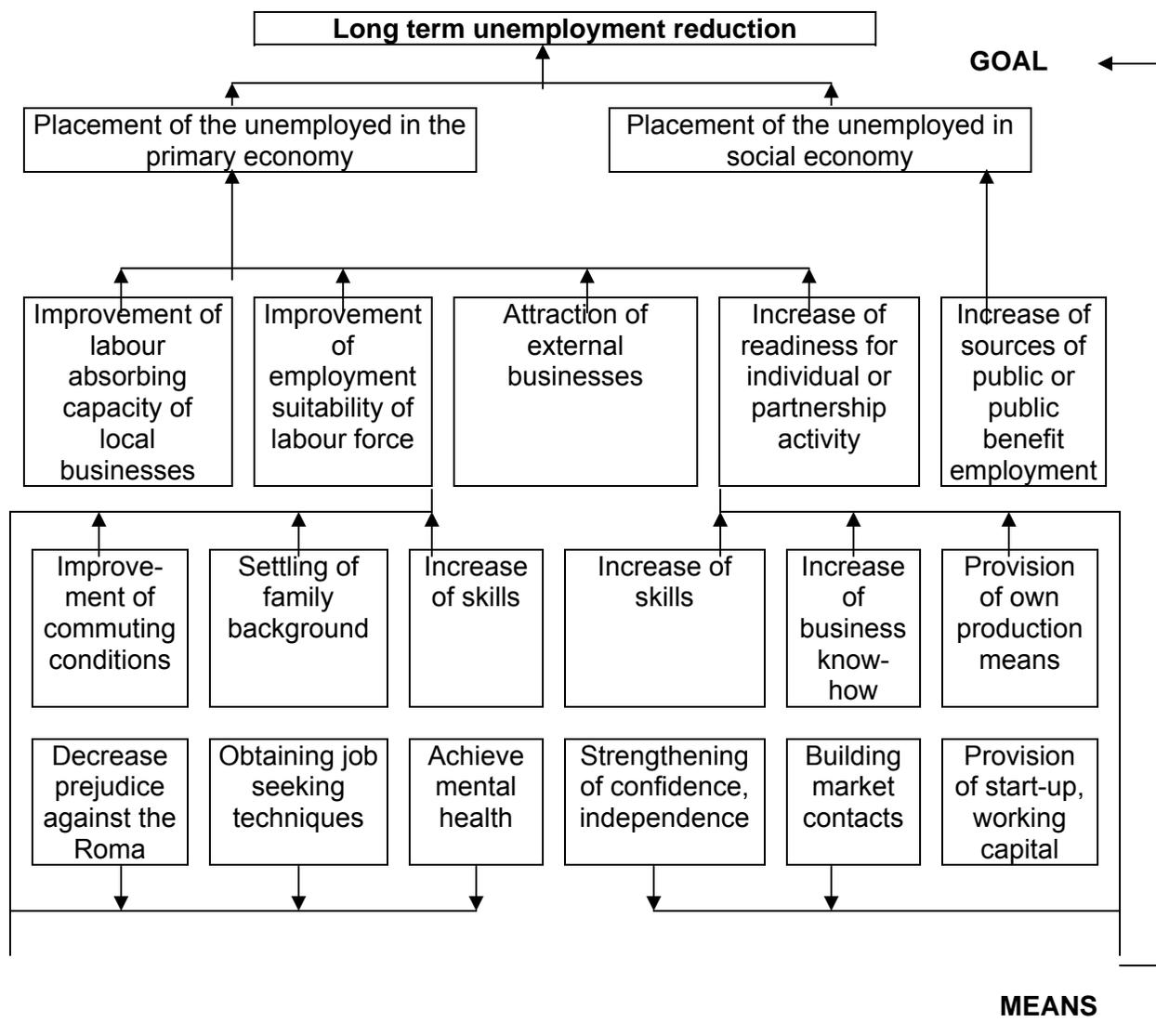


Figure 6

Goal tree



## Strategy analysis

In the last phase of the analysis, the strategy necessary to achieve the desired objective is selected. This is when we decide what possible intervention directions, and what indicative projects we want to select.

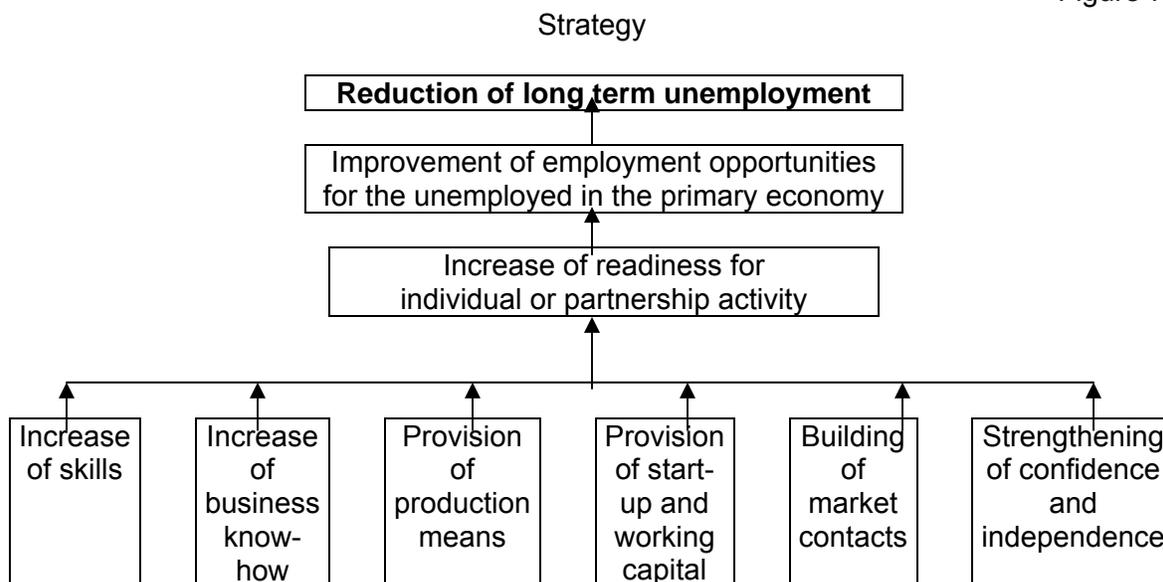
We can find the solutions of individual tasks through projects. We can select the intervention roadmap with the help of the goal tree, which – within the available time and realistic resources – guarantees the achievement of the main goal of a specific task, and also meets the main selection criteria below.

1. suits the basic development principles and basic values, which means that it cannot go counter other project implementation objectives, or the idea of development,
2. the knowledge and information background and the technical conditions are ensured for the implementer,
3. financial resources are ensured, which means that the necessary own source is available, and in one of the available grant schemes implementation and the implementing organisation can be supported to the necessary extent,
4. efficient, which means that invested resources bring the greatest result along this road and within the given time period, and that the invested resources are proportionate to achievable results,
5. has a drawing or multiplying effect, which means that implementation induces progress also in other subsystems of the goal tree, and other similar goal trees,
6. minimises conflicts, which means that it does not incite too large conflicts, and harms the interests of others to the least possible extent.

Therefore, the strategy contains target groups that can be fitted into the programme of some project in the function of available time and resources. The strategy overviews the feasibility of different interventions, which may result in a shift in project focus. Therefore, when we have selected the strategy, the project goal and its general objectives are more or less fixed.

In the case of our example the possible strategy of interventions may be as follows:

Figure 7



## Definition of intervention details with the logical framework method

### The logical definition of the intervention

The strategy serving as a basis for the project is called intervention strategy. It is the explanatory description of the project at all the four intervention hierarchy levels used in the logframe.

- *The strategic objective* is given by the articulation at the top of the tree, which is the same as the objective in the call for bids.
- *As a project goal* we should highlight from the aim tree the specific, articulated goal raised as the consequence of the result, and serving the strategic objective.
- *The result* is the direct tangible outcome of the project, its direct output.
- *Activities* should comprise the tasks to be carried out in order to achieve the result.

The individual elements of the intervention strategy are logically built on each other. This means that it has to be shown clearly that in case if the activities are performed, the result can be achieved, and that the result will help the project goal to fulfilment, which will contribute to the achievement of the strategic objective.

(The relevance of the set of objectives, that is their suitability for the purposes of the programme will be shown by the correspondence of strategic objectives, while compliance with the needs of the target group will be shown by the correlation of the problem tree derived from the problem analysis, and the resulting goal tree.)

Table 5

	<b>intervention strategy</b>
<b>strategic objective</b>	Reduction of long term unemployment
<b>project goal</b>	Placement of disadvantaged unemployed persons in the primary economy
<b>results activities</b>	<p>Workforce getting ready for independent or cooperation artisanship</p> <p>Selection of the project manager and employees, work carrier planning</p> <p>Mentoring, mental preparation (2 months)</p> <ul style="list-style-type: none"> <li>- training in weaving, basketry, woodworking and pottery</li> <li>- personality development training</li> <li>- training of business and tourism skills</li> </ul> <p>Capital investment, purchase of fixed and capital assets</p> <ul style="list-style-type: none"> <li>- establishment of 2 artisans' houses</li> <li>- purchase of 4 weaving looms, 3 potter's wheels, hand-tools, 3 wood-saws</li> <li>- purchase of base materials</li> </ul> <p>Employment (6 months)</p> <ul style="list-style-type: none"> <li>- operation of artisans' houses</li> <li>- payment of wages, taxes and contributions</li> </ul> <p>Development of skills, background social work, business service</p> <ul style="list-style-type: none"> <li>- hiring mentors</li> </ul>

	<ul style="list-style-type: none"> <li>- one day training per month</li> <li>- hiring a sales manager</li> </ul> Establishment of a cooperation <ul style="list-style-type: none"> <li>- preparation of business plan</li> <li>- preparation of deed of foundation</li> </ul>
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Definition of indicators and their sources

Objectively controllable indicators show whether goals have been achieved at the individual levels of the logframe. The appropriate monitoring system can then be developed on the basis of these indicators. The “objectively controllable” attribute means that different persons measuring the same indicator get the same results.

Indicators are objectively measurable ratios and specifications that give the quantitative (pieces, persons, m, m2, m3, tons, HUF, %...), qualitative (category, level, attribute relating to target group, function, competence, place, topic), or time-based (permanent, periodic, ...yearly) definition of the results.

Indicators belonging to the result, project goal and strategic objective are all to be defined. If for a given objective we are unable to specify for whom, how much, in what quality, by when, and when we want to implement, the objective will have to be re-formulated. Result is connected with output, project goal is connected with result, and strategic objective is connected with impact indicators.

Table 6

	<b>intervention strategy</b>	<b>Indicators</b>
<b>strategic objectives</b>	Reduction of long term unemployment	Reduction of long term unemployment by 4%
<b>Project goal</b>	Placement of disadvantaged unemployed persons in the primary economy	Placement of at least 10 participants in the primary economy
<b>Results</b>	Labour force prepared for individual or cooperative artisanship	20 trained artisans prepared for cooperation founding in 4 trades, in 5 settlements

In addition to indicators, information sources helping their control should also be defined. When defining indicators and their sources, we should note that they should follow the SMART principle, that is they should be:

- detailed and specific enough (Specific)
- Measurable (Measurable)
- Available and achievable at an affordable price (Achievable)
- Credible and realistic (Realistic)
- Adjusted to the life cycle of the project (Time-based).

Table 7

	<b>Indicators</b>	<b>Indicator sources</b>
<b>Impact indicator</b>	Reduction of long term unemployment by 4%	Report of job centre
<b>Result indicator</b>	Placement of at least 10 participants in the primary economy	Follow-up report, certificate of the receiving organisation
<b>Output indicator</b>	20 trained artisans prepared for cooperation founding in 4 trades, in 5 settlements	Test log, remarks by mentors, participants' evaluation sheets

We mostly use information available in internal records and official statistics to measure impacts, but independent data collection is also often needed. In such a case we should take care that we go for a reliable, but not too expensive assessment method.

The definition of the indicators and their sources has an impact on the definition of the scope, content, form and frequency of records and reports to be developed by the participants during project implementation, and on the development of the monitoring system.

#### Definition of resources and costs

Resources comprise human, material and financial resources necessary for the completion of the planned activities, and the management of the project. In order to facilitate the accurate estimation of necessary project resources and costs, planned activities and activities necessary for management should be defined.

We should start the assessment of conditions necessary for project implementation by taking stock of the already existing resources. We have to make a list of what we will need for project completion at the individual levels of the intervention strategy. If we have this, we have to write these items to the “resources” box. Resources may comprise existing own source either in cash or credit, available buildings, equipment, already existing permits, plans, human resources, etc.

We may create any further necessary conditions either in the project itself or they will be put in the still uncertain “assumptions” column. Finally, all the necessary components will have to be disclosed in the matrix.

Table 8

<b>resources directly for the project</b>		<b>as a background</b>
<b>human resources</b>	Mentors Trainers	Project managers Assistants
<b>technical conditions</b>	3 existing artisans' houses 2 properties that can be reconstructed as artisans'	Office infrastructure

	houses 1 weavers' loom, 1 furnace, 2 wheels, transport vehicle Training infrastructure	
<b>financial resources</b>	2 million HUF in cash	

Evaluation of assumptions/risks

The success of a project often depends on more than merely the project interventions, but also on certain external factors, and specific assumptions. External factors may be identified by brainstorming for each and every level of the logframe. In addition to project interventions, other success factors can be found on the line under interventions.

We should follow a bottom-up direction in exploring conditions along a kind of logic, which allows us to look for what is needed alongside the results and impacts achieved at a certain level for the accomplishment of a goal at the next level. I.e.:

1. what preconditions should be fulfilled for the successful completion of the activities,
2. if the activities are completed, what else is needed for the achievement of the result,
3. and if it is also there, what is needed for the achievement of the project goal, and finally,
4. if the project goal has been reached, what conditions are needed to achieve the strategic objective and the related indicators.

The disclosure of conditions also enables the analysis of risks. We have to give consideration to the likelihood of their occurrence. If the occurrence of any of the important conditions is not likely, we have to try to transform the project. If we do not succeed, the project cannot be implemented, and the idea has failed.

Table 9

The logical risk analysis algorithm

<b>1. Is this external factor important?</b>			
No			Do not put it in the matrix
Yes, and	<b>2. Will it occur?</b>		
	Almost certainly		Do not put it in the matrix
	probably		Put it in as an assumption
	probably not	<b>3. Can we modify the project?</b>	
		Yes	Modify the plan
		No	Project failed

	<b>Intervention strategy</b>	<b>Assumptions</b>
<b>strategic objectives</b>	Reduction of long term unemployment	
<b>project objective</b>	Placement of disadvantaged unemployed persons in the primary economy	Long-term demand for artisans' products Higher effective price than costs On-going market research and product development Established sales channels No more lay-offs, downsizing
<b>results</b>	Labour force ready for individual or cooperative artisanship	Basic capital necessary for cooperation founding Smart cooperative management Marketable products Market relations started
<b>activities</b>	<p>Selection of project manager and employees, work carrier planning</p> <p>On-the-job training, mental preparation (2 months)</p> <ul style="list-style-type: none"> <li>- working out of programmes in different subjects, Handbook writing</li> <li>- training in weaving, basketry, woodworking and pottery</li> <li>- personality development training</li> <li>- training of business and tourism skills</li> </ul> <p>Capital investment, fixed and working assets purchases</p> <ul style="list-style-type: none"> <li>- establishment of 2 artisans' houses</li> <li>- purchase of 4 weaving looms, 3 pottery wheels, hand tools, 3 wood-saws</li> <li>- purchase of base materials</li> </ul> <p>Employment (6 months)</p> <ul style="list-style-type: none"> <li>- operation of artisans' houses</li> <li>- payment of wages, taxes and contributions</li> </ul> <p>Skills development, background social work, business service</p> <ul style="list-style-type: none"> <li>- hiring of mentors</li> <li>- one day training per month</li> <li>- hiring of a sales manager</li> </ul> <p>Founding of a cooperative</p> <ul style="list-style-type: none"> <li>- Preparation of a business plan</li> <li>- Preparation of a deed of foundation</li> </ul>	<p>Aptitude for artisanship</p> <p>Prevention of attrition</p> <p>An easy-to-produce product scale</p>

		<b>precondition</b> Reaching and involving long-term unemployed people interested in artisanship
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Definition of budgetary headings

We have to see the order of magnitude of expected costs as early as at the inception of the project idea. Costs can be defined by taking into account amounts disclosed as indicators for the individual activities. An Excell sheet may be handy. The spreadsheet shall contain:

- the cost type
- the measurement
- by activity and in total:
  - volumes
  - unit prices
  - total costs.

We should also calculate cost types that cannot be accounted for in the project, but will probably occur. Such are usually “general” management costs, or eventually the costs of working assets insurance.

In the case of a fixed or maximised budget, if we overrun it at the first go, we will have to change the activities or the indicators. In such a way, the definition of the main budget lines may have an impact on our preliminary forecasts, and may ask for their modification.

Table 10

<i>Cost type</i>	<i>Measurement</i>	<i>1. activity</i>			<i>Total</i>		
		<i>Quantity</i>	<i>Unit price</i>	<i>Total</i>	<i>Quantity</i>	<i>Unit price</i>	<i>Total</i>

Further information

It is expedient also to disclose in the table information related to the bidders and the preceding history. We simply list partners participating in implementation in the partners box. References should contain the summary of earlier outputs significant from the point of view of the project. In relation to earlier received subsidies, the provided amount related to identical or similar project objectives, but supporting other than the current activities and results should be disclosed, as well as its % based share from the total project cost. Logically, references and subsidies should be disclosed next to each other.

**Working out further details of the strategic plan**

In addition to the status assessment contained in the answer to “where are we?”, the vision and set of objectives given as an answer to “where do we want to go?”, and the

description of the project goals, activities and conditions, as well as the assets and liabilities answering to “how do we want to get there?”, the strategic plan should also contain the planning of the organisational infrastructure and possible financing of implementation. The preparation of a monitoring plan revealing the method of answering “how do we know we have got there?” is also part of the strategic planning.

#### Definition of the organisational background

##### **The description of project management contains:**

- the identification of the participants of strategy implementation, and the description of their partnership,
- the introduction of the structure, duties and decision-making competences of the body managing the implementation of the strategy,
- the possible composition of the leader of the group managing the programme, collaborators and external technical partners.

#### Preparation of a monitoring plan

As part of the strategy, we should know already in the planning phase how we wish to know whether we have achieved our objectives, and how we want to sense the necessity of changing the strategy. We will probably need to change our strategy if:

- there is a significant change in the environment
- the capability of the organisation changes: personal, technical, financial conditions
- the activity carried out by the organisation changes
- the activity of larger partners, competitors changes significantly
- we manage to achieve results, and fulfil our objectives.

Consequently, following the completion of the strategy the monitoring system should be able to follow up the above changes. A precondition of this is an information system showing the initial status, and the existence of a team, which carries out the evaluation of the information from time to time.

When building out the information system, we have to exercise special caution in setting up the system of monitored indicators. It is especially difficult to create a system of indicators that can follow the changes in the environment, and is not too broad. The status assessment part of the strategy may help us here.

The changes of organisational capabilities and activities can normally be followed easily, the only thing we have to pay attention to is to make a review from time to time, and draw our conclusions as to the sustainability of the strategy.

In order to monitor the activity of our partners and competitors it is necessary to have a “list” summarising the most important partners, and to have live relationship with them. In reviewing the situation of our own organisation, we always have to find the way to overview also the changes in the situation or activity of “listed” partners having an outstanding role in the strategy, or in our system of relationship established with them. We also have to put on our “list” new partners and competitors, or erase already vacant partner relations.

The most interesting point of the monitoring plan is the follow up of achieved results in strategy implementation, and their effect. The feed-backing of results is necessary on the one hand for a further phase of strategy planning from the perspective of strategy correction that will be definitely necessary sooner or later, and on the other hand for the motivation and strengthening of the participants of strategy implementation, and for the PR activity. If we have formulated too general aims in our strategy, or have not paid attention to the detailed elaboration of performance indicators, our results will not be traceable. Here we have to use the points defined in the indicators and their sources columns of the logical framework matrix. The monitoring of the indicators marked there should be built in the information system, and should be evaluated in regular periods in line with the schedule of the strategy.

### **Approval of the strategy**

The strategy should be approved by the community/body that has worked it out. Legislation on regional planning gives the right of making development concepts to the territorial development associations of municipalities, and on the basis of the provisions, this association has to approve the complex small regional development strategy, similarly to programmes, with the comments of the county level development councils.

Naturally, other organisations initiating bottom-up development may also work out employment strategies or development programmes based on local initiatives so as to carry out their work on this basis, or obtain funds for the achievement of their objectives. In such a case, also, it is recommendable to reconcile with the competent multi-purpose small regional association or associations because different sectoral strategies relating to the same geographical area may cancel each other out, and may lead to wasted resources.

It is expedient to publish the document discussed at different forums and approved by the body in order to make it available to the most possible number of local and external stakeholders, to have it built into their strategies, and to provide a basis for the partnerships to be established.

## 14. Development of a business plan (Anikó Soltész)

*In effect, planning is an objective setting activity, with which we can define the main objective that we wish to achieve, and the partial goals that facilitate progress. There are several plans made in the life of a business, and the business plan is a kind of synthesis of these.*

*A business plan aims at not less than proving it to everyone, but especially the owner, manager and possible financiers of an enterprise that the business idea is viable, feasible, and the set objective is attainable – and possibly measurable.*

*With a little exaggeration we may say that this document has as many variations as companies preparing them. But whether we prepare it for ourselves or for our potential partners to be involved, or even for external financiers, there are indispensable content elements in it. We have to give consideration to these even if the preparation of a business plan has diverging features among social and community enterprises. What do we mean?*

- There is no solvent demand for part of the products and services of social economy especially in disadvantaged regions. In social economy, referred to as an active labour market measure, it is not a priority to have such solvent demand because the substitution effect is raised in the relation of subsidy versus aid. Market substituting subsidies hide the real costs of production, and postpone contemplation of their competitiveness, by which they usually provide short-term problem solving.
- Social and community enterprises usually cultivate the soil, produce, trade and provide services. If they are alone, they are in a monopolistic status – no matter how strange it sounds. If there are several ones operating next to each other, the market will price – regardless of the sector -, and the sometimes ill-considered free of charge status will depreciate their products. Pricing is often done at the level of domestic prices. This market for instance depreciates consulting-brokerage services. In other cases global prices make their impact – when in the case of our ragcarpets IKEA's dumping price on the far-East is the basis for comparison. But if there is no solvent demand, the more or less detectable market judgement manifested in unsold products is still there. Progress towards a sustainable social economy competes not by applying for further subsidies but by reducing costs and being unique.
- Phare projects had been weaker, the current EU projects have been more consistent along the logic of intervention and indicators – at least at the project level – in introducing measurability, making sustainability a time-based measure without these earlier shown by organisations as basic objectives. This means that the subsidised outputs of social economy have to face up to both subsidised and market conditions.
- Similarly to others, the enterprises of social economy also started out with the hope of success. The chance of failure is only increased if in the case of sources for the community and from the community no attention is paid to the risks of the

activity, and management is not pursued with the expected care and conscientiousness.

*The above means that project economy does not, and may not stand on its own without overall strategic and business plans, or economic integration. For instance, the social land programme even in itself is an important element of the reduction of local poverty, but it can only contribute to its elimination more effectively if on the basis of the increased demand for excellent goat cheese, further work places will be generated.*

## **Vision and strategy**

*Proactive organisations in social economy in effect make the outline of a strategic plan when articulating their missions and objectives, and then their activities based on the objectives. A longer term – at least for 3-5 years – strategy lays the foundation for bringing members closer to the objectives of management. The mission comprising the most important values and standards becomes a motivational source of daily work, and also serves the external communication of an enterprise. The task is not easy. When a cash flow forecast or revenue forecast for the next three years is expected for the purposes of filling out a bid, the players of economic life will say: this is impossible, because they are happy if they can see what will happen to them in half a year's time.*

However, we should not stop here: thinking over the uncertainties, analysing the risks, or putting it differently, a preliminary impact analysis – may give us reassurance, and may prove our careful approach for the financier.

*Strategic planning is primarily an attempt at thinking as a result of which – if we come across (solvent) demand – we can define what we produce, service and why? Who will be our customers, and how to reach them? What financial objectives do we wish to achieve, and on the basis of what earlier criteria – e.g. job creation, rehabilitation, etc. – can we say that the enterprise is successful? Who help us in achieving the set objectives and how? In addition to mere subsistence or gaining wealth, how do we serve the interests of our tighter or broader community or region? If we have contemplated all these, and their alternatives, and have put all these into beautiful words and convincing figures, and our colleagues and potential customers like the result, then we may start the detailed elaboration of the business plan, and we may start testing ourselves in real life.*

## *Content and structure of the business plan*

If we got convinced through our train of thoughts of the viability of the planned enterprise, the *business plan* may be prepared as a written document, which after having the specific objectives of the undertaking set, and the operational opportunities systematically explored, will contain the steps of normal business and the compromise based (action) plan.

The development phases of enterprises are the stages of business planning. The business plans of start-up enterprises serve the description of the development trajectory, and those of mature enterprises serve change management in terms of a new product introduction, or an old product discontinuation, profile enlargement, diversification or strategy modification.

Business planning, therefore, - on the basis of discrepancy between forecasts and actual data, and the changing circumstances – is an on-going activity updating conditions and objectives, and as such, it is an important means of risk mitigation.

A business plan is a kind of proof for *the enterprise and the supporters/financiers*, that:

- the management has systematically assessed the market, competitors and risks of the business;
- they have thought over the optimal utilisation of objective and human resources;
- disclosing the detailed description of product technical parameters in the case of production companies, focused marketing in the case of a trading company, and expertise and customer orientation in the case of a service provider is a guarantee of good market acceptance;
- own sources are sufficient, or external financing is needed;
- continuous information is ensured on corporate performance;
- the knowledge of strong and weak points facilitates active reactions and market monitoring.

On the basis of the stability of the macro environment or its frequent changes and unpredictability, we have to see clearly what depends on us for the success of the enterprise, and when can we legitimately refer to “circumstances”.

Business plan versions made for optimal, realistic and worst situations are called scenarios. Plans and versions made with the care of a good master are also marketing tools selling the enterprise.

Based on the importance and versatility of the demonstrated data, the whole or parts of the business plan can be made confidential. Publicity, however, is an important market factor, it is worth publishing a short version of the plan as information material or on the Internet homepage.

*The structure of a typical business plan follows the following parts:*

- Introduction
- Summary
- Description of the enterprise
- Description of products and services
- Marketing plan
- Operating plan
- Management and organisational plan
- Financial and financing plan
- Risk analysis
- Time schedule of activities
- Annexes

Introduction

**It gives a brief half/one-page summary of the most important data of the enterprise:**

- Name and address of the company,
- Date and number of incorporation,
- Tax number,
- Name of account managing bank, bank account number,
- Data of owners,
- Data of corporate management, and
- The short description of the company’s sphere of activities and its business activity.

### *Summary*

*It contains important statements from other chapters of the plan, possibly in a style that raises interest for the whole work. It gives a briefing on business ideas, the market opportunities, risk factors, financial background of the enterprise, and the success factors. Obviously, it can only be prepared if the whole of the business plan has been completed. Its ideal length is maximum 3-4 pages.*

### Introduction of the enterprise

In the case of preceding history, we start with a brief corporate history: date of establishment, activities pursued from the start until now, successes achieved, and their financial evidence. In the case of start-up enterprises, in addition to the planned activity, business ideas, concepts, founding conditions should also be described.

Then it is recommended to give a detailed description of the founders, owners, organisational structure and management composition of the enterprise. In the case of social enterprises this is where the first loss of confidence may be experienced if the organisation is not sufficiently formal, the number of (paid) human capital is low, and target oriented (civil) and business activity management is not separated, which needs to be looked at carefully.

### Description of the sectoral background

This means the introduction of the market and competitors in the sector, mainly from the perspective whether the market is increasing, decreasing or stagnant on the basis of turnover and its changes. This, and the information related to the company's selling points and disadvantages in competition will be the basis of marketing decisions. We can reinforce our credibility with the results of simple and cheap surveys.

### Introduction of products and services

In this point, we have to detail the most important technical parameters of the products of the enterprise, the application areas, the content and details of services. If possible we should make things visible, it is reasonable to illustrate functional specifications with photos, e.g. in an annex. When we talk about the use of products and services, we should avoid technical terms, which may deter our customers. In the case of key products we should emphasize all features making them unique and special, thus giving a competitive edge for the consumer or the customer. We should know that there is a lower threshold in quality under which a product cannot be sold, higher prices, however, go together with higher expectations. A neat design, an environment friendly and energy saving product, an attractive packaging, additional services to go with the products (home delivery, sewing, adjusting to size) will make the product unique for the customer, and a customer friendly service will make shopping an enjoyable experience. The patented and trademark protection of products and services can also favourably distinguish our goods from others. Trademarks do represent a competitive edge in social economy, or even a logo indicating that the producer is someone living with a handicap, or that a certain percentage of the price will support some of our disadvantaged fellow-citizens. This is how it has become fashionable to mail Christmas postcards by UNICEF, or those who painted them with their mouth or foot. We have not by far come to the end of our opportunities, let us be more courageous in using them.

A frequent procedure – especially favoured by companies with different profiles – is the method of the Boston Consulting Group, which classifies products and services in four groups in the function of *sales volume* and *dynamics*.

Table 11.

<b>G R O W T H</b>	Rapid	<b>Question mark</b>	<b>Star</b>
	Slow	<b>Dead dog</b>	<b>Cash cow</b>
		Low	High
		<b>Market share</b>	

- Products having a large market share and an expanding market are the so-called “stars”. They can be characterised by a relatively high profit margin, therefore it is expedient to increase their production. Development and investment ideas can also be associated with this group of goods and services.
- The so-called “cash cows” are products and services with a high sales volume but without a rapidly expanding market. Typically, there is remarkable but not outstanding profit generated on these products, therefore, a business goal may be to sustain market position and profitability. Developments, however, should not be concentrated on this area.
- “Question marks” relate to products sold in a small volume, but having an expanding market. It is very important to carry out a profound market research for this group, so that doubts may be safely lifted. It should be known how fast and sustainable the upturn of the life cycle of these products will be. Depending on market expectations and profit, there should be a development or a phasing out exercise done in the case of these product groups.
- Products and services with a slackening market and/or losses may be considered as “dead dogs”. The strategic aim here should be also phasing out and discontinuation.

#### Marketing plan

It shows the marketing activities and tools with which we wish to achieve set goals. It would be great to see the result of a simple market research and market analysis everywhere, to which the marketing strategy and the action plan of the business may be adjusted.

We deal with marketing in a separate chapter. Here, - with the aim of avoiding the attitude of I am alone on the market - we only outline the so-called “five market forces” model by *Michael Porter*, which facilitates the structured exploration of factors influencing demand and supply.

This model analyses the *activity of already existing competitors* identifying the competitors, and their market shares comparing it to our own market share. This model helps ascertain to what extent the market is monopolistic on the supply side, in the function of which it can be decided whether the company should follow a price dictating or price accepting policy. (Our reader will probably shun at this – how should anyone dictate prices? Although this is not impossible based on cheap labour or sometimes cheap base material.)

This is where the competitive advantages and disadvantages of a company are compared to others on the basis of product modernity, quality and costs. The model considers the possibility that the toughness of the market competition may increase not only due to substitute products – cheap plastic instead of more expensive wood toys – but also due to *potential entrants*. If it is easy to enter (and exit) the market of a given

product, then competition may become sharp on that market at any time. This however has its natural and also artificial limits.

For the organisations of social economy – due to economy of scales – large capacity and its capital demand mean the greatest limit – as it is difficult to produce so many pieces of a given product that the unit cost becomes low enough for the price to be competitive. The state may also set up artificial limits, which is not easy in our export oriented and raw material import intensive position. It is a classic mistake of domestic small and micro enterprises that they finance advertising and marketing from the left-over of the budget, hardly investing into these activities. This also goes for social economy, although our potential customers will not find us without attractive messages and well-picked means. We can also promote our organisational and human values with gestures – especially in service marketing. The so called “gesture marketing” – greeting, kind words, smiling, politeness – does not cost anything, but is important in winning customers. A positive outcome of marketing is the heart-warming meeting of industrial designers and social enterprises, where design produces unique and added values.

Operating plan

***The purpose of this chapter is to describe the way in which our enterprise operates. This is where we show our activity and business cycles, reveal the causes of seasonality and outline our opportunities for prevention.***

This is where we present the scenes of the activity, the buildings (office, production facility, warehouses, etc.) and the equipment. This is the place to introduce our customers and suppliers proving that we have all the necessary circumstances at our hand to make our goals come true. Quality assurance and its certification is a competitive advantage – or sometimes a mandatory requirement for participation at public tenders. Today this already has a simpler version for the social sphere. Its introduction is a good step taken in the direction of more organised operation. This part contains the production plan and also the introduction of the production technology. A concise and brief production plan reinforced by figures demonstrates the changes in the production volume of individual goods and services.

In the case of certain products it is expedient to give a short description of the production technology to show the way in which it can ensure competitiveness from the perspective of quality and costs, or when this technology should be changed in the interest of the above point.

*In connection with the production plan and the planned technological development, we may tackle the level of up-to-date production equipment and its capacity utilisation, and also possible bottlenecks.*

*The importance of this chapter is underscored by different research activities according to which 98% of business failures are attributable to weak management, and only 2% of those are caused by external factors.*

*Among mistakes lack of knowledge necessary for operating the business is on the top (45%), this is followed by the lack or imbalance of know-how necessary for the individual areas of operation (20%), and then comes the problem of management-organisational precedents (18%). Lack of experience in the given area leads 9% of the enterprises in the wrong direction. Business negligence has a 3%, bankruptcy has a 2%, and natural disasters have a 1% share in the totality of causes.*

*The aforementioned problems are especially important in the case of NGOs, which are undercapitalised in human resources. The main means of their solution is learning. Experience can be acquired by anyone with time, but until that time comes, a partner or an employee is needed to mitigate or resolve the issues. The latter factors can be*

*eliminated with forward looking: postponing action, neglecting the completion of subsequent tasks, and larger problems can be avoided by proper time and action schedules.*

#### Financial and financing plans

The financial plan summarises the financial consequences of ideas put forth in other parts of the business plan. Its time horizon largely depends on the purpose of the planning: the longer period is covered by the forecast, the more uncertainties should be envisaged.

*In effect, in financial planning, the balance sheet, profit and loss statement and cash flow of a company is planned with the inclusion of analyses characterising the financial position of the company.*

*The draft balance sheet (status plan) shows the planned changes of assets and liabilities on the balance sheet. This planning method is based on the underlying principle that although assets and liabilities on the balance sheet always correspond to each other in the present time according to accounting standards, but for the future, the two sides normally develop along different dynamics, which will result in either deficient or surplus resources.*

Financial planning effectively means that we have to see to it that the balance is struck: in case of deficient resources we have to take out new loans or withdraw more capital, and in case of surplus resources we have to make sure that we use them.

When preparing the *draft income statement*, first revenues and costs should be projected starting from the volume data of the marketing (price forecast) and production plans. In forecasting costs, direct and indirect costs are normally projected separately. Then come the revenues and expenses of financial operation, for the purposes of which also interest generating or interest expenditure items of the draft balance sheet (bonds purchased, bank loans taken) should be used. Extraordinary revenues or expenses are rarely forecast. After recording taxes and tax benefits, or intended dividend payments, comes the last line of the draft income statement, which is retained earnings.

The readers of the financial plan would rather want to know about the changes of the company's financial position, therefore the *cash-flow forecast* has the main role during the planning. This is where the following should be described:

- the trend of the financing requirement of continuous production;
- the capital requirement of an investment or development;
- the financing sources for all this;
- the amount of equity to be involved,
- the demand for leverage,
- the period available for the repayment of the debts.

The cash-flow can also be calculated with a direct method, and this is the better and safer solution. Financial forecasts, however, are mostly prepared in the form of a draft income statement and a draft balance sheet, which will provide the data for the cash-flow forecast.

#### Risk analysis

The purpose of the business plan is to give a realistic picture of the future of the enterprise. For this purpose, risk factors hindering the achievement of strategic objectives should be disclosed in the business plan. Such may be for instance:

- changes in the economic, legislative or political environment,
- changes in the market situation,
- changes in customer habits,
- changes in the market competition,

- the technical experience and personal qualities of management,
- technical state of equipment,
- state of human resources.

A favoured form of risk analysis is the SWOT analysis, which takes stock of the company's strengths and weaknesses, as well as opportunities and possible threats offered by the environment. The factors of the analysis keep expanding continuously.

#### *Scheduling of the activity*

A schedule made for the implementation of actions described in the business plan reinforces the reality of implementation. Therefore, a detailed schedule should be written up for the tasks, which should also contain the time period available for task completion. In case of a larger volume for instance, a separate marketing schedule may also be expedient. In addition to action scheduling, it is also necessary to assign responsible persons, and those participating in the tasks with the assignment of their authorisations. The time schedule may highlight further risk factors, which may hinder the achievement of the strategic objectives of the company. If the reader has come this far in his reading, he may notice the similarity between a bid and a business plan: the former one is a business plan "with a short range" to prove that the donated grant is justified by its output, result and multiplying effect.

#### Annex

The background materials normally attached to a business plan in an annex contain important but not core information, and give a good supplement to statements written down in the individual chapters. In the case of a going concern, the balance sheet and the profit and loss statements should be presented by all means for at least two years retrospectively, and these should also be referenced in the financial plan. The annex may also contain further supplementary materials, for instance prospectuses made about the company, the results of market research activities, the documents of larger volume orders, the quotations of customers and suppliers, the implementation plan and budget forecast of any capital investments in the business plan, as well as profitability calculations, and the organisational structure.

#### **Daily duties – the devil is hides in the details**

- It is also true for social and community enterprises that primary responsibility for planning and reaching objectives lies with the manager of the company. He may delegate responsibility for partial tasks, and may tap on his collaborators' and volunteers' commitment, typical of this sphere. This latter point, however, should not substitute professionalism, just like motivation cannot replace clear authorities and task allocations. A business plan in the case of social and community enterprises may serve as a real factor of success and risk mitigation if it creates an opportunity for comments and subsequent participation already in the phase of preparation. Thus, planning is also a means of finding optimal solutions.
- At the time of globalisation nobody can distance themselves from accelerating changes, intensifying competition and environmental impacts. The way and time of our reaction given to these challenges basically influence our profitability.

Emphasized managerial skills, a culture of risk management, knowledge accumulated in the enterprise, and innovation may indicate *three types of adjustment*:

- active / pro-active that envisages changes,
- passive that follows changes, and
- delayed that often interprets changes as crises.

This latter one should be avoided. The most important means of this is change management, which *assumes a clear and positive vision, a worked out and updated strategy, regulated procedures and efficient communication.*

## 15. The management of social and community enterprises (Anikó Soltész)

Speaking about the legal frameworks of social and community enterprises, we already mentioned, and in relation to business planning, specifically highlighted the relation of social activity and its framework: content and form, and we also formulated a few special characteristics of this area. Now, we are dealing with conditions and controversies that by now have made the operation of social economy rather difficult in some organisations, while invalidating it in others.

Most typical characteristics:

- general under-capitalisation from the start-up of the organisations and liquidity problems;
- at places projects organised on needs with no solvent demand, and project profitability criteria following the logic of supporters;
- business activity necessarily subordinated to basic civilian objectives, and the urge of self-preservation;
- continuous and exaggerated undertaking of tasks often with no professional management at social organisations traditionally under-capitalised in human resources;
- basically lacking financial strategy for NGO operation, and consequently, project financing with accounting problems;
- infringement of deadlines endangering the survival of NGOs, and often without any consequences for project owners;
- financial supporting environment with deficient elements.

The examples demonstrated can be derived from many different reasons. In this chapter, we are talking of those that are in connection with the special organisational characteristics of NGOs in the sphere of social and community enterprises.

We are doing this because the impacts of macro-economic changes decided at the time when this study is written are difficult to measure, and the changes of the regulation to be introduced will only have their impacts felt later. What can already be seen is that the new rules, while their intention is to make economic processes clearer, costs more realistic and tangible, will make the lives of enterprises difficult. Therefore, it can also be envisaged that increased public encumbrances will not favour the separation of the NGO and business processes of social economy, although the long due profile cleansing, and a legal background suitable for the absorption of received grants will soon become available.

The difficulties of macro processes may already offer a reference basis to postponing the implementation of more conscious management processes of social economy. It would be a shame if this happened, and we should not stop here. It is now that we can really think over the proactive opportunities for change that are necessary with the urge for changing.

*Trends in the system of management conditions at social enterprises with an NGO background*

The services of social and community enterprises presume a long-term economic attitude: the employability of those who wish to come back to the labour market receives credibility only with the solution of child and elderly care, and employment programmes

to liquidate poverty can only gain credibility with a guaranteed time period suitable for planning life and work processes rather than three or six monthly flash ups.

Therefore, a non-governmental organisation with a social purpose should declare already in its deed of foundation its intention to increase its assets to lay the foundation of long-term sustenance, the system of objectives to support this intention, as well as the organisational work allocation and activity structure that can provide a basis for all this. This can be the starting point of an organisational mechanism that supports the continuous existence of resources and guarantees their efficient use with a classic way of raising donations initially, and a combination of projects supported by application sources and donations later. As we said this can be the starting point, and the use of the conditional mode is fully justifiable here: a major part of the non-governmental sector do not typically survive in the described way through organic and coherent development. Thus, the number of social enterprises doing their business with a safe financial background is fewer than necessary. To illustrate this situation I would like to insert here a *personal* retrospection for the purposes of start-ups.

The organisations established at the beginning of the 1990s started their operation with scarce state subsidisation, but with the illusion of unlimited and eternal state and private funds. This often was nothing more than fully free infrastructure – office, phone, copying, paper and shortened working hours –, the order of magnitude of which became clear only when the donor (with his own resources becoming limited) submitted his invoice. This moment alone paralysed the operation of some of the organisations. In the case of others, this was the time to which a more cost focused attitude dates back, which was the first step taken to financial management, where an expenditure structure started to emerge with a revenue demand adjusted.

*If an organisation focusing on costs met the demand of accounting in line with a domestic or foreign donor project in good time – for which purpose there was a need for a separate bank account, a trial balance made by an experienced financial manager-accountant, periodic reports, and a related initial cash-flow forecast -, it had a good chance to develop its independent financial management. This meant that revenues could cover expenses at least on the short term, but the project order allowed for a more general type of indiscipline: wasteful poverty focusing only on the present day; hasty fill-up of thus created financial gaps; employees working with short-term contracts; uncertain vision, etc.*

*Sustainability: an attitude of what will be, rather than of what has been*

The road to the desired sustainable development, also expected by the donors, led through *becoming self-subsistent*. The strategy necessary for this does not only endeavour to permanently cover expenses from revenues, but also makes a reserve for this purpose to manage liquidity. A risk minimising investment policy is developed for the use of the accumulated reserve and the assets of the organisation; and the yield and interests of financial investments supplements revenues from the targeted activity. Under the aegis of self-subsistence, the core activity is extended – if there is a good basis to it due to needs or solvent demand -, or activities become more diversified. A time comes when the company has several activity pillars, or makes a business attempt. *At this time, project based accounting is already a natural part of daily practice. Fixed and variable costs are visible and separable. The profitability of the different activities can be stated with approximate accuracy based on well separated and managed costs,*

*therefore it is known which activity consumes, and which yields money. A portfolio is developed – an activity and its assets base in our case – based on which we can ascertain whether there is sufficient assets background for public benefit and free of charge activities. If there isn't, we have to contemplate the possibility of introducing cost reimbursement for the public benefit activity. Having survived this, we can tell you: this is not merely an economic question: our experiences show that this decision brings about a kind of controversy, the fear of giving up our mission. Although it is often being free of charge that depreciates the activity of the organisation in the eyes of the customers, causing long-lasting credibility and assets losses.*

If rational thinking, and with it profitability focused mentality have triumphed, on the basis of fixed and variable costs we can calculate the break-even point of a training or the operation of a home-care centre: how many people should be trained, how many children should be enrolled for revenues to cover costs and yield *profit that can be ploughed back* to financial management. Ploughing back and reserving are key words as this will cement the future of the organisation. But wages and allowances at non-governmental organisations are sometimes so low that there is often a strong or even a too big temptation to use money for personal benefits rather than for reserving.

If you turn a few pages, you can read about the hurdles of becoming self-subsistent. The first reference is actually made to projects, considered in this study to be important learning elements, but sometimes creating incapacitating compliance compulsions, unusual and unpredictable situations for social and community enterprises. In addition to own contributions, ex-post financing, and necessary borrowings due to late delivery, such a problem is for instance that the extra revenue gained by a social enterprise from subsidies has to be deducted from the grant. This is what we called the logic of supporters as this provides a tangible evidence that the organisation is capable of the generation of extra revenues, which would be spent more sensibly for the purposes of (pre)financing a next project period.

#### *Putting it black-and-white*

*The organisations of social economy are facing several dilemmas that are connected with the presence of the grey and black economies in this sector. Although there are ample examples to be learnt from, there are still new ones cropping up all the time: for instance such are the bidding foundations of enterprises, which drain income into the for-profit sector through subcontracting payments, further increasing their competitive advantage vis-à-vis non-governmental organisations.*

High public encumbrances represent the greatest problem also in social economy, and reactions have been similar: fictive contracts, employment at the minimum wage, subcontracting instead of work contracts and commissioning agreements. A little more pocket money, but shorter future. Instead of realistic, rather undervalued and under-budgeted costs unsuitable for pricing. Settlements where not even fictive contracts represent a solution as activities should be certified by invoices in an environment that cannot provide them.

*The solution of this many-faceted problem is also multiple, state intervention in itself is insufficient. Repayment after such irregularities is more deterring, and there may be several management interests in prevention. In the competition for grants, comparison based on unit costs is the simplest, and it makes it the duty of organisations having the local demand and price related information, and hopefully adequate expertise, to define the components and variation promising the best results. The customers of the tenders are key players in this process. The operational cost subsidising tender of the National Civil Fund (NCA – Nemzeti Civil Alap) for instance puts the preference on wage*

*payment, thus encouraging clear processes and a clean economy. A further problem is to ensure profitability for the organisations and beneficiaries – for instance employees in the public interest – namely, that the brokerage activity, which in effect brings the income of the organisation should not exorbitantly increase the price of the service. The situation is exacerbated by the fact that those working here are often more deprived of means, more exposed than their peers working in other sectors. They will take any job at all because they are not used to situations of real choices. I am convinced that the whitening of social economy itself will make this sector stronger, and together with other conditions will help to boost outsourcing.*

### *Costs in social economy*

We do not wish to talk about the starting costs of social economy here, but we would rather focus on operation. As there is product manufacturing, trading and services in the focus of the activities of enterprises, costs are also related to these: mostly materials, semi-finished products, finished products, crops and assets of smaller or bigger values. So-called intellectual property rights, e.g. software costs represent an increasing value. In such cases cost reduction can be based on substitute materials, larger-volume purchases, joint transportation from greater distances, etc. Another larger cost is wages and contributions payable on workers and volunteers. We still need to emphasize that the basis of the activity performed here is paid work. Preceding history, in which social enterprises started their activities as philanthropic organisations of volunteers still provides arguments for many to support their free of charge operation. Although, stable operation, predictability, compliance with quality criteria, and on-going organisational development cannot be imagined without paid employees on whom no savings are possible or worthwhile.

*The formalised and autonomous organisations of social and community enterprises, similarly to others, require operational, or as more broadly called, utility costs. Their contents and orders of magnitude vary depending on ownership or leasehold, and size. Substitution is viable here, too; alternative heating methods, skype instead of phone, electronic information flow instead of paper may represent significant savings during normal everyday business.*

In addition to the well-known costs of operation, we would like to mention a few that is less spoken of than necessary due to a wrongly interpreted saving attitude. One is the *marketing* cost, without which our messages on products and services cannot get to the targeted sphere of customers. Little can be invested in PR, which is indispensable for the improvement of our local and regional integration and reputation. These activities are mostly financed from left-overs, which is then reflected by their effectiveness.

The other cost is *insurance*, which, if not mandatory, is often forgotten, although it is indispensable with the current state of public security.

The third small box left blank or with a small amount belongs to *expert costs*. This would be the place for our lawyer, who next to amending our deed of foundation, could review our work contracts and subcontracting agreements. This is also the place for the public procurement officer, if we do not have a colleague trained for the purpose. This is also for the quality assurance specialist if we wish to obtain a quality assurance certificate, thus giving ourselves a chance for bidding at public tendering events. Or it is for external specialists giving us help in institutional or programme accreditations. A place for somebody raising donations and writing applications. The supervisor and other excellent specialists who represent a guarantee for excellent activity. We may commission a labour safety technical engineer for annual risk assessments, who may require from us Labour Safety and Fire Protection Rules.

*Our excellent accountant and auditor may be disclosed among administrative costs. It is an important organisational guarantee of our operation if we can become their partner with continuous training, self-training and the knowledge of legislation, thus becoming capable of asking and holding them accountable. Project expectations can only be fulfilled if they are also involved in the substantive issues of the project. Although controlling is a concept used by large organisations, we can also require our accountant to be knowledgeable in it, thus helping us in our inter-organisational decisions to be result oriented, and to tie technical decisions to the market and business successes of the organisation.* It belongs to the accountant's duties, but is excluded from his monthly fixed costs that he should prepare the rules mandatory based on the accounting act: Accounting Policy, Investment Policy, Petty Cash Management Rules, Inventory and Scrapping Rules. The system administrator may also be included in this box.

The fourth item is the cost of *training and retraining*: it should be in the opportunities box of almost all SWOT analyses, and a really good training has a strong financial implication, which will safely return on the longer or shorter term, especially if it is targeted.

The fifth item is *banking costs*, which may include traditional and electronic versions, and where concentrating on the time-money coordinates, we may pay out or save thousands of forints. This list can naturally be further extended if we have convinced ourselves, that we wish to work with external experts.

Costs should not be pooled together under utility costs, we should rather detail them. This is especially true at launching a social enterprise, when individual cost items should be seen – mailing, phone, paper, corrections, etc. -, for us to be able to analyse the trends in terms of time and volume.

Let us not forget that *cooperation* is the most important means of cost reduction. It also goes for social enterprises that they struggle with economy of scale problems. In the world of small businesses this situation is called the “too many, too small” syndrome. In our case rather the few, geographically unevenly spread and too small applies. This, however, does not rule out the opportunity of acting together during assets or material purchases, and receiving beneficial prices for larger volumes, gaining orders together with others, and reducing our unit costs with larger quantities. We wish to show you a benchmark for this in the next chapter.

### *Revenues of non-governmental organisations, measurement of effectiveness*

As we said, economic activity can be pursued by public benefit organisations if adjusted to the mission and objectives of the organisation, and without endangering these. In addition to the several times referred Act CLVI./1997 on public benefit organisations, there is a broad scale of legislative pieces covering the revenues and related liabilities of social economy, which are described in convenient detail for instance on the web-page of NCA. Our first overview has also been made on their basis.

#### *Possible revenue sources:*

- revenues related to the operation of the organisation
  - membership fees,
  - utilisation of assets owned by the organisation, service rendering, copying, Internet use, printing.
  - lease of chattels owned and unused by the organisation, and rent of property,
  - fees from target activities – training, consulting, event organisation, research,
  - sales of intangible assets, - copyrights, software products, etc.,

- auxiliary activity related to the enterprise – accounting, tax and legal advice.
- revenues from interests and returns.

The Central Statistical Office classifies the revenues of the non-governmental sector into five groups: state subsidies, private subsidies, revenue from core activity, revenue from financial management and other revenues.

Sources of *state subsidies*: normative and other than normative – that is case-based, individually assessed, or allocated between projects – central budgetary or local government subsidies; central funds, budgetary institutions, or the 1% offerings from the personal income tax by citizens are also classified here.

*Private subsidies* represent financial support from foreign and domestic natural entities, business organisations, as well as not-for-profit organisations.

*Revenues from core activity may be* membership fees or revenues related to the core activity (e.g. fee for caring or nursing, training fee, etc.)

*Revenue from financial management* represents revenues from business activities unrelated to the core activity, as well as revenues of financial transactions (E.g.: a business activity at an elderly home may be a laundry service also covering demand from the settlement. Revenues from financial operation may be yields from free financial asset investments in securities.)

*Other activities comprise everything that* cannot be classified into the aforementioned categories of revenue sources.

It concerns our topic that in the system of categories of the Central Statistical Office reimbursements due for performing any public tasks taken over from a local government are recorded as state subsidies rather revenues from the core activity.

The same reports disclose central budgetary subsidies for different public foundations as direct subsidies: and disclose the different tax and customs benefits as indirect subsidies.

This classification has covered the revenue sources of social economy, but the question of assessing revenues has remained open: what is considered as much, what is as little, and when can we say that our organisation is effective. As we spend most of our sources on project financing, we are still trying to find the right answer along this line and in its vernacular.

*Our inputs* mean the total material and non-material resources used for the activity (such are working assets, the knowledge, skills of our co-workers, patents, brands and the sources of financing). *Outputs*: The totality of specific products and services produced with the use of inputs. *Outcome* means the intended (long-term) impacts of the activity.

*Customer satisfaction*, any changes in our customers' quality of life, are the most important measures of the operation of social economy. However, in the competition for grants, donors are looking for more efficient and effective projects.

In the first case – *of efficiency* – they are trying to find a link between the inputs consumed and the outputs generated in the course of the activity: “what have we achieved and from how much?”

*Effectiveness* analyses the correlation between outputs and targets, or targets and the expectations of the external environment: has the organisation managed to achieve its set targets, and how much do these meet the expectations of the external environment?

*Economy* investigates the extent of input use.

Based on the principle of *equality*, we are focusing on the access to generated products and services, that is, the solution of the problem of distribution.

Performance is measured with *performance indicators*:

*Input indicators* (number of employees, level of expenses, number of beds used in caring);

*Output indicators*: number of retrained and placed persons;

*Interim outcome indicators*: new knowledge, developed skills, number of addicts cured;

*Final outcome indicators*: reduction of unemployment, improvement of health status.

As written earlier, it is difficult to count on project economy without well-founded business plans. As for effectiveness, it is also required to go beyond the frames of the project. A basis for this is given by measuring and evaluating performance, communicating organisational targets, motivation to facilitate an ownership approach to targets, which in effect is performance management characterising the whole of the organisation. Its basic conditions are described by organisational science as follows:

- clear and definite targets,
- clear performance targets approved by those controlled,
- a consistent system of responsibilities (also at the level of individuals),
- an appropriate information system,
- adjustment of capability and skills development to expected results,
- creation of appropriate interests, motivation,
- a supportive organisational culture.

### **A sustainable social economy: reality or illusion?**

If we want to be realistic, for the time being, it is rather the latter one. But the aim of our study has been to make it a reality as soon as possible, as this is the major interest of the stakeholders of this sector. There are few social and community enterprises, they are fragile, their organisations have to live through the day, and this may tumble the sector itself. However, there are elementary interests in their taking root, starting on a growth curve, that old and new community enterprises participate in local tasks, and possibly successful projects in cooperation with the local government and other NGOs in strategic alliances. When talking about the opportunities and strategy of cooperation *in resolving public tasks*, *parties* underline the importance of mutuality, participation and predictability. When there are specific tasks to be outsourced, alongside advantages, disadvantages are also mentioned, and they were amply quoted on the previous pages. The demand for *human services* is increasing with children born, the society ageing, and a changing trend in the number of stakeholders of social benefits and the unemployed. The transfer of public tasks is also important because municipalities and NGOs separately are often incapable of mobilising sufficient financial and human resources to fulfil the demand. An NGO, however, may gain support also from sources other than donors, and may often perform a task in a better quality. If NGOs may raise extra funds rather than just being a cost item for the local government, another hurdle will be lifted from the road to partnerships. Next to the aforementioned benefits, however, we should also see that the general level of financial culture, the attitude of NGOs, reluctant to adjust to changing rules, and making savings by neglecting the requirement of involving financial experts, all cause uncertainty. A local government should get all the necessary assurances that the organisation will be capable of doing the job, because it has an obligation to service. The new public tendering system ties participation criteria to different thresholds by which the delivery of certain tasks will not only be limited, but probably also prevented in some regions. In such a case, it is rather the urge than rationality that may create cooperation between NGOs, which by way of concentrating resources and competences, will create an opportunity to meet the tender requirements.

Next to legal compliance problems, problems in attitude may also make cooperation difficult. For instance, the budgetary method only allows for one year while most of the projects extend beyond the fiscal year. The organisations of social economy have the elementary requirement of predictability, where the most important precondition is long-term planning. Until its conditions are created, organisation development and training tasks necessary for providing a basis for and boosting financial management can be made with meticulous organisational work, concentrating on shorter intervals, and taking smaller steps. The end of this chapter is also the start of the first training: the tables in annex 2. of the appendix contain the benefits and exemptions – *effective until now* – of public benefit and highly public benefit organisations with different public statuses. Do not trust your eyes. Please, verify the information disclosed there with the help of legislation issued on the amendments and the financial specialist of your enterprise. We wish you fruitful work, and successful self-reliant financial management.

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## **Legislation on the financial management of NGOs (the list is not exhaustive)**

### **Acts**

Act 156/1997 on Public Benefit Organisations

Act 50/2003 on the National Civil Fund

Act 100/2000 on Accounting

Act 92/2003 on Taxation

Act 81/1996 on Corporate and Dividend Taxes

Act 93/1990 on Local Taxes

Act 74/1992 on Value Added Tax

Act 117./1995 on Personal Income Tax

*Act 61/2006 on the amendments of individual financial acts, which amended some elements in the acts on Personal Income Tax, Value Added Tax, Taxation and Corporate Tax.*

### **Government Decrees:**

Government Decree 114/1992.(23.07) on the financial management of social organisations

Government Decree 115/1992.23.07.on the management of foundations

Government Decree 224/2000 on the special characteristics of accounting obligations of other organisations set out in the act on accounting

## **16. Human resource management in social economy (Márta Lévai)**

**Human resources (having taken over the English “human resources” expression, it is often mentioned as HR) management and development gain an increasingly important role within management sciences, and have a basic influence on strategic and operational decisions related to the management of organisations. There is special literature concerned with the factors of human resource management of not-for-profit organisations, with special attention paid to resource management in relation to voluntary work.**

The reason for HR becoming important is to be found in the economic and social processes discussed in the introduction – for the players of business life the goal is to upgrade business efficiency, which has a key factor in the efficiency of labour force employment and work organisation. This process is coupled with an increase in the importance of knowledge based economic sectors, the actors of which build their business activities on highly specialised technical know-how, creativity and innovation, and consider the continuous renewal of the knowledge of the labour force as indispensable. With all this, it is the current economic-social changes that also contribute to the emergence of a phenomenon whereby larger and larger social groups are becoming losers of and are excluded from the competition for work, technical knowledge and competences.

Our aim here is not to give an overall picture about the nature of this interdisciplinary knowledge, the shifts in its stressed points, or the special features of the not-for-profit world. Below, we wish to focus our attention on the current issues of human resource management in the development of social economy.

### **The objectives of human resource management**

Human resource management aims at the most efficient operation of the human resources of an organisation for the purposes of achieving organisational targets.

As the target of the development of social economy is to achieve a kind of organisational operation which gives priority to the fulfilment of community needs over the criterion of economic efficiency, and as it takes responsibility for individuals and groups unable to successfully join the competition dictated by business efficiency, therefore, the interpretation of organisational efficiency should be evaluated separately for each and every player. Economy and working efficiency may be limited among other things by the employees' working capacity, the lack of technical competences, a limited employment period, the time and capacity needed for their technical and personal development or a scarce demand on the local market.

Organisational efficiency should be interpreted in the light of achieving the undertaken social commitment. In contrast to business participants, here profit margins or market shares will probably be inadequate to measure organisational efficiency. It is often difficult to measure the returns from money, work, assets invested in the activities, because for instance increased local social capital comprises difficult to measure factors, like mitigated conflicts, or increased trust and willingness for cooperation. The number of persons involved in the delivery of activities thought to be useful for the local society, or reduced reliance on aids may indicate the efficiency of activities, but even this measurement gives only medium-term feedback on the work.

With all that, we should not give up market criteria, shun the marketability or quality of a planned product or service, as this attitude would risk the sustainability of our financial activities. It makes organisational decisions more transparent and medium-term financial planning possible if we create job descriptions and related performance evaluations similarly to the normal way with business actors even if neither the jobs nor the standards are competitive on the market. If we manage to strike a balance in planning our activities between social objectives, community development and financial management aspects, the means and methods of human resource management may help us in organisational effectiveness and human resource development.

### **Organisational strategic objectives and the issues of labour management**

The clarification of a few important questions about human resources may help us in the development and successful implementation of organisational strategy.

For the purposes of evaluating the current status of our organisation, we have to be familiar with three human resource factors related to our employees and the available workforce: *education/vocational education, work experiences, and useful competences for the work*. If we have a status report of these three areas, we can assess the resources we have, as well as the deficiencies. The exact definition of labour market competences – even if this topic has recently received a lot of attention – is not an easy job to do. Adult training specialists mostly list mathematical logic, communication in the mother tongue and foreign languages, application of ITC, and social competences as significant competences for the labour market.

If we add the findings of our status report to the types of knowledge, skills, experiences and competences necessary for the achievement of organisational and economic objectives, we can assess the areas where our employees need to undergo technical and personal development. This work will help us in our strategic decisions to define the labour demand of our organisation and to assign the kind of support we wish to give to our colleagues (members, supporters).

### **Work organisation and job planning**

It requires a lot of creativity even under not-for-profit conditions to organise activities aiming at the fulfilment of unsatisfied local needs into jobs.

Satisfying the demand of households for labour (house and garden maintenance, cleaning, personal care, etc.) is a major area of the grey economy. Whitening the grey economy should not only be the duty of NGOs, but the state and the municipalities should also introduce significant measures here. In Hungary, also, major initiatives have recently been launched in this area, e.g. broadening the opportunities of part-time employment, or developing the legal framework of casual work. However, the number of organisations undertaking the organisation of work and the placement of workers for the purposes of the households is still very little, as this special work organisation, requiring a lot of specialist attention and special skills, due to its unique nature often outside the normal categories of labour supply and demand, is only possible in a meticulous way, which is unprofitable on the short-term.

In cases of other community enterprises that build on local resources, the lack of the different actors' willingness to initiate or the lack of confidence among local actors may hinder the organisation of labour. It takes a lot of energy and consultation, as well as conflict management to resolve this situation.

Unfortunately, part of the subsidised employment programmes do not facilitate the emergence of self-subsistent communities, but rather strengthen the reliance of organisations and target groups on programme financing. NGOs often make compromises, and with all the constraints and administrative burdens, they will rather go for grant schemes rather than undertaking organisation reacting on local demand, but requiring meticulous working.

Therefore, it is a special task for those taking action in social economy to define how much work is required by the revealed community needs, what jobs can be created, how the extent of work performed can be measured, and how to provide services (productive activities) to react to the different market demands. Unfortunately, there are no ready answers to these questions. If stakeholders are voted confidence to specify what is best for them, solutions may be brought in the process of reconciling the interests of different stakeholders. The involvement of those who express the local needs – families, organisations or the local government – and the locally available workforce in the organisation of work will ensure the flexibility of activities and innovation.

We should always keep in mind two aspects in the above process of labour organisation. One is that the person performing the work should always get real work recognised by himself and by the local community. On the other hand, if the activities are to be sustainable, existing needs should be identified, rather than creating a market. Markets that are artificially created with the help of grants always collapse when the grant ceases. (E.g. several experiences showed that services for the elderly around the house, if they were only organised as a scene of subsidised employment, did not ensure a real market when the grant was discontinued. There is nothing more disheartening than situations when the workers and the “organised” customers had to give up not only the service, but also the social relationships after a few months.)

Part-time labour, sharing a full-time job by several employees, or the application of different alternative work schedules may facilitate job planning. A rotational schedule between different jobs may help employees identify the area giving them most satisfaction, and in certain cases may also contribute to the performance of some unattractive jobs within the organisation.

If the subjects of social benefits become employees, it is also important to stress that they should not make a loss on their employment – e.g. they should not lose different benefits at the same time, and employment should favour them financially. Municipalities and the providers of social benefits, if they realise their interests, may become partners in this area, and may help new employees have access to support needed for their successful progress in the world of labour.

Although a different area of human resource management – related to motivation – deals with this topic, it should be noted here that the idea to improve the attraction of work and to motivate jobseekers for financially favourable working are aims described also in the EU's employment directives of 2005-2008. Wages are one of the most significant means of motivation for work, but additionally, numerous benefits, accessible

services, promotional opportunities and social responsibility may also make employment more attractive.

The definition of jobs and the formulation of expectations for the jobs make the work of an organisation more transparent, and contribute to employment contracts that are clear and accountable. Similarly, however, to the players of the business sphere, also the actors of social economy should dynamically strive to create a job planning system, adjusted to current needs. They need to review from time to time whether the jobs established can ensure effective work performance.

Parallel to the planning of jobs, consideration should be given also to the organisation of different jobs into job groups, and to the management of the work. Cooperation within the job groups helps working efficiency, and may mean a supportive atmosphere for those working in it, if cooperation lies on a real basis. The decision-making competences and responsibilities of persons assigned to manage the operational activity should be clarified, and the operations manager should get all support (information, training, etc.) necessary for successful working. One of the operations manager's duties may be to review from time to time whether the jobs created and the organisation of work are rationally justifiable and effective, or habits should be changed. The management task of operational work, and the role of the person discharging it should never be underrated, as it has a direct impact on the quality of products and services, and has an impact on employee satisfaction through everyday communication.

### **Labour supply**

Appropriate labour supply is a basic condition of smooth organisational operation. For the activities of social economy, we have to start out from the assumption that there is unemployed labour locally, which makes the issue of recruitment simpler. When selecting the adequate labour force, not only market considerations, but also the social responsibility of the organisation should be considered, and thus, selection will not require complicated and special know-how intensive management means like for instance the Assessment Centre. Having said that, it is still worth giving a few thoughts to the questions of recruitment, selection and lay-offs.

As has been indicated in relation to organisational strategy, the assessment of the demand for labour requires planning with consideration given not only to its human but also objective conditions. We would like to focus also on the communication side of this planning.

If we really wish to contribute with our activities to the development of the local society and community, it will be worth giving information available to everyone on our planned activities, and defining it very accurately what work can be offered to what members of the local community. Giving transparency to our decisions on labour recruitment and selection may strengthen the trust of the community, and may also support our medium-term labour supply. If we create appropriate communication, we can avoid for instance the traps for which there have been many examples in the framework of the Roma employment programmes: the Roma, involved in the programmes are dissatisfied with the quality of the work and the conditions of employment, and several unemployed members of the local community complain because employment is ensured only for a small group.

The question of dismissals may arise also in connection with activities pursued in social economy. On the one hand, the sensitiveness of targeted employees from the perspective of the labour market, and on the other hand, transition to the open labour market in the case of certain activities may give special tasks. If for instance our organisation undertakes the work of preparing people for a trade which is in need of labour, labour management should include our preparation for a situation – due to the success of our activities – where we will have to refer labour force to the open labour market on a regular basis. Whatever is the reason for which our labour force exits the organisation, consideration should be given to the opportunity of continuing the provision of personal support services received within the organisation (e.g. mentoring) for those leaving the organisation for a certain period, which will contribute to their success on the labour market, and to the avoidance of future failures.

Knowledge of the sub-areas and techniques of human resource management may give significant assistance to the implementation of the aforementioned activities (e.g. advertisements for the purposes of recruitment, direct contacts; setting the criteria of the selection process; job orientation after the selection, exiting and orientation related to lay-offs).

### **Human resource development**

The development of employees from an employability perspective is an indispensable element of social economic activities. Corporate human resource development may have two interdependent objectives. It may help in executing a given job in a better (more effective or more efficient) way, or may prepare for a future higher-level employment. We should take separate decisions for each individual on which aim we want to chase.

Individual knowledge, interests and motivation should be investigated at the time of selection or admittance. On the basis of this preliminary test, we may make an individual development plan, or a *carrier plan*, if we want to use the technical term used in human resource management, together with the new employee. This development plan may set out technical skills, competences and technical experiences the acquisition of which will facilitate more effective and more satisfying work, and may set out the carrier goals we define together with the employee.

Experiences gained from programmes, financed from the EU's development funds, and aiming at the development of employability, show that activities based on individual development needs are more successful than generic training programmes targeting for the fulfilment of labour market demands. The achievement of individual development plans through training and support services, however, requires a much higher level flexibility from the organisers and specialists of development services. On-the-job training is one of the traditional forms of individual development. These knowledge and competence development trainings combined with effective working can also better react to organisational needs, and can ensure immediate feed-backs.

As there are significant funding sources available for the development of employability, we should exploit them as much as we can. There are a lot of players to be found on the training market, ensuring a wide range of training and development opportunities. We have to get convinced that the trainer(s) selected by us offer a training that suits the requirements of our organisation and is custom-tailored, which is based on the training

needs assessment performed in the organisation. Of course, in the case of certain employees we may choose ready-made courses (e.g. providing technical know-how, or aiming at the acquisition of new management techniques), but even in such cases it is worth assessing whether our employee meets the preliminary training requirements, and whether the knowledge offered by the trainers can be applied later within the organisation.

No successful personal technical development can be achieved without establishing a supportive organisational atmosphere. This, first of all requires that employees regain self-esteem, which in certain cases may be a huge challenge, because earlier failure on the labour market, over-concentration on performance may largely dishevel healthy individual self-evaluation. The articulation of exact expectations and feed-back has a special role in a supportive, helping atmosphere. It is the managers' duty to reveal the causes of failed performance. We may easily fall into the trap of regarding the lack of expected results as lack of motivation. We may find out, however, with more profound status assessment that there are other factors behind the failed performance (e.g. insufficient knowledge of the expectations for the job, insufficient cooperation or communication within the job group, or eventually some environmental constraints, etc.).

### **Management of organisations, development of management**

One of the major tasks of human resource management is the development of the managers of the organisation, and the facilitation of supporting both strategic and operational decisions based on the values of the organisation. The greatest challenge for the players of social economy is to have community development objectives that are not only articulated in words written down in principles and deeds of foundation, but should also be reflected in the day-to-day decisions of organisations, thus becoming reality.

This, on the one hand requires sufficient knowledge from the management of the organisation in the broadly interpreted social policy, community development, personal development, as well as in financial management, entrepreneurship, management and law. Not only knowledge, but attitudes should also be collated. We always have to go back to the mission of the organisation, and the core task undertaken if we are to strike the right balance. If this does not give enough guidance, we should undertake to change or amend it.

The local development of social economy shall not be a futile struggle of a solitary organisation, because the launch of community activities and new services, the involvement of local people in the work should concern not only NGOs, but also local government and business actors. Therefore, the management of the organisation should also have the skill to create real partnerships – based on contesting interests and defining common interests -, to actively participate in them on the long term, and to undertake the role of coordinator.

The sphere based on NGOs shows more and more opportunities for organisations to order management consulting. These programmes may help the organisation in planning, implementing a current change process, or in managing organisational problems. In effect, these programmes can only provide real help if in the course of the supported processes the management of the organisation can acquire a development attitude and organisation management techniques that ensure continuous organisational

renewal, the use of opportunities hidden in human resources, and reaction to the changes of the environment.

### **The personal background of organisations**

The technical background of organisations may be very diverging, adjusting to the activities undertaken and the selected target groups. There are, however, tasks necessary in management administration or line management that should not be given to lay people (for instance legal matters, financial consulting and book-keeping).

Some tasks should stand out also from a technical perspective: e.g. community development, or the role of specialists supporting employees' personal and technical development. While community developers have a task tied to the organisation's external relations, in-house consultants, e.g. mentors have to work with the development and implementation of individual development plans. Both of these specialists can give a lot of help for those dealing with special developments (trainers, educators, psychologists, etc.), and may contribute to operating the partnerships of the organisation. For instance, mentors supporting employment should have a broad outlook and a large network of relationships with other players of the local economy. In addition to technical know-how, external help (e.g. case discussion, supervision) should be leveraged for the successful execution of jobs requiring a high level of commitment, discipline, creativity and flexibility, or skills in conflict solving should be acquired.

## 17. Marketing and PR in social economy (Éva G. Fekete)

The distribution of goods in the society may be done in the form of reciprocity, redistribution and exchange. Marketing in its broadest definition – based on the interpretation of exchange at the level of the society – is the exchange of all valuable goods (products, services, ideologies, ideas, feelings, etc.). (Bauer-Berács, 1992) Each company producing for the market assesses the effectiveness of its activity on the criterion whether they managed to find customers for their products. (Levitt, 1983)

At the end of the 1960-es and the beginning of the 1970-ies, marketing activity appeared in the sphere of not-for-profit organisations, true, first only in an instinctive way, in the United States of America, which had significant not-for-profit traditions and developed market economic experiences. (*Kotler and Levy, 1969, Kotler and Zaltman 1971, Shapiro 1973*). Later, mainly because not-for-profit organisations had to face lack of funds and the effects of a sharpening competition, not-for-profit marketing started a fast development in both theory and practice. Not-for-profit marketing, which had become widely accepted in the developed world by the 1990-ies, continued to become broader and deeper. It was important for this process that the efficiency of not-for-profit marketing and its broad applicability had been proven in practice, and that prevailing changes at the same time set new challenges to not-for-profit organisations, and also broadened the area of operation:

- transformed political systems in several countries – among other things also in Hungary – drove the not-for-profit sector towards public services;
- changes in the social atmosphere in many countries (the democratic transformation in Central-Eastern Europe) created a favourable environment for growing voluntarism;
- international organisations have given an increasing role to social marketing;
- the traditional sources of subsidisation of not-for-profit organisations has become narrower – earlier state subsidies, donations from corporations and private individuals used to be the main sources, today, however, it is rather the sales of services and additional marketing revenues that are coming to the forefront.

(Pavluska, 2003)

The mentality of combining business and not-for-profit marketing has not yet been spread in Hungary. And even the not-for-profit marketing applied in the community sector, which has a larger impact on social economy, is still in its infancy. This is so in spite of the fact that more and more people recognise the indispensability of the marketing approach.

In social economy (also) the first precondition of the marketing approach taking root is the recognition that marketing is a philosophy emphasizing identification with customers and clients, and a system of actions laying a foundation for and performing an exchange for the mutual satisfaction of the parties. (Suhajda, 1998)

### Marketing as a philosophy in social economy

In addition to the business philosophy of gaining customers for products and services, a marketing philosophy of not-for-profit organisations also appears in social economy. The essence of the not-for-profit model is that the central focus and direct goal of the operation of an organisation is to voluntarily ensure goods (products, services or ideas having importance and value for certain groups or the whole of the society) suitable for fulfilling certain community requirements and demands, in which material and spiritual

solidarity is a dominant integrating and coordinating mechanism, and it is not simply a commercial deal for the purpose of increasing financial sources, or a means of law or politics. (Pavluska, 2003) According to this, it is not only a product/service that needs to be sold, but also the organisation itself, and the social objective and ideology standing behind it. The employment of disadvantaged people, or the fulfilment of their special needs, the improvement of the environment or selling any other community objective to the general public in themselves may gain sponsors for the purposes of community enterprises, and may, at the same time help the sales of their products and services. In addition to a product, its mere features, price and place of sales, sales is also affected by the conditions of production, its players and the area where incoming revenues are spent. This is an opportunity that organisations have to make the most of, paying attention to their consumers in each moment of their operation, the integrity of the spiritual content transmitted by the organisation, and the preservation of values on which their operation is based. In lack of this, they will lose their credibility, the not-for-profit public benefit image will disappear, and the products will be left alone to compete on the market.

Due to the duality hidden in social economy, in addition to selling the specific product/service itself, organisations should also have a marketing strategy to sell the values, ideas and objectives that the members of the organisation identify themselves with, which is integrated in the organisational culture, and by which the behaviour of the organisation is shaped.

### **Marketing as a management function in social economy**

Marketing is a regular, harmonised action scheme of organising exchange relationships: a string of analytical, planning, implementation and control activities. *In a functional sense marketing is a bridge that harmoniously links the organisation with its external environment by exchange relationships, pays significant attention to its users, target audience, other actors having an impact on the success of the organisation, and factors, as well as helps management in creating the most favourable position vis-à-vis competitors.* (Pavluska, 2003)

Marketing as a complex management process covers the following major steps:

### **Status assessment, status report, analysis of marketing opportunities**

The basis of the analysis is always some research based on secondary and primary sources. On such occasions it is necessary to analyse the micro (direct environment) and macro environment (with a broader impact, social, economic, etc. forces) of the organisation: evaluation of results and resources, getting familiar with the audiences of the target areas (investigation of consumer behaviour), market research (needs and satisfaction assessment), competition analysis, market forecast, investigation of broader environmental factors. In social economy, we typically have to explore the following areas to provide a foundation for the marketing strategy:

1. Features of the range of products, services and ideas to be sold, technical, organisational, moral opportunities and threats for its increase in volume. (What can we, and what are we willing to do?)
2. Characteristics of our current and potential markets, characteristics of the demand. (What does the market want?)
3. The trend of our own market position and the trend of sales (acceptance by target market, acceptance, volume sold, market share, seasonality, ratio of market and non-market factors). (What have we been able to achieve so far?)

4. Assessment of the expectations and interests of the members. (What internal expectations should be fulfilled?)
5. Analysis of the sphere of supporters and the potential support programmes. (What do the public and social spheres want?)
6. Delimitation of current and potential partners, analysis of their strong and weak points, as well as success factors. (Who can we rely on?)
7. Delimitation of competitors, analysis of their strong and weak points. (Who do we need to compete with, and in what areas?)
8. Macro-economic trends, factors affecting production, sales and access to subsidies. (What can we rely on from the external world?)
9. Organisational, technical-technological and human changes envisaged in our own organisation, general business and social strategy. (What can we rely on internally?)

### **Assignment of targets and target groups, market segmentation**

Groups on the market showing unique demand features are called segments, the procedure aiming at knowing the market, and dividing it into homogeneous parts – which enables the economical and effective implementation of marketing actions – is called *segmentation*. Market segmentation reveals the sphere of potential participants.

The steps of market segmentation in the case of not-for-profit organisations:

1. Definition of the mission of the organisation
2. Definition of the market
  - assignment of the level of competition at which we want to act
  - drawing conclusions on the basis of analysing the size of the market and the factors determining consumption.
3. Definition of criteria as a basis of segmentation
  - identification of criteria on the basis of which the differences in demand can be demonstrated between the consumers of individual markets, and homogeneous groups can be formed
4. Creation of segments
  - requirements: measurability, accessibility, time-based stability
5. Analysis of segments.

*The basic thesis of segmentation:* the difference between the segments should be the largest possible, and the difference within the segments should be the smallest possible. (Piskóti)

*By target group forming* we mean a process by which we select the segment (segments) suitable for us, and put it in the centre of our activity.

In contrast to business marketing it is a special feature here that in social economy in addition to direct consumers, other groups sometimes also need to be included into the sphere of marketing programmes. For instance, it is also important to win political decision-makers, the media, the spokes persons, the volunteers and the public opinion. A multiple audience further broadens marketing tasks.

### **Formation of a marketing concept**

A marketing concept is based on three pillars: customer-orientation, integrated and coordinated marketing and long-term benefits. Its main task is to answer and awaken to questions like on what market and with what solutions should an organisation appear.

According to Pavluska Valéria, the following points are significant in the formation of a marketing strategy for not-for-profit organisation:

1. *What is the relationship of the organisation with its environment?* If its sources even in parts come from subsidies, a separate marketing strategy should be established to raise and utilise funds. In order to have safe funds on a continuous basis a marketing plan should be developed not only for end users but also for the financiers.

If the organisation operates with the involvement of volunteers, the number of target audience will be extended by a new one because cooperation with volunteers means daily tasks.

Not-for-profit organisations both with their activities and resources are more tied to public interest, therefore more public attention is directed to them, which cannot be ignored either. As a consequence of this, publicity should get a much more important role in marketing strategies and programmes.

2. *What is the nature of exchanges that should be affected by not-for-profit organisations?* The benefit that can be gained and kept by the community in the exchange, and its price are basic criteria in the formation of a marketing strategy. It is highly typical of the relationships of not-for-profit organisations that the audience in addition to economic costs makes sacrifices not only in terms of time and energy, but is very often forced to sacrifice ideas, values, ideologies and behavioural patterns in exchange for which they receive not only economic, but also social and spiritual benefits. In contrast to “economic benefit for economic sacrifices” type transactions typical of corporations, the relationships of not-for-profit organisations appear in rather versatile cost/benefit combinations, which naturally require a different kind of management. (Pavluska 2003)

## **Planning of marketing programmes**

The detailed formation of the full value offer is done with a programme-based articulation of the marketing strategy. Marketing-mix is the development of a means combination most capable of influencing the target audience. Marketing-mix in the case of not-for-profit organisations is the 7P, i.e. seven English words:

- Product or Programme that has a practical value for the consumer,
- Price,
- Place – a channel through which we want to get to our consumers,
- Promotion – marketing communication means used by us during our work,
- People – people that we are working together with, who meet the consumers,
- Physical evidence – part of our service (if any) that has a physical nature,
- Process – a process in which a consumer may take part, and during which he can have access to a service.

When selecting our marketing tools we have to give consideration to the following points:

- In social economy – due to its nature – the tools of business and not-for-profit marketing intermingle. However, we should not take over without any critical approach the marketing practice of either the world of business or of not-for-profit organisations. Whatever may be viable and acceptable in market organisations, in the world of profit, may not be adequate in a not-for-profit environment.
- The organisations of social economy are varied, therefore no uniform, consistent marketing solutions can be pursued.
- Social and psychological benefits to be sold together with some specific product or service are difficult to be enforced with the traditional tools of marketing, especially if we also ask consumers for sacrifices in exchange with small or no benefit for them.

- In the business sector, it is normally possible to change the offer, and adjust it flexibly to consumer needs. The same is difficult or impossible in the not-for-profit sector.

### **Execution – implementation and realisation**

*The implementation of marketing actions largely depends on a good plan and careful preparation. The plan needs to be adjusted not only to the nature of the product, but also the personality and quality of those realising it. There is nothing more lamentable than trying to realise a splendid marketing program in a low-key, “ragged” manner due to the lack of funds or human resources. It is different if we start a programme, which from the beginning reacts to poorer conditions, which is simple but with style, and can properly represent the social content. Realisation can be left to an organisation specialised for the purpose or we can form our own taskforce to implement the tasks. In the first case, of course, we have to count with higher costs. In both cases, however, we have to understand that the marketing programme can only be implemented with the participation of the whole of the organisation, its every member, and with an attitude that reflects the programme. Those who produced the product or the service, and set the quality may do the most for successful sales. If a wine is poor, no bush will help. During implementation, creativity is the most important value. Under not-for-profit conditions we will need a thousand small ideas. A higher level of social receptiveness, typical of this sector, may help in surmounting difficulties, but we cannot rely on it endlessly. After all, we should not be looking for doles, but rather sales revenues and support based on others lining up with our objectives, and these will depend on the results of our market competition.*

### **Control – evaluation and feedback**

The success of the marketing activity can be directly measured through customer, client and donor satisfaction, all in all, through the results of sales and other fund raising, as well as the received sales revenues and grants. Satisfaction and market results should be fed back on a continuous basis for the purposes of possible marketing strategy corrections, and the highest possible level of revenues. A customer and client satisfaction assessment questionnaire handed out to the members of the target group at a place and time set out in the marketing strategy is a good means of this. But the most important means of measuring is sales monitoring by product, target market and period. Starting from this data, we may measure the success of the performance of the individual products on the different target markets, we may detect any requirements to boost or smoothly continue the marketing strategy, and accordingly, we may correct the concept or the marketing programme.

We should not only look at results in our evaluation. In order to have a proper foundation for further work it is worth examining whether the programme, the price, the location, the timing or the advertising have proven good. The tools that have stood the test may be reused, reshuffled, or new tools may be chosen.

It is especially important in the not-for-profit sector to carry-out on-going assessments to see whether our products have actually answered the needs expressed, and whether we are using appropriate marketing for our products, programmes and services to actually get to the stakeholders. (Suhajda, 1998)

## **PR activity in social economy**

Not-for-profit organisations are much more exposed to the controlling influence of publicity, than the actors of the world of business. Social objectives undertaken by not-for-profit organisations, and their share of public moneys raise public attention and higher interest. And if we pay more attention to publicity, our recognition will be improved anyway. Therefore, fostering relationships with the general public, Public Relations have a prior role among the set of marketing tools.

PR is the alignment of the communication activities of an organisation, and the management of its external and internal communication. In this activity, the first step is always the definition of target groups to which the given organisation wishes to communicate. By the internal PR activity of an organisation we mean all sorts of conscious information flow processes between the members, volunteers, possible employees and managers of the organisation.

The external PR activity of an organisation covers all communication between the organisation or its representative and some element of the external world. In the course of this work, information is transmitted about the organisation, its services and activity, and information is received about the external perception of the organisation, which can be affected. The target groups of the external PR are the customers, partner organisations, financing organisations (companies, banks, legislation, public administration), related to the company, as well as opinion formers in the environment, the local community, the local government, the media, etc.

## 18. Links with the public sector (Éva G. Fekete)

The relationship of social economy with the public sector is manifested in four major areas:

1. It is the public sector, where legal and financial rules are established that delimit the operation of social economy, and that may significantly simplify, or may exacerbate this operation. In this case, the establishment of an interest advocacy system, the opportunities and typical channels of interest advocacy are important.
2. The public sector – in connection with the above point, and as a part of governmental re-distribution – supports the operation of social economy. Normative or public tendering based community sources play a dominant role in the operation and development of social economy. The internal actors of social economy can influence this activity of the public sphere through interest advocacy, and within that, especially through being involved in planning.
3. Social economy may take over the operation of part of the services traditionally provided by the public sector. In such a case, the public sector appears as an important market-building factor of social economy. Their relationship can be characterised by a business type coordinated co-existence based on mutual interests.
4. The public sector may participate in the organisations of social economy as a founder and a member.

***In relation to the above area of relationship, further explanation should be given to the interest enforcement opportunities of the organisations of social economy, and the involvement of the social sector in the execution of public tasks.***

### **Interest enforcement opportunities of social economy**

Main actors of social economy: social and community enterprises typically have three, or in the case of social enterprises four definitions, therefore, they have interests related to four technical areas:

- a. Typical employer organisations: for which the terms and conditions of the employment policy, and within that not-for-profit employment specifically are not indifferent.
- b. Market players: the sales of their products, and the supply of all production factors other than the labour force happen under market conditions. Tough market conditions may be mitigated by the community, or eventually private sphere, recognising the public benefit nature, as well as the cooperation of the organisations, but the method, area and extent of this are results of social agreements and bargains. The recognition and enforcement of interests may give significant advantages to some players of this sector.
- c. Development organisations: they may through their innovative activity (employment, trainings, generation of products and services, directly or indirectly) contribute to the development of – mainly local – areas, and the reduction of their disadvantages. This is exactly why regional development policy and its measures directly affect their working conditions and development opportunities.

- d. Social organisations: also perform social-policy tasks with their services provided for their members, and as the target group of products and services produced in not-for-profit enterprises is often the disadvantaged population, they become part of the local social net.

We cannot in a targeted way count with interest enforcement opportunities developed for social economy or its players. There are, however special forums, and inclusion-based organisations existing generally for the NGO sector and specifically for not-for-profit employment organisations. In the spring of 2003, the Employment Workshop for NGOs, having an outstanding importance *in the employment area* was established with six national employment umbrella organisations, and was later enlarged to include eight members. The Workshop became a recognized base for technical development work and interest reconciliation both in the sphere of affected NGOs and the ministry of employment with its agencies.

Experts delegated by the Workshop play an active role in the State Employment Service Modernisation Supervisory Council, the Labour Protection Coordination Inter-Ministerial Committee Labour Protection Dialogue technical committee, the HRDOP Monitoring Committee and Strategic Working Group, the EQUAL Monitoring Committee, and the Thematic Innovation Sub-committee and Assessment Committee, and in the Adult Training Accreditation Board. (Employment Workshop for NGOs, 1. December 2005.)

In November 2005, an agreement, on cooperation and the development of the system and framework of a sector specific interest reconciliation for NGOs, between the Ministry of Employment and Labour on the one hand, and the Workshop on the other hand, opened a new chapter in the employment policy interest advocacy system of NGOs. (Agreement 30. November 2005.)

The OFA (National Employment Foundation) ROP network is also related to employment, although it is not an interest advocacy organisation, but its work may help in identifying and formulating interests typical of the whole sector.

Beyond specific employment related interests, currently no opportunity exists to show *special entrepreneurial criteria* specifically related to the not-for-profit organisational form, but appearing on the soil of strong market constraints. Chambers of commerce have not yet recognized the market-economic influence seen in the sector, and have not yet opened up in this direction.

*Within the organisational system of regional development*, interest advocacy can be exercised in the framework of micro-regional, county and regional level interest reconciliation forums, where opinions and recommendations on different development plans and programs can be heard, and regional employment alliances can be joined. Contributions to the strategic directions of regional development can be made, or joining the preparation of the national development plan at the national level is possible through the National Reconciliation Form for NGOs.

A direct way to *influence local decision-making* is to assign members of not-for-profit organisations to general assemblies of municipalities and their committees. Based on a survey of the Central Statistical Office in 2000, not-for-profit organisation delegated a total of 874 members to municipal decision-making positions. The greatest proportion (44.2%) was delegated as external members of technical committees, 37.4% was delegated as local representatives, 10.1% as chairs of committees, 4% as deputy lord mayors, and 4.1% as lord mayors into local decision-making.

Not-for-profit organisations participate in the preparation of decision-making in 94.4% of towns with a county rank, in 78.3% of municipal districts, and in 68.8% of other towns. (Kinyik – Vitál 2005)

Some of the sector specific legislation includes separate provisions for the involvement of NGOs.

Thus, for instance *in the social area*, the social act makes the involvement of NGOs clearly mandatory in certain fields. Point 1, Article 58/B<sup>6</sup> provides for the establishment of the Social Policy Council for the purposes of preparing and commenting on social policy and child protection concepts and draft pieces of legislation. On the basis of the legislative amendment<sup>7</sup> in 2001, local municipalities and county level municipalities shall create *service-planning concepts*, the implementation of which is supervised by the social policy round-table established pursuant to a local order. The members of the round-table are representatives of institution managers, and owners, but the number of members can be further extended in a local order, e.g. by service-providing NGOs of social economy, or their umbrella organisations.

### **Appearance of social economy in performing public tasks**

#### **Interpretation of public tasks and their transfer to not-for-profit organisations**

***Pursuant to Article 74/G of the Civil Code, any state or local government task is a public task the execution of which – based on legislation - shall be ensured by the state or the municipalities. (The interpretation of a public task in the light of effective legislation is even more complicated, as different pieces of legislation give different definitions.) (Bíró 2005)***

***Amidst political – economic – social changes since 1989, the role of the state has been re-interpreted, central state intervention in public tasks has been reduced with the performance of tasks more and more pushed to the level of municipalities. De-concentration, delegation of tasks to the local level is also typical in the case of tasks retained in the competence of the state. At the same time, there is more and more evidence that “the efficiency of performing state functions is improved by partial, or exceptionally total socialisation of public tasks. (Bíró 2005, 8)”***

Local/regional employment and service tasks that social economy may undertake may be connected with state and local municipal tasks in the labour sector.

*State tasks to be carried out in the sphere of the unemployed* partly have an authority-related and partly a service nature. Any opportunities for the state to delegate obviously only concerns service type tasks. What, how many services and with what financing conditions does a state give, for instance, to a social enterprise from assisting or self-assisting services concerning the unemployed and persons appearing with an auxiliary nature in social economy (training, consulting, mentoring, etc.), also depend on the state’s willingness to distinguish between authority-related and service tasks. It may decide to perform both groups of tasks by itself in the hope of savings, or for guaranteeing the mandatory use of some services. Delegation of tasks may be justifiable by profitability calculations, or an intention to bring the task closer to the target group, as

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<sup>6</sup> Act 4/2003.

<sup>7</sup> Act 79/2001.

well as tying labour services to employment, or the goal of increasing the range of services. (Csoba 1999)

Pursuant to the *act on municipalities*<sup>8</sup> municipalities shall perform the following tasks: “A local government shall provide for a healthy drinking water supply, kindergarten education, grammar school education, basic health and social care, public lighting, maintenance of local public roads and public cemeterys; and shall make sure that the rights of national and ethnic minorities are respected.”

A further scope of mandatory tasks – based on the authorisation given by paragraph (3) (with consideration to Point 2, Article 43 of the Constitution) – derive *from other acts* (for instance sectoral acts or the so-called Act on Competence<sup>9</sup>). Obligations pursuant to other acts may be set differently also depending on the size of the settlement, its population and other conditions. For instance, Act 3/1993 on social administration and care delegates differentiated mandatory tasks to local municipalities in the function of number of population.

As a facultative task, municipalities *may voluntarily undertake* the solution of any local public affairs not delegated to the competence of any other organisation by law. Such discretionary tasks from those assigned by law may be for instance: cultural and public educational services, environment protection, local economic development, or mitigation of employment problems. Naturally, performing mandatory tasks is always a priority vis-à-vis discretionary tasks. Optional tasks may be performed by local municipalities with consideration given to local needs, the financial position of the local government and other factors. Therefore, it often happens that in case of financial problems, the local government will put its undertakings to the minimum level, and will ignore tasks that are not mandatory.

**Performing mandatory and optional public tasks are ensured by the local municipality – pursuant to Article 1 of Act 81 on municipalities – by choosing from the following methods:**

- official task, own – municipal – institutional solution,
- involvement of the market and the business sector,
- mixed solutions, competing alternatives,
- cooperation with other than municipal institutions, partnership based solution,
- delegation of tasks to another agency.

Thus, the opportunity of involving other than municipal or state players clearly appears. Outsourcing may take place by a transfer of an already operating institutions to self-governmental or independently founded public benefit organisations, by the foundation of new institutions by NGOs, or by the purchase of the service (purchase of a task already operated by an NGO).

*The act on public benefit organisations* contains provisions that lay the foundation of a stable cooperation between the civil society and the state. The recently developed public benefit legal status contains entitlements to state subsidisation, and the requirements of pursuing the activity in a defined form and with a defined content. The act ensures the transparency and accountability of not-for-profit organisations receiving state subsidies. The public accounting obligation creates a competition among public benefit organisations on the market of subsidies and services. Csanády Dániel considers it a

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<sup>8</sup> Act 65/1990 (amended several times)

<sup>9</sup> Act 156/1997

gap in the act that it does not distinguish between donations and grants, it does not make the reimbursement of VAT possible, and it does not give exemption from certain tax type contributions (cultural contribution, vocational training or rehabilitation contribution). (Csanády 1999)

How willing municipalities are to transfer certain defined public services to the players of social economy, or in general to the sector of NGOs, and how they do this, according to Gáspár Mátyás, depend on the following factors:

- solvent demand, the “pressure” of needs, the extent of marketability,
- how much the set of values, the political culture support the “opening”,
- existence and strength of NGOs (interest advocacy, task performing ability),
- monopoly or competition, opportunities or constraints of the latter,
- financial position of the self-government (financial constraint),
- nature and transferability of a given service or public task (its state power or authority content). (Gáspár 1999)

In an international comparative study conducted in 1990, researchers found the participation of the not-for-profit sector especially active and significant in four public service areas. These are: *education and research, health care, social care and culture-recreation*. This is confirmed by research conducted in the Hungarian not-for-profit sector. (Lévai 1996)

Research has identified the major motivations and mental hurdles of delegating and accepting public tasks.

It is a motivating force *for municipalities* that with this solution they can provide services operating in a cheaper, better and more flexible way, that in a locally more informed way they can better react to special needs. At the same time, they are worried and are looking for guarantees for the sustainability of quality and services.

In addition to self-government interests, institutional, social and market interests also appear. These may strengthen but also weaken the outsourcing of public tasks. It is especially in the institutional or state sphere that strong conflicts of interest may appear against the involvement of external not-for-profit players. (Bíró 2005, Csoba 1999)

*Not-for-profit organisations* hope for the advantage of being able to satisfy community needs in a more perfect way, to have more stable and longer term financing for their operation, and to have broader resources due to the take-over of tasks. In addition to envisaged advantages, they are also counting with the forced employment of a more knowledgeable (and expensive) staff, or sometimes the provision of services not aligned to current needs, or more distant to the mission of the organisation, disadvantages and dependence due to higher than expected maintenance costs, as well as the consequent negative impacts. (Lévai 1996, Austin 2003)

The not-for-profit act and the self-government act have created a legislative framework for not-for-profit organisations to be involved in the performance of public tasks – if the parties are sufficiently motivated. With all this, there are structural problems in the Hungarian self-government system that make the expansion of not-for-profit commitments difficult. In the municipal financing system, central budgetary subsidies are the sources of performing public tasks. In line with the logic of the system, the “spending of the subsidy” has to be accounted, instead of results or the public service being measured and evaluated, or – with a task delivery type financing logic – the quantitative and qualitative, substantive and organisational outputs of legally defined public task

performance being stressed. This is (also) the reason why governmental and local municipal organisations rather support the programmes of not-for-profit organisations than purchase their services at least at the production price for the purposes of performing their own public tasks in the most efficient way. A shift has to be made towards the direction of a task performance financing based public administration and budgetary system if the public task performing state, municipal organisation or institution are to be made directly interested in the development of their activities, and in strengthening not-for-profit participation. (Bíró 2005). Bíró's book also reveals several further gaps and controversies in the regulation. This is where he makes reference to the problem caused by the sometimes exaggerated and inconsistent definition of the rights of public benefit organisations and highly public benefit organisations, as well as the importance of addressing the distinction of the concept of grants from allowances received in return for a service, and the legal constraints and legislative gaps that prevent the operation of voluntary helpers (difficulties of cost accounting, taxation rules for in-kind allowances, accounting for the own sources of the project, ability to perform such tasks with an unemployment benefit).

### **Sectoral acts and other pieces of legislation regulating the transfer of public tasks**

The completion of individual public tasks (both in terms of task definition and the organisations responsible for completion) is regulated more deeply by the individual acts of the sector. Sector specific legislation defines also the sphere of organisations (governmental or non-governmental) that under certain technical, operational and personal conditions may initiate the performance of tasks autonomously, or the sphere of non-governmental organisations with which municipalities may conclude agreements and contracts for the performance of a task.

#### *The act on employment*

Act 4/1991 on employment and unemployment benefits<sup>10</sup> regulates the structure and the operation of the system of labour market institutions, the forms of benefits, the method of interest advocacy, as well as active labour market measures (training, organisation of public benefit employment, employing peers and employees in wage subsidising schemes), which can be used also by NGOs. The performance of tasks by NGOs obviously cannot cover the official/administrative part of employment tasks to be performed by municipalities – for instance the assessment and disbursement of income supplementing subsidies – but they can operate the mentioned active measures, which can replace aids.

In addition to the application of training and public benefit employment, as classic measures, NGOs may perform employment tasks also in an indirect way.

***In most cases municipalities are happy about initiatives taken by NGOs, from which they hope the inclusion of further application funds and the more efficient mobilisation of their own resources. In spite of this, long-term contract based cooperation that also gives financial support to the performance of tasks is rarely undertaken. Financial difficulties are mentioned most frequently as an obstacle, but medium-term contracting and longer-term commitments are difficult to harmonize with self-government terms.***

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<sup>10</sup> Act 4/1991 on employment and unemployment benefits

It is a further difficulty in the outsourcing of employment tasks that neither the employment act, nor the social act sets out the requirement of task performance with the same specificity as in the case of mandatory tasks for the benefit of, for instance, children and homeless persons.

### *The social act*

*Act 3/1993 on social administration and social benefits (further: social act)* has a separate chapter (VI.) where it provides for *contracted social benefits*, which basically concern social benefits providing personal care. All local municipalities are obliged to organise social basic benefit types ensuring personal care. In the case of specialised types of benefits the social act defines different mandatory benefits based on the number of the local population. A municipality or a government agency may conclude a written contract with a social service providing association, foundation, legal entity of the church, their institutions, a personal or joint business for the performance of social tasks. Both in the case of basic and special benefits, non-governmental organisations have the option of carrying out the task either independently or based on a contract signed with the self-government having the benefit providing obligation.<sup>11</sup>

### *Act on public culture*

The act regulating public education and cultural tasks<sup>12</sup> similarly creates a broad opportunity for the inclusion of NGOs in public tasks, however, these opportunities are different for the different tasks.

In the case of *institutions dealing with museums*, the maintenance of national and county museums basically belongs to the scope and obligations of the state. At the same time, the organisation and maintenance of regional, thematic museums and exhibition halls may become the task of NGOs.

As for *public libraries*, the scope provided for participation is larger than in the case of museums. In such a case municipalities may provide services by purchasing (ordering) them, and there is a good chance that the service provider is an NGO. Another legal option for the owners of museums is to turn to the minister requesting that the museum is put on the public register.

It is one of the mandatory *public educational tasks* of local municipalities to give support to local public educational activity Point 1, Article 76, which tasks are set out by the law in its paragraph (2). Pursuant to Point 1, Article, a *public education agreement* may be concluded with a legal or natural entity meeting the criteria of the act for the implementation of public educational tasks set out in the order of the local self-government. The act provides that municipalities shall set out their conceptual ideas for public educational tasks in a local order without making reference to any related deadline or sanction (for non-compliance). NGOs may be involved in public educational tasks if they have model type services highly satisfying the needs of the local community at a highly satisfactory level, and if they “deploy” their interest advocating capability when creating the settlement level concept.

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<sup>11</sup> Social Act, Point 3, Article 57

<sup>12</sup> Act 140/1997 on the protection of cultural goods, institutions dealing with museums, public libraries and public education

### *Act on public education*

The task-performing obligation of local municipalities covers the full range of public educational services. Act 79/1993 on public education declares the right to free school establishment. This makes it possible for foundations, churches, businesses and natural entities to found schools. It is a basic principle for ensuring task performance that governmental organisations may not establish ideologically committed (e.g. religious) public educational institutions, at the same time, each citizen has the right to participate in public educational institutions in accordance with his religion or cultural values, etc. *This duality, the satisfaction of special social needs and the enforcement of ideological freedom with the provision of mandatory tasks on the other side creates a foundation for the participation of NGOs in public educational tasks, as they can react more easily to needs.* (Szüdi 1999)

Municipalities may conclude **public education agreements** with the owner of any public educational institution, if they perform their business in the form of a task taken over from the government/self-government. In this way, even a non-governmental owner may be included in the execution of public educational tasks of the local self-government. The act gives accurate provisions for the possible areas of the agreement (the tasks that can be outsourced).

### *Other sectoral acts*

Other sectoral acts (e.g. on environment protection<sup>13</sup>, health care<sup>14</sup>, sports<sup>15</sup>, waste management<sup>16</sup>, cemetery services<sup>17</sup>, passenger transport with scheduled buses<sup>18</sup>, etc.) also more or less allow for cooperation with NGOs and the foundation of independent institutions, however, they less accurately regulate the framework of outsourced task performance. In these areas, the contribution of NGOs to the execution of tasks may be of varied proportions. E.g. it is higher in the areas of sports, hobbies, and leisure time, and lower, e.g. in environment protection. Although sector neutrality exists, the procedures assigned to public tendering, assets conditions, and detailed and complicated tendering conditions often screen the not-for-profit organisations that can be involved in public tasks.

### **Main types of NGO participation in performing public tasks**

The main types of NGO participation in public task performance (KCR-types) became identifiable as a result of a research completed in the organisation of the EMLA Association in 2005 (Bíró 2005):

*“Take-over type KCR”*, which takes a public task over fully from a governmental, municipal organisation. (For instance, the operation of an elementary school providing training and education.) This normally means the maintenance of an institution, and goes together with the applicable central budgetary normative grant entitlement.

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<sup>13</sup> Act 53./1995 on the general rules of environment protection

<sup>14</sup> Act 154/1997 on health care

<sup>15</sup> Act 1/2004 on sports

<sup>16</sup> Act 43/2000

<sup>17</sup> Act 43/1999

<sup>18</sup> Act 33/2004

*“Task allocation type KCR”*, which takes over only a delimited part, element or function of public task performance. (For instance cultural services in a social home providing daytime care.) This “outsourcing” is still rare today, as it means task allocation rather than institution maintenance.

*“Complementary type KCR”*, which may be created for the purposes of an already existing and practised public task. (For instance, a general culture centre extends its sphere of activity by a professional pedagogical service – say, an educational consultant.) This extension may be the result of amended legislation or changed tasks pursuant to new legislation, quantitative changes of administrative events (e.g. merger of institutions), or the extended profile of a public task provider.

*“Case-based assisting, supporting” type KCR”*, which may facilitate the completion of public tasks occasionally, accidentally, periodically, partially and even unpredictably. (For instance, foundations established next to training-educational institutions in the public task performance of kindergartens and schools.)

*“Information type” or “control type” KCR*, which provides information on the fulfilment of public tasks for the organisation responsible for the completion of the task, for the profession, the local public opinion and publicity. This sphere includes all the NGO activities emerging on the basis of trade, interest advocacy, public life and publicity ambitions that watch, measure, analyse, examine, monitor, research and control the processes, stages, consequences, impacts, implications, benefits, disadvantages, failures and success of public task completion.

### **Practical transfer of public task completion – the service contract**

*An overall strategy* is needed from municipalities to define the following: for what purpose, in which public service or problem areas, with what objective, content, conditions and guarantees does the self-government rely on the players of social economy? They should also decide what forms they prefer in certain areas (public foundation, foundation, society, etc.). The strong level of organisation, accountability, but also higher flexibility speaks for social enterprises among the different organisational forms.

Municipalities may not only be customers of the not-for-profit sector, but – if they handle solutions by NGOs as a priority in some areas – they themselves can act in the interest of the self-organisational ability, increased organisation, ability to take over public tasks of the local community. Additionally, a self-government itself may establish – independently or together with other partners – not-for-profit enterprises.

If the contemplation of the self-government has a positive result, and there exists a not-for-profit NGO, which is willing and capable of taking over a task partly or fully, the task may be outsourced. A mandatory element of this (even in the case of a not-for-profit enterprise founded by the self-government) is a written contract between the two parties. The agreement shall contain:

- a court record on the legal status of the service providing organisation, the authority permits related to the activity;
- titles of the tasks, description of the service, group and number of beneficiaries or stakeholders;

- technical (personal and objective) criteria of the service provision, rules for its recording and operation;
- minimum availability period and frequency of the service, minimum opening hours,
- the level of fee payable for the service and stipulations for its transfer;
- the period for which the contract has been concluded,
- contracting and termination conditions; conditions and circumstances of service use; the order of complaint enforcement; the order of accounting (at least once per year);
- the way of complying with data service obligation, the amount of service fee, procedural issues, deadlines, settlement obligations,
- other guarantee elements.<sup>19</sup>

Service contracts are signed, modified or terminated by the general assembly of the self-government. The social act also provides that the general assembly of a local self-government may not assign these competences to others.

Additionally, individual tasks have different provisions assigned to them that can be enforced at public service contracting:

- Mandatory publication is stipulated when child protection and public education tasks are outsourced.
- Act 43/1999 on cemetery service contracts stipulates that the general assemblies of municipalities, and the municipal general assembly in the capital shall ask for the opinion of consumer interest advocacy organisations competent in the region when assessing the contracted fee.
- The waste management public service contract shall be signed for at least 10 years with the waste manager responsible for the disposal of local waste; and contracts specifically signed for waste collection and transportation shall be signed for not more than a definite 10 years period. It is mandatory for contracts signed for waste collection and transportation to name the public service provider responsible for the disposal of the waste, and in the case of wastes collected selectively, to name the user or the waste managing entity responsible for disposal. (Act 43/2000)
- Government Decree 224/2004 (22. VII.) on public service contracts contains a separate set of rules – in a rather detailed form – applicable to the pre-contracting (public tendering) procedure, contract signing, content, amendment, cessation and termination.
- A passenger transport public service contract may be signed for a definite period of not more than 8 years with no extension possible. The contract shall provide for the service provider's obligation in terms of measuring and publishing turnover data, which will enable the entity responsible for the service to assess the public service activity of the service provider. The passenger transport public service contract organically integrates the timetable, its modification is deemed to

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<sup>19</sup> A system of criteria developed from the summary of provisions in the social, public culture and public education acts. (social benefit contract (Act III./1993), child protection benefit contract (Act 31/1997), public education agreement (Act 79/1993), waste management public service contract (Act 43/1999, Government Decree 224/2004 (22. VII.)), cemetery public service contract (Act XLIII./1999) on passenger transport with scheduled buses (Act 43/1999)

be a violation of the contract, and the contract specifically defines a possible way of this, its procedure and publication. (Act 33/2004) (Bíró 2005)

It is a gap in the current legislation that outsourcing may basically concern only transfers of tasks in full. The transfer of partial tasks is either not possible or is void of legislative framework. Similarly, the purchase of services related to individual partial tasks is still in its infancy.

### **The financing background of outsourced public tasks**

There are no general type pieces of legislation providing for the financing of public tasks taken over by not-for-profit organisations or community enterprises. In addition to legal provisions on the central state budget regulating the operation of redistribution by the government, there are also sectoral or eventually local legislation regulating financial issues related to the take-over of social, public culture and public education tasks, and defining the framework of service contracts.

Within the *system of the state budget* there are a few provisions banning or limiting the outflow of public funds from certain sources and levels of the central budgetary system of organisations to foundations and societies. There is also legislation outlining the boundaries of supervision and control over public funds moving towards NGOs. There is legislation as well to ensure the publicity and accessibility of information about public assets conditions, and rules for the accounting, book-keeping, reporting and controlling of grants getting to not-for-profit NGOs. Rules applicable to the central budget handle public foundations and public benefit societies, established from public funds separately. (See more details in this topic at Bíró 2005. 47-65.)

*In the area of social services*, the normative state contributions of personal care providing social institutions shall be applied for and disbursed pursuant to the provisions of a government decree. It is a precondition to disbursement that the operational conditions and services of the institution, as well as its institutional fee shall comply with legislative provisions (Article 2 of Act 58 on accounting). (Mrs. Hazai 1999)

*In public culture*, in the area of museum-related tasks, normative subsidies cannot be taken over from the self-government together with the maintenance task (because the act regulates only the maintenance function and obligation, and does not make the operating function separate). Therefore, multi-sectoral cooperation is only possible in a way that the self-government supports and recognises the values created by the NGO, and application possibilities of line ministries can also give assistance in the provision of sources. (Tóbiás 1999)

In the case of NGO community maintenance of libraries, legislation allows for any library operator to request the minister to record their library on the public register, by which they will become entitled to normative financing. (Tóbiás 1999)

***In public education the state norm is legally due to non-governmental operators – in the case of a performed task that is recorded in the act on public education -, so it can be accessible independently of the self-government, also directly. Regardless of this, NGOs shall conclude a public education agreement with the competent self-government. (Szüdi 1999)***

## **Trends of the relationship system of the not-for-profit sector and municipalities**

**According to the more detailed records since 1996 of the assessments by the Central Statistical Office the relationship between municipalities and the not-for-profit sector has somewhat changed recently.**

Back in 1996 28.1% of municipalities did not have any relation to not-for-profit organisations at all, which proportion came down to 20.7% by 2000.

Within these relationships, next to the initially dominant financial supporter and founder relationships, more weight was attached to mutuality based supporting relationships and joint projects, a more intensive inclusion in local decision-making, as well as contractual relations.

On the questionnaire sent by the Central Statistical Office to local municipalities, the identification of the contracted relationship was done according to the following definition: *“a contractual relationship is if a self-government assigns fully or in part – based on a written contract – the completion of public benefit tasks in its own competence”* to a not-for-profit organisation independent of the self-government (fire fighting, education, social benefits, etc.) (Central Statistical Office, 1998, 2002)

Within the above interpretation, contractual relations were singled out in the following cases:

- the self-government concludes contracts with not-for-profit organisations (completion of a public task) without financially supporting it, and also “outsourcing” where the self-government also provides financial assistance to the task,
- contracts concluded *with own founded organisations* (mostly in the form of public benefit companies), or *with not-for-profit organisations founded separately from the self-government* (foundation, society, public benefit company and religious organisation).

***In the period between 1996 and 2000 the number of contracts signed with municipalities and not-for-profit organisations almost doubled, and the nature of tasks carried out by not-for-profit organisations became more versatile, and their appearance in certain activity areas became more intensive.***

According to the data of the Central Statistical Office, in 1996, 338 local municipalities (11%) had a contract with a total of 905 not-for-profit organisations, while in 2000, already more than 632 municipalities (20%) had public service contracts with 1666 not-for-profit organisations. About one fifth (19.7%) of the almost 14 billion HUF financial support for not-for-profit organisations in 2000 was paid on the basis of contracts. In contrast, subsidies paid to self-founded institutions amounted to 32.3%, which shows that municipalities rather prefer organisations founded by them when it comes to the provision of public tasks. The domestic texture of public task performance services, and the volume of financial assets transferred in the framework of service contracts are basically defined by the geographical region, type of settlement, organisational form of the not-for-profit organisation with which and the types of tasks for which they are concluded.

## **Change of attitude necessary for the progress of social economy in servicing public tasks**

György Könczei, also using American conclusions draws attention to the following basic cornerstones of the change in attitude (Bíró 2005, 102-106):

- a. Not-for-profit is not free.
- b. Not-for-profit is not lay.
- c. Not-for-profit does not change political colours and important objectives, methods in order to win funds in tendering.
- d. Publicity, interest enforcement and pressurisation are the scenes of lobbying.
- e. Voluntary participation, cutting through the self-generating cycles of routine-type money making
- f. Not-for-profit = an adult that is characterised by
  - the ability of planning
  - conflicting power, having civil courage
  - partnership or ability to peacefully cooperate with power

Let us not forget to emphasize that in addition to a change in attitude, it is also necessary to transform the legislative background for strengthening the transfer of public tasks to social economy, and by this to extend its market. The most important change in the financial management of municipalities should be the shift to task performance financing.

## **19. The appearance of the concept of social economy in domestic development strategies and programmes (Mária Frey)**

Grants to social economy as interpreted in strict observance with its definition have appeared in *three development strategies, and programmes in Hungary* over the last few years.

The first was the merit of the National Public Foundation for Employment Promotion (OFK) which first began subsidising the personal (social) services of community/public associations in 1996 in order to promote the long-term employment of unemployed persons.

The second was the *Phare programme* launched in 2003, which set as its objective the promotion of the reemployment of middle-aged women having left the labour market for a longer period for reasons of child care, or because of inactivity for other reasons. The tender winning consortia had to undertake the reintegration to the labour market of at least 40 women of the target group through three channels. The target job had to be unsupported by placement services, and the method had to be the establishment of a business of their own, or a *not-for-profit employment scheme* that was meant to provide personal services in short supply at the time, constituting an employment barrier for the women concerned (e.g. child supervision, nursing of elderly persons, household work and work around the house) thereby ensuring a job for members of the target group, and creating an opportunity for other women to free up their working potential for gainful activities by taking advantage of these services.

The third item to be listed under this heading is component 3.2.2 of the Regional Development Operational Programme (ROP) that *assists the implementation of not-for-profit employment schemes in social economy*. However, in the case of this programme the group of winning applicants became merged with the social sector as municipalities and the institutions, and associations operated by them, and not-for-profit organisations were likewise allowed to apply for funding for their projects.

Interpreting *the actors of social economy* in a broader sense to include also not-for-profit organisations promoting employment or in an even broader sense those undertakings that work on raising employment rates one can say that their spreading out was helped by donations of both domestic, foreign, and international organisations. The OFA (National Employment Foundation) has been the first and foremost among Hungarian funding organisations, the European Union among the international ones, and among foreign ones we need to mention countries (eg. Great Britain or Austria) whose organisations arranged study trips, and provided expertise concerning the theory and practice of the role of not-for-profit organisations in the labour market.

### **Subsidy under the Employment Act**

The various elements and rules of the domestic subsidy system is provided by Act 4 of 1991 on the Promotion of employment and providing for the unemployed (Fit) as well as decree 6/1996 (VII. 16.) MüM on Employment promoting programmes, and on subsidy available from the Labour Market Fund to handle employment related crisis situations.

The Flt assists not-for-profit organisations in two ways. On the one hand it enables them as employers – similarly to other employers – to use certain types of active labour market policies. On the other hand it has introduced forms of subsidy tailored expressly to their needs with a view to encourage a role to be assumed by not-for-profit organisations in the labour market either directly (i.e. as employer) or indirectly (i.e. as program implementation agency).

Not-for-profit organisations as employers may claim the same funding – if approved by the employment service – as those employers who promise to employ disadvantaged persons, and meet the relevant statutory criteria. These criteria are as follows:

- *Support aimed at promoting employment:* The local office of the labour centre may ensure wage subsidy to employers committing themselves to employ long-term unemployed persons. If all criteria are complied with, the non-reimbursable subsidy may be added to the wages of the employee concerned.<sup>5</sup>
- *Assuming the contributions payable on wages:* The purpose here is to improve the employment chances of groups on the way of exclusion from the labour market. That purpose is planned to be achieved by the local office of the labour centre taking over fully or partly the contributions, including the health contribution, normally payable by the employer. The support may be claimed by employers who undertake to employ an unemployed person or one under mentoring supervision.<sup>6</sup>
- *Supporting work-experience:* that is the way in which the employment service tries to help qualified or unqualified school leavers in finding a job, and promote the improvement of their professional preparation. That subsidy is available to the work experience placement of those school leaving jobseekers who cooperated at least for 90 days with the labour centre from their registration onward.<sup>7</sup>
- *Supporting part-time employment:* those employers may receive that support who undertake to employ persons for at least half but no more than three quarters of the working time, raising at least one child younger than 14 years of age, or is recipient to carer's allowance. The type of subsidy may be the assumption of the health insurance contribution, pension insurance contribution, the employer's contribution, and the health contribution. The employer needs to pay no itemised health contribution for the employment of persons aged at least fifty, and seeking a job for at least six months.<sup>8</sup>

The active labour market policies listed above are not frequently claimed by not-for-profit organisations. The reason is that the support usually involves continued employment to be financed fully by the employer, which most of them cannot shoulder. That is why both as employer and program implementation agency they prefer *public benefit*

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<sup>5</sup> Article 11 of decree 6/1996. (VII. 16.) MüM

<sup>6</sup> Article 18/B of decree 6/1996. (VII. 16.) MüM

<sup>7</sup> The statutory basis of the support is the Flt, Act 4 of 1991, decree 6/1996. (VII. 16.) MüM, and decree 68/1996 (V.15.) Korm on the placement of unemployed school leavers;

<sup>8</sup> The statutory basis of the support is the Flt, Act 4 of 1991, decree 6/1996. (VII. 16.) MüM, and Act 66 of 1998 on the health contribution;

*employment*<sup>9</sup> as with that type of support the obligation to employ is limited to the period supported.<sup>10</sup> The purpose of public benefit employment is the placement of jobseekers having temporary or lasting problems finding a job. Their employment is ensured on a temporary basis by the municipalities or not-for-profit associations in return for the subsidy. The subsidy may amount to 70% of the direct costs of the employment, and may be provided for up to one year. In the case of the employment of persons aged in excess of 45 the subsidy may amount to 90% of the costs of employment, and may be claimed for 2 years. The same applies to cases where public benefit work is organised by the Roma minority's local government.

In 2000 the conditions were put in place to assist *labour market programmes*.<sup>11</sup> That move was justified by the change of character of unemployment, namely its becoming a long-term phenomenon, which is less and less possible to handle through individual active labour market policies. Earlier it was not possible to handle unemployment by building such policies on top of each other. The Flt. enabled that approach. If there is a pre-determined, complex goal to achieve, the Labour Market Fund may fund programmes targeted at:

- implementation of regional objectives,
- influencing labour market processes, and
- promoting the employment of persons with disadvantages in the labour market.

The 'chief contractors' of such programmes are usually the county labour centres. At the same time in various phases of the implementation not-for-profit organisations also enter the stage.

***If the objective set by the programme so justifies, departures from the general rules of employment promoting support are allowed in the case of labour market programmes.***

The programmes may be:

- central labour market schemes,
- labour market programmes covering several counties,
- county labour market schemes.

If it is a central programme, then the expert opinion of the Steering Committee of the Labour Market Fund must be sought, while if the programme is initiated by one or several labour centres the county (Budapest) labour council(s') comments must be considered.

From 1 January 2007 onward the Employment Act will be amended<sup>12</sup> to replace the large numbers of wage and contribution based support by a single form of support, whose disbursement criteria will also comply with applicable EU legislation. That single instrument is most similar to the *wage subsidy arrangement payable to employers*

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<sup>9</sup> Public benefit work is a public tasks concerning the population or the community funded by the local office of the labour centre on the basis of article 16/A of the Flt.

<sup>10</sup> Similarly popular schemes are the *public work* and *public purpose employment*. Public work means employment in the framework of a programme aimed at performing a public task, or achieving an objective set by Parliament or the Government. Funding for such schemes may be applied for on the basis of decree 49/1999 Korm on The support of public work programmes.

Since 2000, so-called active age, non-disabled persons claiming social support must do public benefit work for at least 30 days. That is a condition to disbursing the support sum. The municipalities themselves may organise the work, but may also subcontract it to not-for-profit organisations. The activity involved may be a locally or nationally important task that constitutes one of the local government's statutory obligations.

<sup>11</sup> Legislative framework: article 19/B of the Flt, decree 6/1996. (VII. 16.) MüM, article 26/A

<sup>12</sup> Bill T/1303 to amend Act IV of 1991 on the Promotion of employment and providing for the unemployed (Flt)

*employing long-term unemployed persons* with the difference that its scope includes the entire set of *disadvantaged people*, and that the eligibility criteria will also be modified.

‘Disadvantaged’ in the meaning of the law are job seekers<sup>13</sup>, who:

- do not have secondary education, or
- completed their 50th year of age upon the first day of their employment, or
- are of changed working abilities<sup>14</sup>, or
- had been registered as jobseekers by their local employment office for at least 12 months, or, if school leavers, then for at least 8 months during the 16 months prior to the commencement of their employment, or
- raise at least one child younger than 18 alone in their own household, or
- had been recipient to child care allowance, or maternity benefit, child care fee, or carer’s allowance, or
- had served their detention or prison term or lock-up sentence during the 12 months prior to their registration as jobseeker.

Further the employer may claim support by undertaking the obligation of continued employment of disadvantaged persons (employees) threatened by loss their job, i.e.:

- those whose employment relationship is going to be terminated by their employer at the latter’s discretion by ordinary notice, or whose fixed term work contract is to expire within 90 days, and
- completed their 50th year of age upon commencing their continued employment, or
- do not have a secondary education, except if
- the parties conclude a work contract within 60 days of the expiration of the previous employment relationship.

Wage subsidy may be granted to help placing the disadvantaged person in employment, if the employer:

- commits himself to employ the disadvantaged employee in subsidised employment for a minimum of 12 months under a work contract (obligation of employment), and
- did not terminate at his own discretion, by ordinary notice the employment relation of an employee employed in a similar position within six months prior to the submission of the claim.<sup>15</sup>

### **The form and extent of wage subsidy**

Wage subsidy of up to 50% may be granted to the employer, or, if he employs a person with changed working abilities, then up to 60% of the wages plus contributions for a period of 12 months.<sup>16</sup>

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<sup>13</sup> In accordance with paragraph d) of article 58 (5) of the Ft

<sup>14</sup> Paragraph e) of Government decree 177/2005 (IX.2.)

<sup>15</sup> The disbursement of the support must be terminated, and the support already disbursed reclaimed proportionately to the extent of the contravention fully or in part of the employer should fail to comply with his obligation of employment. However, the employer will be exempted from under the re-payment obligation if he manages to prove that the employment relationship was terminated through extraordinary notice by or termination without legal successor of the employer, or ordinary notice by the employee.

<sup>16</sup> In accordance with subpara b) of para (3) of article 5 of decree 2204/2002/EC the employee is entitled to at least 12 months of employment, which is likeliest to materialise if we disburse support for the entire

On the basis of the combination formula<sup>17</sup> the sum of the wage subsidy – combined with other state paid subsidy or community funding – cannot exceed the following:

- **100% of the wages and wage contributions paid to the employee in any period (month, year, etc.), and**
- **a sum equivalent to 15 million EUR in any three-year period.**

As from 1 January 2007, simultaneously to this new type of wage subsidy the following

- a) will come to an end as an independent form of subsidy:
  - subsidy to raising the rate of employment, more specifically:
    - wage subsidy to persons having completed 45 years of age
  - taking over contributions payable on the wage, more specifically:
    - job seekers aged over 50, and
    - a more favourable arrangement of assumption of contribution payment for those discharged from prison and under supervision,
  - subsidy to part time employment,
  - assumption of wages and contributions aimed at rehabilitation employment, and
  - supporting obtainment of work experience of school leaving job seekers;
- b) will come to an end:
  - supporting the employment of school leaving jobseekers<sup>18</sup>
  - support to employment as part of a workforce hiring arrangement<sup>19</sup>.
- c) Maintenance of the workplace remains possible to support based on the *de minimis* regulations.

#### *Support of the wage costs available in the framework of labour market programmes*

As reimbursement of the wages and its contributions can only take place as from 1 January 2007 if subsidy for to public utility work, and the above wage subsidy have been granted, the operation of labour market programmes came under serious threat. That is because public benefit work is only a limited segment of all other types of employment, and wage subsidy is a policy to facilitate the employment of a specific group of persons qualified as disadvantaged. As community legislation must be complied with, the employment by economic organisations in the framework of a labour market programme is not subject to support for the usual three years, and if the target group of employees do not qualify as disadvantaged, then it is not possible to support in any way. Thus a new active policy was introduced called *wagebill subsidy*, only available in the

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duration of that period. The legislation quoted may be also interpreted to mean that the employee is entitled to 12 months of subsidised employment.

<sup>17</sup> Subsidy to the employment of the disadvantaged groups may be granted on the basis of Commission regulation 2204/2002 of 12 December 2002; i.e. upon granting the support the combination formulae in para (4) of article 8, and para (2) of article 9 must be taken into account.

<sup>18</sup> The termination of the support to work experience is explained by the fact that the employment of unemployed school leavers may be arranged effectively through wage subsidy, and the START programme introduced in 2005, helped by support on contributions claimable on general eligibility.

<sup>19</sup> Support to employment in the framework of a workforce hiring arrangement was enabled by decree 31/2004. (XII. 21) FMM. Due to the slack interest it generated (in 2005 noone claimed that support) is maintenance is no longer justified; the labour market reintegration of the target group may also be encouraged by the employment promotion support of disadvantaged groups.

framework of a labour market programme, and enables the funding of 100% of the wage and its contributions for up to 3 years.

As the successful implementation of the programmes is difficult without the contribution of programme management, the new policy enables the reimbursement of the wages and contributions of not only persons belonging to the target group, but also those of management.<sup>20</sup>

The amendment of the Employment Act also restructures the Public Employment Service: the duties of the Budapest labour centre, and the county labour centres will be performed in the future by the *regional labour centres*. The change in the organisational structure also concerns the form of collective bargaining: bargaining related to the granting of support to employment, labour market training, and employment rehabilitation will be performed by the local labour councils replacing the present county labour councils.

### **Support from sources other than the Employment Act**

The practice of creating separate legislation to encourage the employment of some disadvantaged groups – on top of the support ensured by the Employment Act – became established in the framework of the so-called 'Hundred steps programme'. The following among these ensure tax and contribution and benefits on a general eligibility basis also to not-for-profit organisations acting as employers of persons of unfavourable labour market positions (jobseekers, persons with changed working abilities, school leavers, those returning from child care leave, etc.).

### **The START programme**

The **START** programme was launched on 1 October 2005 to assist all school leavers under the age of 25 – 30 in the case of higher education graduates – and entering their first employment after either completing or interrupting their education.<sup>21</sup> Employers undertaking their employment are entitled to two years of support. The form of the support is *reduced contribution on a general eligibility basis*, as a result of which the employer must only pay each month 15% of what would be due based on his contribution base in the first year of employing the young school leaver, and 25% in the second year. The benefit applies to earnings up to double the minimum wage for the employment of persons under 25 years of age, or 30 in the case of those with a higher education degree up to the double of the minimum wage. That however, does not mean any limitation of the earnings of school leavers.

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<sup>20</sup> If the subject of the support is an undertaking, the *de minimis* rules must be applied. In accordance with Commission regulation 69/2001/EC of 12 January 2001 on the application of the content of articles 87 and 88 of the Treaty Establishing the European Community to low levels (so-called *de minimis*) of support the support granted to an undertaking under the title of low levels of support must not exceed the HUF equivalent of one hundred thousand EUR over a period of three years. No undertaking in the business of transportation to a foreign country are eligible to low levels of support, nor is it available to the production or processing of agricultural or fishing goods, nor in the case of support where the criteria stipulate the use of domestic goods instead of imported ones.

<sup>21</sup> Act 73 of 2005 on the Promotion of the employment of young school leavers, unemployed persons above 50 years of age, and those seeking employment following taking care of a family member, and on the amendment of Act 123 of 2004 on Employment on scholarship. Parliament passed the law on 27 June 2005 to enter into effect on 1 October 2005.

Entitlement to the benefit is proved by the **START** card issued by the Tax office (APEH), which at the same time is the document to show to inspectors. The card may be claimed by any young person entering their first employment, aged under 25 (30 for higher education graduates) provided that they completed or interrupted their studies, and create an employment relationship or internship-based employment relationship.

### **Expanding employment, and rendering it more flexible**

As from 1 January 2006 micro, small, and medium sized enterprises employing under 250, and NGOs that hire a registered unemployed person for at least three months are exempt from under the obligation of paying employer's contributions.<sup>22</sup>

***The subsidy is available for one year, during which period the employees recruited must be kept on payroll, and their employment continued for another year. Exemption from under the payment of contributions applies to health contribution, social security contribution payable by the employer, and the employer's contribution. The benefit may be claimed on the basis of a contribution base equivalent to 130% of the statutory minimum wage in the case of full time employment, or in the case of part time employment a proportionate part of the same sum.***

### **Extending the START programme**

Following favourable experience with the START programme the package was extended by the START PLUSZ, and the START EXTRA programmes as from 1 July 2007 onward, funded from the European Social Fund.<sup>23</sup>

The START PLUSZ programme will provide assistance to parents raising a young child (on GYED, GYES, or GYET) or to family members nursing a close relative in their return to the labour market. The benefits are practically identical to those granted under the START programme. The employer will be exempt from under the health contribution, and must pay a lower amount of public burdens, which, in the first year of employment equals 15% of the gross monthly average wage of the young school leaver, and 25% in the second year.

The terms of the START PLUSZ are significantly more advantageous than that. Its purpose is to provide extra help to the reemployment of long-term jobseekers<sup>24</sup> whose main obstacle in finding employment is their age above 50, or their qualification not exceeding primary school. Employers of such persons will be granted exemption from under the health contribution, and, in the first year no contribution is payable at all, and even in the second year only 15% of the public burdens must be paid.

### **Support from the OFA**

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<sup>22</sup> Act 180 of 2005 on Action to be taken to expand employment and render it more flexible. Parliament passed the law on 19 December 2005 to enter into effect on 1 January 2006.

<sup>23</sup> Bill T/1371 on the Promotion of the employment of young school leavers, unemployed persons above 50 years of age, and those seeking employment following taking care of a family member, and on the amendment of Act 123 of 2004 on Employment on scholarship, Budapest, November 2006.

<sup>24</sup> Long-term jobseekers are those who were registered as jobseekers by the labour centre for at least 12 months during the 16 months prior to claiming the card.

By creating the National Employment Foundation (OFA, 1992) the Ministry of Labour created the conditions of support to be provided to NGOs, and not-for-profit organisations ('the non-public organisations of the labour market') working to promote employment. In the last years the OFA has been the greatest supporter and professional leader of not-for-profit organisations working in employment and labour. In the period 1992-2005 it supported some 1500 non-public projects related to labour market services, and local employment promotion (involving 800 organisations). It has thereby greatly contributed to the active involvement of domestic NGOs in the mitigation of employment related tensions. It has also acted as the initiator, and the supporter of organising the sector, and bringing it under various umbrella organisations.

It has been the experience of the last 14 years that the NGO sector has significant employment potential. Several tens of thousands of unemployed persons not standing a chance in the primary labour market are given access to employment, labour market information, and a variety of services through their help.

The last decade of support and development has greatly contributed to:

- the strengthening, and multiplication of NGOs, and not-for-profit organisations in the employment sector,
- the crystallisation of the first project types to promote employment,
- the establishment of base organisations and support services of good practice (EU-net programme, Civilian employment workshop, etc.)
- the creation of the programme networks, and the umbrella organisations, and the launching of regional information fora,
- the macro-level forum of the non-governmental representative system for employment, the Consultative Council was formed.

Not-for-profit organisations associated to the world of labour can answer the question of how long-term unemployed, and marginalised people can be led back to the realm of regular work. That is why job creation outside the mainstream of the labour market has become part of the Hungarian employment policy.

### **Development with the help of the European Union<sup>25</sup>**

Hungary developed its first National Development Plan in 2003 with the aim of taking advantage of the Structural Funds. The NDP has the overall purpose of reducing the income differential compared to the EU average. The specific aims that it identified in that regard were:

- improving the competitiveness of the economy,
- better use of human resources,
- improving the working environment
- promotion of a balanced regional development process.

The European Commission has, after evaluating the National Development Plan, prepared the Community Support Framework that includes the strategies of actions belonging among the Objectives of Structural Funds 1, and their priorities with reference

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<sup>25</sup> This chapter was prepared on the basis of a publication by HRDOP, and EQUAL KK Steering Committee entitled 'The implementation of the Human Resources Operational Programme, and the EQUAL Programme', Budapest, September 2005.

to the planning period 2004-2006. Hungary developed five operational programmes under the CSF-strategy. The largest share of the resources of the Structural Funds was allocated to the Human Resources Development Operational Programme (HRDOP) among all operational programmes. The full budget of the HRDOP for the 2004-2006 period equalled 191.36 billion HUF. From that sum about 143.52 billion HUF consisted of community resources, which domestic – primarily public – funds supplemented by further 47.84 billion HUF. The HRDOP builds primarily on funding by the ESF supplemented by the resources of the European Regional Development Fund (ERDF) through the infrastructure investments aimed at encouraging human resources development. The ESF contributed to the implementation by about 98.29 billion HUF, and the European Regional Development Fund by about 45.23 billion.

Not-for-profit organisations may participate in the use of these funds by delegating members into programme management, or as intermediary organisations.

#### *Human Resources Development Operational Programme (HRDOP)*

The strategy of the HRDOP crystallises around three major objectives:

1. Expanding employment with a view to helping maintain economic development. The tool-set of human resources development consists of
  - supporting training programmes associated to investments,
  - strengthening the employment potential and improving the competitiveness of SMEs
  - supporting the labour market reintegration of unemployed persons, and inactive persons including primarily women
2. Improving the competitiveness of the workforce so that deficient knowledge and qualifications should not form an obstacle to economic development. Meeting the demands of the knowledge based society requires the continuous development of knowledge, skills, and adaptability, features ensured by the potential of life-long-learning.
3. Preventing social exclusion and poverty. The tools of employment, education, training, and social services must be put to use to create equal opportunities to all in entering the labour market. The improvement of the situation of disadvantaged, especially Roma persons requires the mitigation of the regional differences in access to social services, and health treatment.

*The strategy of the programme is being implemented along the following five priorities:*

1. Supporting active labour market policies: here the resources support the active labour market programmes of the Public Employment Service whose objective is to reintegrate unemployed people to the labour market, prevent long-term unemployment, and help young people integrate into the labour market.
2. Fighting social exclusion by helping entry in the labour market: the initiatives eligible for support include those aiming at the improvement chances of disadvantaged persons. The target group consists of Roma people, long-term unemployed persons, those with disabilities, dropouts of the education system, those with low schooling, addicts, and inhabitants of disadvantaged regions. Measures are built on an integrated approach including education, training, employment, and social services alike. A particularly important objective within

- the priority is to improve the employability of Roma persons especially disadvantaged from a labour market point of view.
3. Supporting life-long-learning, and improving adaptability: development projects awaiting implementation embrace multiple layers and forms of education and training including pre-primary, primary, and secondary school, vocational training, post secondary vocational training, higher education, and adult training.
  4. Developing educational, social, and health infrastructure: support may be channelled from the resources of the European Regional Development Fund in the framework of this priority to educational, social, and health infrastructure development in order to ensure equal access to, and the improvement of the services.
  5. Technical assistance

Figure 8

The distribution of HRDOP resources by priorities

	<b>Funding</b>	
<b>Priorities</b>	<b>(billion HUF)</b>	<b>(%)</b>
Supporting active labour market policies	40.82	21.3
Fighting social exclusion	22.19	11.6
Supporting life-long learning	58.46	30.6
Developing educational, social, and health infrastructure	60.31	31.5
Technical assistance	9.59	5.0

The detailed elaboration of the measures to be implemented under the above priorities, and monitoring and inspecting the implementation of measures is the task of the competent ministries. The Human Resources Development Operational Programme is being implemented by the Ministry of Employment and Labour, the Ministry of Education, the Ministry of Health, the Ministry of Youth, Family, Social, and Equality of Chances along with their institutions.

The implementation of the Operational Programme takes place through an application system, and as a central programme through directly appointed public organisations, supplementing national programmes.

The task of the Managing Authority is to run the applications, contracting, and disbursing the subsidy, and to ensure compliance with the indicators specified at the level of measures in the Programming Documents. Monitoring the performance of contracts was in progress when the present volume was going to press. Based on the information concerning the contracts concluded until that date the commitments laid down at the level of measures in the Programming Documents seem realistic to deliver.

### **The EQUAL programme**

The EQUAL Community Initiative in Hungary supports pilot projects that aim to facilitate the training, access to work, and employment of people unable to find employment due to discrimination on ethnic, sexual grounds, related to disability or age, low educational achievement, lack of qualification or experience expected later by hopeful employer, etc. The full funding available under the EQUAL programme amounts to 10.27 billion HUF, of which 7.71 billion HUF is funding from the European Social Fund.

Resources of the EQUAL programme are allocated among the following 5 priorities:

- Helping people with disadvantages in the labour market enter or re-enter,
- Supporting life-long-learning, and obtainment of experience required by hopeful employers that could help people suffering from discrimination, and inequalities in the labour market obtain and maintain employment,
- Reducing the sexually motivated differences and occupational segregation in the labour market,
- Asylum seekers,
- Technical assistance.

By supporting innovative initiatives targeted at equality of chances in the labour market, the EQUAL programme promotes the achievement of the objectives of domestic employment policy. On 1 January 2005 39 Development Partnerships embarked on their projects in the framework of the EQUAL programme. The programme is implemented partly through international involvement. The objective of the programme is to elaborate – based on innovative domestic solutions, and international good practice – 12 innovative methods applicable to domestic employment and social policy.

Not-for-profit organisations experienced the requirement under the HRDOP and the EQUAL programmes of having to advance the expenses, and the months-long delay in reimbursement as a serious obstacle jeopardising their very existence. To bridge the resulting cash-flow gap, the applicants must take out a bank loan thereby incurring extra expenses for which they cannot be compensated. The Ministry of Social Affairs and Labour therefore launched a programme aimed at mitigating the financial burdens of not-for-profit organisations associated with interest on loans and administrative charges paid to banks resulting from HRDOP and EQUAL projects.

### **EU funding in 2007-2013**

In the period 2007-2013 Hungary can have access to 22.4 billion EUR of development funding from the EU's Structural Funds, and the Cohesion Fund. The not-for-profit sector can also have access to some of that funding to help realise its plans. Upon going to press with the present volume the specific measures were only in the process of taking their initial shape. In what follows we will put forward to the reader whatever there

was to know about the possibilities before the sector at the time the present chapter was being written.

The National Strategy Reference Framework required for the use of the EU's development resources assumes physical existence in the New Hungary Development Plan whose most important comprehensive goal is the following: expanding employment, and ensuring the conditions of sustainable growth.

Steps to be taken to raise employment rates:

- Increasing labour supply: improving the employability of private individuals,
- Increasing labour demand: job creation, and
- Creating an employment environment ensuring a match between supply and demand.

Development efforts concentrate on six areas in an attempt to achieve the above objectives. One of these so-called *priorities* is the *renewal of society*. As the support available to not-for-profit organisations will appear under this one, we will focus our attention to this particular priority.

In accordance with the New Hungary Development Plan, the following intervention groups will serve the renewal of society:

- improving employability,
- improving adaptability,
- offering access to high standard education
- developing the human resources required for research and development and innovation
- maintenance as social acceptance and and participation, and
- developing human infrastructure.

These instances of intervention take place in the framework of the Social Renewal Operational Programme (TÁMOP) and the Social Infrastructure operational programme (TIOP).

The comprehensive objective of TÁMOP include the increase of the activity rate, and labour market participation by improving human resources.<sup>26</sup> In the framework of the programme that strategy will be implemented by building on the services targeted at employment policy, training and education, social services, and the maintenance and the restoration of health. The measures related to the various technical areas are being implemented along specific objectives. These are the following:

1. Improving supply and demand in the labour market
2. Reducing the territorial discrepancies of the activity rate
3. Facilitating adaptation to changes
4. Encouraging life-long-learning
5. Improving general health status, and the ability to work
6. Strengthening social cohesion, and equality of chances

The measures required to achieve these objectives are determined in accordance with the priorities established in TÁMOP, more specifically in the Action plan of the Social

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<sup>26</sup> That operational programme had 810-1027 billion HUF available to it depending on the final decision.

Renewal Operational Programme. Several of these measures can only be implemented with the contribution of not-for-profit organisations.

In what follows we will describe the priorities of TÁMOP and the measures of the Action plan. The latter was only possible for the priorities under the Ministry of Social Affairs and Labour (MSAL) as this was the only one in publishable format (if only in draft version).

***Priority 1: Improving employability, and facilitating and encouraging entry to the labour market (MSAL)***

This priority includes the following measures:

- Complex labour market programmes to promote the employment of unemployed and inactive persons
- Per capita support to encourage employment
- Developing the employment service as part of the integrated system of labour and social issues
- Social economy, innovative and local employment initiatives, and agreements

***Priority 2: Improving adaptability (MSAL)***

This priority includes the following measures:

- Facilitating access to training
- Developing the institution network of training
- Forecasting and managing economic restructuring
- Flexibility and safety
- Strengthening a sense of partnership among labour market actors
- Strengthening the capacities of NGOs, and helping them adapt to the service provider role model
- A transparent labour market

***Priority 3: Ensuring access to high quality education to all***

***Priority 4: Developing human resources in research and innovation***

***Priority 5: Maintenance of health, and social acceptance, strengthening participation (only the areas of social affairs and equality of chances belong under the MSAL)***

The following are the measures associated to the priorities belonging under the MSAL:

- Investment in our future
- Elements of employment, education, training, social issues, and health development linked to the complex upgrading of the most disadvantaged regions
- Promoting the labour market integration of the social groups with compound disadvantages
- Improving the quality of and access to social services
- Ensuring the technical background of unobstructed access and complex rehabilitation
- Strengthening local communities
- Fight against discrimination

- Strengthening the protection of consumers and service recipients

TÁMOP is associated to the priorities of and intervention areas of numerous other operational programmes. The Social Infrastructure Operational Programme definitely deserves special mention (TIOP), which is meant to ensure the infrastructure background of TÁMOP's development. Reference needs to be made to the relationship of TÁMOP and the regional operational programmes, and the Central Hungarian Regional Operational Programme.

We will note at this point that the measures relating to TÁMOP's priorities apply to the first two years. Modifications and supplementations will later become possible. Their specific drafting at present serves the purpose that the use of the development resources should be possible as soon as 1 January 2007. Not-for-profit organisations had better follow the documents that assume their final shape until the Handbook is published, and take advantage of the funding available on application.

## 20. Monitoring and evaluating complex programmes (Mária Frey, Éva G. Fekete)

The impact assessment of complex programmes is a continuously developing, practice-oriented discipline with the following purpose: *'the systematic use of the research methods of sociology with the aim of qualifying the concept, introduction, implementation, and the utility, and the effects of social intervention programmes'* (Blanske, Plath, Nagel, 1992). It has two main types: monitoring and evaluation.

### Interpreting monitoring and evaluation systems

Control, monitoring, and evaluation are closely related concepts, even though they have quite distinct roles and functions in the life cycle of development processes.

*Control* certifies the legitimacy and general compliance of the use of resources. *Monitoring* follows the progress of the intervention, and the work done by management, while *evaluation* judges the effectiveness, efficiency, and usefulness of the programme on the basis of the effect brought by the intervention. For the sake of better transparency we have tabulated the main differences.

**Table 12**

Comparing control, monitoring, and evaluation

Activity	Control	Monitoring	Evaluation
Objective	<b>Investigating compliance with rules and regulations</b>	<b>Checking extent to which implementation came near objectives</b>	<b>Investigating effect of activity as compared to social-economic problem meant to be solved</b>
Time	<b>Continuous, in the course of programme implementation</b>	<b>Continuous, in the course of programme implementation</b>	<b>Point-like, ex-ante, mid-term, and ex-post</b>
Party performing activity	<b>Outside or inside</b>	<b>Inside</b>	<b>Outside</b>
Nature of activity	<b>Operative</b>	<b>Operative</b>	<b>Analytical/scientific</b>
Manner of providing feedback	<b>Sanction</b>	<b>Adjustment with the aim of ensuring efficiency</b>	<b>Learning process</b>

Source: ITCB Consulting and training Ltd.: Monitoring in the system of Structural Funds, Budapest, 2001

### Monitoring

The primary role of monitoring is to see whether the implementation of programmes funded from both domestic and foreign resources is continuous, and effective. The basis of that activity is formed by a set of quantified objectives set prior to project launch. Although monitoring refers chiefly to the continuous collection and analysis of data, the concept may be reasonably extended beyond that. In that broader sense it includes the

planning and establishment of the monitoring system, the definition of indicators, and, in the implementation phase, data collection, and analysis, and propounding proposals concerning possible intervention in the implementation process, and finally, on closing down the programme, decision making as a management task.

**Monitoring is primarily an activity supporting management that helps the effective and successful realisation of a programme.**

**The organisation supporting the project to be implemented (be it the EU Commission, a national government, but even a foundation or a private individual) sacrifices their resources to the given activity because its objectives coincide at least partly with theirs. That is why it is essential also for it/them to have regular information concerning the progress of the programme: it can monitor the realisation of its own objectives on that basis. Monitoring thereby contributes to maximising the efficiency of using the donor's funds.**

**The project manager also receives information through on-going monitoring on whether the project is successful, and whether it progresses according to schedule, and if not, monitoring will identify the causes of failure, and thereby enable intervention, or modification in the implementation schedule, facilitating on the whole the efficiency of programme implementation.**

## **Evaluation**

The *primary objective* of evaluation is to assess the impact of intervention in a programme, and determining the extent to which these are in line with the objectives set during the programming process. Since 1988, i.e. the introduction of programming the European Commission has been emphasising the importance of improving the practice of evaluation, which directly results in the more efficient use of community funds.

Although the success of evaluation greatly depends on the success of control/monitoring, but tends to focus not on the process of the programme, but only on a given point of the life cycle of the programme under scrutiny. It is no other than a snapshot in the form of an evaluation study. So while control asks what happens under the programme, evaluation looks at where all that will lead.

Evaluation uses the data collected during monitoring, processes them, and uses them to answer the following questions:

- Has the programme achieved its objectives set in advance? If not, why not?
- What assumptions can be made concerning the programme based on the results achieved?
- What changes are necessary and possible during the remaining time of programme implementation?

Evaluation is possible at two levels: programmes and projects.

*Programme evaluation* determines the value of projects implemented in the framework of the programme. It may be performed first as soon as all projects are fully operational, and enough time has passed for the results to be achieved.

*Project evaluation* concentrates on the individual projects funded in the framework of the programme. It provides information on whether the project follows its schedule, and how it may be possibly improved during its progress, and whether funding is worthwhile continuing in its present arrangement, or perhaps modifications are necessary. Ideally, the planning, evaluation, and data collection process begins not long after project launch.

So evaluation analyses the programme from a quality rather than a financial/physical point of view, and should investigate the effects triggered by the programme. A good evaluation states e.g. not only that a mistake was made during programme implementation, but also what the chief reasons may have been, and what corrective action needs to be taken.

### Selecting and applying the indicators of monitoring and evaluation

Indicators are numbers used to illustrate the rate of achievement of an objective. It may refer to a resource used, a result achieved, a quality level, or other variables. Indicators provide quantitative information to help the communication, bargaining, and decision making by the actors of interventions. Indicators quantify elements that are regarded relevant upon monitoring or evaluating a programme.

#### Types of indicator

The programme mobilises resources (financial, human, and institutional) in order to deliver a general objective (social-economic cohesion). From the point of view of monitoring and evaluating the programme it is necessary to analyse it into its components, and distinguishing among a series of related objectives. In order for programme monitoring to take place the required indicators need to be identified some time in advance or still in the early stages of the implementation so that the relevant data may be collected on that basis. These indicators are linked to specified target levels in most cases. That leads to a distinction of input indicators, output indicators, result indicators, and effect indicators. The following table illustrates the relationship of some indicator types and target levels.

Table 13

#### The relationship of indicator types and different levels of target

Level of target	Type of indicator	Definition of the indicator
	Input	Resources available to the funding authorities to be used by the final beneficiaries
Operational objective	Output	Direct result of intervention
Specific objective	Result	Immediate effect on the ultimate beneficiaries
Comprehensive objective	General effect	Direct and indirect effect on the final beneficiaries

Let us review some examples to see the way in which we can define input, output, result, and effect indicators in the case of in the case of different types of development activities based on the indicative methodology prepared by the European Commission.

Table 14

Activity	Output	Result	Effect
IT training for unemployed persons	Number of lessons in training	Number of participants acquiring special qualification	Number of participants who found a job within 2 years of completing the training
export consulting programme for SMEs	Number of enterprises funded	Number of enterprises re-starting their exports	Ratio (%) of export sales and total sales of supported enterprises 18 months following disbursement of funding
Improving the quality of regional roads	Length of regional roads constructed (km)	Reduced ESS <sup>27</sup>	Gross/net number of workplaces newly created and saved from closing
Improving accommodation units in tourism	Number of accommodation units (beds) created or upgraded	Guest satisfaction (% , men and women)	Value added substituted per annum

### What makes a good indicator?

Controlling the quality of indicators should be done in the course of the evaluation process. No generally accepted, adopted method, is, however, available for the evaluator to qualify indicators. The approach recommended below is based on nine criteria. The criteria may be divided into two groups. Half of them refer to the individual indicators, half to the entire system.

#### Quality criteria referring to the individual indicators

The first and foremost quality criterion is the *actual availability* of data. It happens that one of several indicators named in the programme are never quantified, whereby for practical purposes they do not really exist. That is explained by the fact that that data is not available. It is therefore practical to name the data provider unambiguously upon defining the indicator.

Once an indicator has been quantified, it may take several months or years before the given information is actually entered in the monitoring system. How up-to-date a piece of information is constitutes another very important quality criterion.

The programme indicator must indicate distinctly the effects of the programme as implemented. That feature is called *sensitivity*.

Programme participants must trust the information received. Reliability may be determined by having two persons carry out the same measurement to see if they obtain the same result. In reality that criterion may only be applied if numbers are at issue. In other cases such as the value of an indicator being based on answering various questions the concept of reliability can no longer be used mechanically.

Another quality criterion is *comparability* as its usefulness greatly depends on the comparison it enables across different programme measures, and regions.

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An indicator is *normative* if there is a benchmark value (reference) compared to which it is either acceptable or unacceptable.

A good indicator should be clear and easy for any potential user to use. The message, the meaning of the indicator should be identical for decision makers, the public, and programme management alike. It must reflect accurately the concept measured/investigated. That is called *validity*.

#### *Quality criteria concerning the entire system*

Indicators must be associated to each measure. Thus the *coverage* of the entire system by indicators is a further important quality criterion.

The application of different types of indicators should be proportionate. The sets of indicators best meeting the requirement of *balancedness* are the ones that contain result and effect indicators in appropriate numbers.

Sets of indicators must be simple. The criterion of *selectivity* requires that the programme manager's capacity to absorb information should be respected. The system can be covered by no more than a few dozen numbers.

The *appropriacy* of the system means that the largest number of indicators must be developed for the issues and measures that elicit the most important, most obvious effect (these are the measures affecting the greatest budget sum, innovation related measures, and measures regarded strategic).

#### Establishing and operating the monitoring system

#### **Components of programme monitoring**

Programme monitoring consists of the following components:

- Monitoring the activity, the result, and the effect,
- Monitoring the implementation process (financial, and practical)
- Monitoring the operating environment.

The activity, the result, and the effect may be monitored in either of two ways:

On quantitative basis with the help of various indicators, and on a qualitative or descriptive basis using the information available, capitalising on the results of studies, and analyses.

Monitoring programme implementation concerns the practical aspects of programme implementation, which means the observation of specific processes and aspects such as:

- The operation of administrative elements (e.g. reports) and financial elements (e.g. payments),
- The operation of the monitoring system as such to ensure that all the data necessary for evaluation should be collected,
- Are the project selection criteria appropriate,
- Can the implementation of the measures be improved,
- Participation of persons concerned in the process,
- The utility of technical and expert assistance,
- Compliance with certain policies (competition, public procurement, environmental protection, equal opportunities).

Monitoring the operating environment includes the examination of harmony between the social-economic background of the region concerned along with its changes, and other branch level and regional policies.

### **Steps of designing the monitoring system**

#### *Step 1 – designing the institutional background, clarifying competencies*

In designing and operating the monitoring system the first task is to establish the organisational framework of monitoring, including specifically the creation of the Monitoring Committee, and clarifying the areas of responsibility related to the monitoring function.

**The Monitoring Committee elaborates its own rules of procedure to apply to its own operation, and matches it with the Steering Committee's. During its mandate, the Monitoring Committee performs the following tasks, and assumes the following responsibilities:**

- **Regularly monitors progress against the objectives set.**
- **Investigates the results in implementation, with special attention paid to the delivery of objectives linked to measures; it also examines the mid-term evaluation.**
- **Reviews and approves the annual implementation reports prior to submitting them.**
- **Tables recommendations to the steering committee with a view of improving programme efficiency, and financial management.**
- **Confirms or modifies the action plans elaborated by the steering committee including the physical and financial indicators used in the monitoring process.**
- **Reviews and approves the project selection criteria associated to the various measures.**

#### *Step 2 – examining the appropriacy of the set of indicators*

The establishment of the Monitoring Committee is followed by examining the appropriacy of output, result, and effect indicators at the level of both programmes, and projects. (This is where we can use the points made in the previous paragraph).

The task of the Monitoring Committee is to determine the level of detail for the monitoring function taking account of the applicable priorities and technical possibilities.

#### *Step 3 – creating a database*

When determining the set of data to be collected to enable the selected and accepted indicators we need to bear in mind that the necessary data may come from a number of sources. Data may be of two kinds depending on whether they existed already, or are the result of recent collection. Recently collected or computed so-called *primary data* may originate from either of two sources. Firstly from the ultimate beneficiary, secondly from the surveys conducted by monitoring experts. Data that existed before, so-called *secondary data* may be retrieved from a variety of statistical systems.

#### *Step 4 – specifying measurement methods*

Once the indicators and their sources have been defined, the next task is the identification of methods to be used to do the measurements, and to find them, and the organisation responsible for data collection.

#### *Step 5 – determining rules of reporting*

The last step is the definition of the content of the information to be forwarded to the Monitoring Committee, and the rules of reporting.

**The annual report must usually contain or present the following items of content:**

- Changes to the relevant social-economic environment during the period under review
- Progress against the objectives set (quantified)
- Financial implementation with regard to each measure (payments, bank transfers, withdrawals)
- Reviewing the steps taken to improve the efficiency of implementation:
  - monitoring, financial management, evaluation, management, taking consulting services, etc.
  - steps taken to ensure openness to the public
  - steps taken to ensure compatibility with higher (regional, national, community) level policies
- summarising most important problems.

Community, and domestic legislation provides the details of the institutional background (areas of responsibility, and tasks) required for monitoring operations. Thus each programme must have two essential institutions.

#### **A) The Managing Authority**

In accordance with article 34 of the Regulation, the Managing Authority as the highest ranking organisation responsible for implementation plays an important part in operating the monitoring system of the programme. The MA establishes and operates the data collection system for monitoring purposes, processes the data obtained, and prepares annual implementation reports from them. It will of course delegate the sub-tasks of data collection and processing in accordance with the tasks coming up at various levels of the implementation rankscale to interim implementation organisations and agencies inserted on a geographical or professional/sectoral basis.

Another important role of the Managing Authority in operating the monitoring institution system is to ensure the secretarial function of the programme Monitoring Committee. Apart from that, the chairperson of the Monitoring Committee is also delegated by the MA.

#### **B) Monitoring Committees**

In accordance with article 35 of the Regulation each Community Support Framework or single programming document and each operational programme is under the supervision of a Monitoring Committee. That Monitoring Committee gains assurance concerning the efficiency and the quality of implementation of the programme supported.

The Monitoring Committee is established as a result of the consultation with the partners participating in the implementation process; its chairperson is a representative of the member state or the Managing Authority. Other members – in the spirit of partnership – include representatives of organisations on a `vertical` line on various levels of the institution system of implementation, and along a `horizontal` line, i.e. representing social, economic partners. Apart from that a representative of the European Union (with no right to vote, but on compulsory basis) is also present at the sessions. The exact size and composition and of the committees is not regulated by the Regulation, but it still stipulates the

application of the principle of partnership, and the fact that an equal number of men and women should be an aim.

The Monitoring Committees of the Operational Programmes hold decision making authority within the OPs, and may even decide on financial reallocation within the OP, or may modify the programme. The Monitoring Committee of the Community Support Framework has comprehensive responsibility of the whole CSF. Its authority includes decisions on reallocations between OPs as well.

Reporting obligations associated to the implementation of the programmes is regulated by article 37 of the Regulation. As we have pointed out above, the report must be prepared by the Managing Authority, and must be forwarded to the European Commission following approval granted by the Monitoring Committee.

The report must reach the European Commission no later than six months after the end of the reference year. The Commission indicates within two months of submission if it finds the report unacceptable, otherwise a report must be regarded accepted.

## The structure and content of the evaluation

### Types of evaluation

Evaluation may be essentially any of three types:

#### *Ex-ante evaluation*

**Ex-ante evaluations enable the optimisation of the outside and inside coherence of the programme, estimate the economic/social justification of the priorities, and the delivery of the objectives. It helps realistically quantify objectives, and determine the required indicators.**

The following are the components of an ex-ante evaluation:

- an analysis of the evaluation of earlier interventions;
- an analysis of strengths and weaknesses;
- an assessment of the strategy designed;
- a quantitative definition of objectives;
- an analysis of the effects expected;
- the conditions of managing and implementing the programme.

**When the ex-ante evaluation is in progress, the bargaining prior to granting the final green light to the programme is not yet over. Thus the analysts have an opportunity of giving their views and advice to assist the work of the programme designers. The executive summary of the evaluation document is one of the most important element of the action plan.**

#### *Mid-term evaluation*

The party responsible for the mid-term evaluation is the Managing Authority, and the evaluation itself is conducted by independent evaluators. Its main objective is to match initial results with programme objectives. It therefore examines – among other things – the suitability of the monitoring system. It may modify the programme on the basis of the actual progress made, and confirms the necessity of financial reallocations where necessary. As it provides a preliminary estimate on effects already achieved and later expected, it can make a judgement concerning the financial absorption capacity of the measures taken under the programme. On that basis the mid-term evaluation enables all those concerned to better understand, and find out more about the programme, and its decision making mechanisms.

The most important components of the mid-term evaluation are as follows:

- *investigating the quality, the relevance of the data collected in the course of the monitoring process, and the extent of the effect expressed by these data*
- *analysing the environment of the intervention, and the implementation process on the basis of source and output indicators*
- *statements concerning implementation reserves, and horizontal policies*
- *the realisation of objectives against the programme deadline expressed in % values.*

*The evaluators rely mostly on the ex-ante evaluation, and the data and conclusions of annual evaluations of earlier years. They themselves carry out their own supplementary surveys if that becomes necessary.*

Ex-post evaluation

*The main purpose of the ex-post evaluation is to determine the impact achieved by the programme, and the extent to which it is in line with the objectives set. The evaluation is carried out by an independent expert; the ultimate deadline of completing ex-post evaluations in the EU is the end of the third year following the closing of the programming period.*

*Ex-post evaluations are decisively important for two reasons.*

*Firstly, they present in detail the way in which, and the purpose for which public funds have been spent, what outcomes the aid funds have produced, and what impact these outcomes had on the social-economic life, and the state of the environment of the reference region, i.e. if they meet the requirement of publicity.*

*Secondly, the results obtained in the course of the evaluation may contribute to better planning of programme documents prepared for the next programming period(s). That last possibility, however, often remains unused as the ex-post evaluation and the preparation of the next programming documents are simultaneous processes.*

### **The content of the evaluation**

The following are practical areas for consideration when analysing the logics and the content of the programme:

#### *1. The relevance of the strategy and the objectives*

*The evaluation looks at whether the strategy is primarily `offensive` or `defensive` or perhaps a combination of the two. Solely defensive strategies constitute a risk if followed on the long-term, and may result in a situation where a regional/social group becomes dependent on outside help.*

*The most preferred method of evaluating a programme strategy is the SWOT analysis.*

*After analysing the relevance of the objectives the evaluation team also examines if the programme anticipates being continued, and if it has any general lessons/solutions worth disseminating.*

#### *2. The clarity of the objectives and the relationship among them*

*The evaluation team must form their views concerning the clarity of each objective. If an objective is difficult or impossible to justify, it is the task of the evaluation team to recommend the clearer phrasing of the objectives.*

*Justifiable and non-justifiable objectives:*

*Easily justifiable objectives:*

*The ratio of new businesses per 10,000 inhabitants rises by 20% by the end of the programme.*

*By the end of the programme the largest cities of the region improve their position with regard to the following question asked in the referendum: 'where would you like to live?'*

*Objectives difficult to justify:*

*The programme makes a 1% contribution to the per capita GDP growth.*

*The programme improves the competitiveness of the businesses in the region.*

### *3. Evaluating the implementation of the programme, sampling, and data collection*

*In the course of the programme a number of questions of a practical nature referring to implementation must be answered. These include the allocation of budgetary resources among the various priorities, and measures, selecting the right method of intervention, or clarifying the areas of responsibility of the individual interventions. It is likewise the tasks of the evaluation team to assess the decisions made in the above questions.*

*Successful evaluations do or may require taking samples. If project participants were too numerous, the evaluator may decide to collect qualitative data only in a few locations, or to work with a representative sample of participants.*

*The majority of the data collection tasks may be classified along the following groups:*

- data collection from existing databases*
- completion of personal interviews and questionnaires*
- observations and their recording*

*Following the monitoring process with particular attention is a general requirement.*

### *4. Indicators and questions in the evaluation system*

*One of the most important tasks of the evaluation team is the investigation of the set of indicators of the programme. The most important principle here is that there should be an indicator associated to every single objective. If that is missing, the evaluator must recommend indicators, at least qualitative ones as well structured quality information is still better than no information. If necessary, during the ex-ante or the mid-term evaluation the evaluators must make recommendations concerning the change or further specification of indicators.*

*There is no general procedure for the selection of the appropriate tools as the good choice depends in each case on the objective of the analysis, and the questions asked by the principal. However, familiarity with some typical cases may provide a good benchmark. The objective to be evaluated may be a complete multisectoral programme, but may also be a more general question that needs to be examined in more depth first.*

*The time dimension may be important from the point of view of selecting tools to determine if an ex-ante or ex-post evaluation needs to be made. The mid-term evaluation may be a mixture of the elements of ex-ante evaluation (e.g. what is the expected impact of the projects already selected) and the ex-post evaluation (e.g. what are the first results achieved?).*

*The indicators may be designed specifically for the given evaluation, but may also be borrowed from statements made prior to implementation. Usually a blend of the two are used, especially in the course of mid-term and ex-post evaluation.*

*Example:*

*Indicators referring to the mid-term evaluation of an ESF project aimed at vocational training ensuring direct qualification:*

- number of participants (output)*

- *labour market integration rate of participants 6 months following the training (result)*
- *those receiving steady jobs by means of the ESF funding (impact)*

*That means that the evaluator must search for information concerning the following areas:*

- *satisfaction with the training*
- *permanent relationship with the labour market*
- *businesses interested in the project*

*One of the most important tasks of actors conducting the evaluation, but also of the evaluation team is to formulate evaluating questions.*

*Questions may be of the following type:*

- *Descriptive, oriented at observing, measuring changes*
- *Cause-effect, if they measure the extent to which the changes were ascribable to the programme*
- *Normative, including evaluation criteria, e.g. are results and impacts satisfactory*

*Example: questions to be evaluated in the case of the Structural Funds:*

- *Did the support to scientific and technological centres cause SMEs to catch up in terms of innovation? (descriptive)*
- *Did the programme create or maintain employment comparable to its costs? (cause-effect)*
- *Do the programmes outputs and results correspond to the special needs and expectations of women? (normative)*
- *What measures worked the most positive (or most negative)? impact on the environment? (normative)*

*The evaluators must examine how authoritative, how well structured, and how quantifiable set of arguments and proofs support the statements made in the programmes and the projects.*

*In what follows we present an example for the above:*

*Statement: in the municipal district of X city there is high unemployment*

*Proof: in the municipal district of X city there is high unemployment as it is corroborated by the development rate of the region (which suggests that it is among the worst 15% from an unemployment point of view, in January 2002 the area was characterised by X% unemployment, as different from the national average of Y%).*

*The logics of the proof concerning the statement is based on the proportions expressed as a percentage of the part-full relation. The evaluation here covers partly the examination of the authenticity of the indicators referred to, and partly the justification of the **economic**-social situation analysis taking place prior to the statement.*

### **Monitoring and evaluation in the applications**

*In the application systems associated with the Structural Funds monitoring and evaluation has particular priority even at the level of the applicants, in each phase of the application management)*

#### *1. The call for applications*

*Calls for applications define monitoring indicators in each case relevant at the level of programmes, which the applicants have to take into account by submitting applications whose expected outcome/impact will be measurable with the help of the indicators provided. It is with the help of these generally compulsory indicators that aggregate indicator values may be determined at the level of measures.*

*Apart from that the application can feature other indicators that are not compulsory, but relevant at project level if the applicant believes that those suit better the application he has submitted.*

## 2. Writing the application

*The printed form for the call for applications writes an entire paragraph on indicators with the following points:*

- *'Present the way in which the indicators quantifying the project outcomes will vary in time during project implementation.'* - The table provided already contains the centrally prescribed monitoring indicators; applicants must give estimates often for several years ahead about expected project outcomes on the basis of those figures. If any of the indicators provided should not be relevant for the applicant, the relevant data need not be filled in (even though that also involves some risk by suggesting that the application does not square with the programme objectives). If it seems necessary, other indicators immediately relevant for the project may also be given.
- *In addition to completing the table, a description of up to 1000 characters must be attached to show what computations, estimates support the values given in the table.*

*Assistance to the completion of both the table and the textbox is available from the 'Indicator-methodology Guidelines' of the Methodology Handbook, which yields the breakdown of indicators into output, result and impact indicators.*

## 3. Evaluating the application

*The evaluation set of criteria differ more or less with different OPs, but in most cases one of the evaluation criteria refers to the indicators e.g. 'To what extent does the application contain indicators suitable for objectively measuring its effectiveness?' Or: 'Is the achievement of the (measurable, objectively documentable) indicators as defined in the programme guaranteed?'*

*The part on indicators usually represents a weight of about 5%.*

## 4. Implementing the project

*In the event that the not-for-profit organisation has applied successfully for community funding, project implementation can go ahead. The task of the project manager in that process is to supply a continuous flow of information to the institutions in charge of Structural Funds (Intermediary Body, Managing Authority), which among other things forms the basis of the monitoring process. The details are laid down in the Grant Agreement, which regulates project monitoring in a separate section; any default on any related obligation constitutes a breach of contract.*

*The practical obligations of the implementing agency concerning data supply do not extend any further than completing a document, the so-called progress report. The progress report must be submitted to the Intermediary Body, on a quarterly basis as required by Regulation 448/200. EC, even if the applicant did not take advantage of any EU funding in that quarter. Should some of the objectives of the project materialise after the final disbursement, then such a report must be completed even after the financial conclusion of the project (in that case only on an annual basis).*

*Similarly to the monitoring process, the progress report contains the following elements:*

- The changes over the last three months in the indicators identified in the Grant Agreement,
- A table presenting the previous and the present cost analysis,
- A comparative table with the details of the implementation process, and financial delivery.

Producing the progress report every three months is the Beneficiary's chief responsibility, an obligation provided by applicable legislation and required by the Grant Agreement. Yet, applicants tend to have little familiarity of how serious reporting obligations they undertake toward the institutions concerned.

### *5. Summarising the results achieved*

The essential aspects of the evaluation of the project as implemented may be listed as follows:

- The usefulness of the project implemented from the point of view of the enterprise,
- The economic and social benefits of the project as implemented,
- Evaluating the management function,
- Examining the fulfilment of priorities determined in the partnership (if there was one),
- Compliance with the horizontal set of aspects, and more particularly questions of environmental sustainability, and creation of equality of chances,
- Investigating the programme, and conducting a cost-effectiveness audit,
- Identifying the possible directions of further development, and identifying possible related resources.

Evaluation is based on the concept of self-evaluation following programme implementation and should be performed by the project implementation organisation/company itself. However, many project evaluations are done by a specially assigned independent expert or a 'critical friend', in which case the work of the outside expert should also be integrated in the comprehensive evaluation strategy of the project.

The evaluation process consists of numerous phases:

- Planning the evaluation
- Collecting and interpreting specific items of evidence
- Use of evidence with a view of implementing changes
- Integrating evaluation data in the final report
- Using the outcome of the evaluation in planning, and implementing further development generated by the project.

Similarly to the other activities of the project some phases may overlap.

Evaluation must be built not only in the budget, but also in the project methodology. It is important to note that evaluation takes time for both the coordinator and the partners. Moreover, if an outside expert is being assigned, it may even have cost implications.

### *6. Measuring expected effects*

Expected effects may be measured by means of the so-called sensitivity test. That must cover the following areas:

- The effect of changes in the development costs
- The effect of changes in the operating costs
- Effects of changes in planned revenues
- Effects of changes in interest rates if any loans were taken out
- Effects of changes in exchange rates if any forex loan was taken out
- Effects of changes in the discounted interest rate when net present value is being computed.

It is by all means advisable to perform an *impact assessment* of the completed project that shows what positive effect, impact has been achieved by implementing the project, and what positive effects would have been gone without if the development enabled through the funding had not taken place.

By way of example we attach the evaluation of the job creating effect of the Phare programme No. HU0104-02 entitled 'Labour market reintegration of women.'

## 21. The supporting/assisting background of social economy, and its EU and domestic networks (Judit Csorba)

The establishment as well as the strengthening of social economy can only be conceived of in the framework of a powerful system of technical support. The task of the support system is the training, and development of the sector, supplying it with information, and ensuring it has its own mechanism of interest representation. The necessity to build a network is evidenced by both domestic and international experience. The uniquely colourful and multifaceted world of social economy assuming a multitude of forms can only be held together through properly functioning coordination mechanisms.

The EU Commission supports the partners' efforts to find each other, and learn from each other by staging annual conferences on social economy. The first such conference was convoked in Paris in 1990, and the annual events have been housed by Europe's large cities with attendance growing year on year.

The form in which social economy is being supported, and the very structure of the support systems differs greatly in the countries of Europe depending mostly on how much a particular government regards it a priority to develop that special segment of the economy.

Soon after the EU's institutions accepted and recognised social economy as one of the possible forms of social integration, and as a special segment of the economy (1990) the sector became one of special significance in four European countries, where social economy was given a ministerial position. France, Belgium, Sweden, and the United Kingdom have developed a dedicated set of institutions, legislation, and forms of support for the structures and the programmes of social economy. Even though not having a ministry of its own in Spain, Portugal, Luxemburg, and Ireland, in these countries social economy has formal government level recognition, and the highest level of support. In Denmark, Germany, Austria, Holland, Greece, and Finland the support network and the technical background is slowly taking shape. Where there are still reservations they are not caused by social economy itself. On the contrary: those countries would like to attribute the features of the primary or open economy to social economy in many respects, rather than building up a social economy independent from the mainstream, or one operating parallel to it. Instead, they strive to integrate the features of social economy in the structures of the primary labour market.

**In France** there are Regional Social Economic Chambers with the mission of developing the organisations and the actors of social economy

**In Spain** the Association of Enterprises, CEPES supports the actors of social economy

**At an EU level** there are the following organisations headquartered in Brussels:

1. CCACE = Coordination Committee of European Cooperative Associations unites 7 sectoral cooperative associations (ACME, CECOHAS, CECOP, COGECA, EUROCOOP, BEBC, UEPS) and another ten national coordination organisation belong under it
2. AIM = International Association of Mutual Assistance Societies
3. CEDAG = European Council for Not-for-profit Organisations
4. EFC = European Centre of Foundations

Those four organisations constitute the CEP-CMAF, which is the Permanent European Conference of Cooperatives, Partnerships operating an ESOP arrangement, Foundations, and Associations. That is the only EU level representative institution of

social economy.

*Source: Dr. Bertalan Retter: Social economy: The documents of the National Association of Owner Employees, Esztergom, 2006*

In what way do the above organisations support social economy?

*By supporting production factors:*

- arranging training courses, ensuring occasions for further training, vocational training on special areas
- funding (reimbursable and non-reimbursable) of either assets or cash-flow
- assumption of marketing functions as an initial condition to striking root in the market

*Through economic-social support to enterprises:*

- development
- development of community relationships
- support in business management and administration
- consulting, and research
- creating relationships, and exchanging information

*By political support:*

- promotion (e.g. arranging social economy, and advocating its concept)
- political activities
- regulations.

The multitude of organisational forms brings with it a multitude of forms of subsidy. The organisations and forms of subsidy already established only contain the associative cooperative branch of social economy, and production communities based on shared ownership. These are the two most developed and most organised forms of social economy in the European Community. The forms of association, and the employee stock ownership networks are less developed in East-Central Europe than in Western Europe. In new market economies after the political changes a new social economy is slowly crystallising. For this social economy the management and the operation of social economy is a particularly difficult task. Often the actors of the slowly forming social economy adapt to the market economy in order to stay alive. Similarly underdeveloped is the network of associations and the shareholding system.

Not-for-profit organisations were the most frequent among those beginning to implement the programmes of social economy also in Hungary. However, developing technically, and building the methodological systems of the few hundred not-for-profit NGOs involved in employment promotion is no easy task.

That is because the domestic organisations were not sufficiently strong over the last decade to create, and finance their own technical, and methodological centres.

The creation of a technical network and the support system of the employment-promoting NGOs was launched at a central initiative with the aim of resolving that problem and developing the sector. The initiative was taken by the OFA and the Division of Social and NGO Relationships of the Ministry of Labour. The OFA published a call for applications for the umbrella organisations of employment promoting NGOs to organise technical development and support programmes. The OFA has been since 1997 a major promoter to the learning process of labour market experience, and changes, and the dissemination, and publication of the practice established to manage them. As early as 2001 the OFA was the funder of 21 out of 30 project plans. As a result of the programme the umbrella organisations of employment promoting NGOs first staged their programmes separately, then, next year a technical development project was

undertaken by the five umbrella organisations together. The consortium holding together national umbrella organisations implemented three major development programmes in 2002-2003. In the spring of 2003 the Civil Employment Workshop (CFM) was formed with six umbrella organisations on board soon to enlarge into a membership of eight. The CFM became a noted base of collective bargaining in the eyes of both the NGOs concerned, and the Ministry of Labour along with its institutions.

Experts delegated by the CFM work in the Modernisation Supervisory Council of the Public Employment Service, in the special committee on Work Safety Dialogue of the Interministerial Committee on the Coordination of Work Safety, in the HEFOP Monitoring Committee, and strategic working group, in the EQUAL Monitoring Committee, and the Thematic Innovation Subcommittee and Evaluation Committee, and in the Adult Training Accreditation Body (CFM Newsletter, 1 december 2005).

In November 2005 a new page was opened in the civil system of interest representation on employment policy by the agreement between the Ministry of Employment and Labour and the CFM concerning cooperation, and the structure of the system, and the framework of branch level civil collective bargaining. (Agreement 30 November 2005).

The NGOs involved in education, and with an interest in social economy, playing a key role in the bargaining process have, over the past decade, provided significant assistance to other NGOs by supplying information to them and protecting their interests.

#### **Domestic support organisations:**

<b>MSKSZMSZ</b>	The Hungarian Association of Public Benefit Associations to Assist Unemployed Persons (the Association for short) was created in 1998 with the purpose of holding together, train, and organise the work of not-for-profit organisations committed to promote the employment, and the labour market integration of people suffering from disadvantages in the labour market. Over the past five years it has played an active role in searching for, developing, and effectively representing the interests of employment promoting NGOs (training for experts). Two of its publications may be an important tool in the hands of organisations working in social economy.
<b>An atlas of employment promoting NGOs</b>	Edited by Judit Csorba, Andrea Lupó, Orsolya Prókai, MSKSZMSZ, Debrecen, 2003 The Atlas presents the almost 200 not-for-profit organisations that indicate employment promotion in their articles of association as their primary aim, and could become major actors of social economy now taking shape in Hungary.
<b>Project atlas</b>	Edited by: Judit Csorba, Tamás Varjú, MSKSZMSZ, Debrecen, 2004 The publication offers a brief overview of the employment programmes qualified by the European Social Fund as demonstrating best practice in the 1994-1999 funding cycle. Almost 200 projects are described, indicating in each case the implementing agency, and addresses, and phone numbers facilitating contact with them. Both publications are available also electronically on the website of the association at <a href="http://www.euhalo.hu">www.euhalo.hu</a> . The same site enables subscription to the Newsletter edited by the Association for employment promoting not-for-profit organisations.

<p><b>National Transit Employment Society</b></p>	<p>It was formed in 1999 with the aim of representing the interests of NGOs operating transit employment programmes, and thus contribute to the spreading of the transit type employment schemes. The Handbook entitled 'Transit employment' (edited by Edit Landau, published by OFA, Budapest, 2004) is a methodological aid that provides guidelines to the organisation and implementation of the employment and training programmes of disadvantaged unemployed persons.</p> <p>OTE is accessible at <a href="mailto:ote@resegyesulet.hu">ote@resegyesulet.hu</a>, and the experts found there will be happy to provide further assistance to help the work of organisations and experts interested in transit employment.</p>
<p><b>OFA-ROP network</b></p>	<p>The National Employment Foundation (OFA) is the beneficiary of component 3.2.3. – a central programme – entitled '<i>Building and strengthening technical potential required for the long-term sustainability of local employment initiatives</i>' under measure ROP 3.2.</p> <p>The task of the OFA-ROP Network is to provide special and comprehensive technical services free of charge to organisations and institutions involved in employment initiatives and employment partnerships in social economy.</p> <p>In the framework of the project, the central and regional offices of the OFA-ROP Network (Budapest, Debrecen, Miskolc, Pécs, Szeged, Veszprém) orchestrate a variety of training courses, workshops, and provide on-going consultancy, and methodological support to organisations active in social economy, and to those concerned by the local employment initiatives, and also act as coordinators of local employment partnerships.</p> <p>The purpose of the OFA-ROP Network is to lay the foundations of social economy, to disseminate and reinforce local employment initiatives in the regions in order to ensure the labour market reintegration of social groups that are in a disadvantaged position in the labour market.</p> <p>The OFA-ROP Network works toward coordinating the activity of local institutions and organisations concerned by and interested in mitigating unemployment, and encouraging their cooperation.</p> <p>More specifically:</p> <ul style="list-style-type: none"> <li>– establishing a national technical support network serving the interest of strengthening and disseminating social economy,</li> <li>– strengthening the organisations active in social economy – with special regard to applicants participating in the ROP 3.2.2. component in order to enable them to render marketable, sought-after services or manufacture similar products on a long term,</li> <li>– the creation and operation of a set of services linked to social economy that is able to provide fast, effective, and targeted answers to the special and changing needs of the project promoters</li> <li>– sharing information on, and disseminating 'best practice' projects and models associated to social economy in both the EU and Hungary,</li> <li>– coordinating employment promoting local developments, and operating local employment strategies, and pacts.</li> </ul>

	<p><i>The target group (based on the ROP PD, and the Funding agreement):</i> mainly</p> <ul style="list-style-type: none"> <li>– potential applicants</li> <li>– parties to already active application based projects</li> <li>– experts managing local employment projects</li> <li>– experts assisting the strengthening of social economy, staff members of VÁTI, and RFÜ</li> </ul> <p>already operating employment pacts, grant recipients under the ROP 3.2.1. component, and potentially viable pacts.</p> <p>Staff of the network are ready and willing to assist experts and service providers interested in social economy on the <a href="http://www.szocialisgazdasag.hu">www.szocialisgazdasag.hu</a> website. That site is a collection of studies, and useful links concerning social economy.</p>
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## Information channels in the EU

### Websites on social economy:

<http://europa.eu.int/comm/enterprise/entrepreneurship/coop>

<http://www.cecop.org/praha>

Good practices in partnership from the European Union

<http://www.worldbank.org/urban/led/steponegoodpractice.html>

Central-European network of local developers – [www.celodin.org](http://www.celodin.org)

### Methodological guidelines, Handbooks

Partnership between municipalities and NGOs. British-Hungarian conference, Budapest, 23 April 2003 <http://www.bszf.hu>

Katalin Kovács: Features and experiences of a regional development pilot project under the PHARE programme implemented in the South Trans-Danubian region, OKI  
[www.oki.hu/cikk.asp?Kod=szekszard-2k-Kovacs.html](http://www.oki.hu/cikk.asp?Kod=szekszard-2k-Kovacs.html)

Edit Soós: On the regulation of the Structural Funds  
<http://www.szochalo.hu/esely/esely2000soos01.html>

Benedek László Flamm: A critical to successful EU applications; Central European Business Consultant Ltd. Budapest, 2002

Á Fodor, Sz Kálmán, Á Németh, B Wächter: Taking partnerships into account in regional development, with special regard to NGOs. VÁTI Strategic Planning Office, December 2002

OFA Kht Newsletter, Tripartism in the enlarged European Union  
<http://www.ofakht.hu/hirlevel/2003/hirlevel0030.html>

*The partnership principle in practice*

[http://europa.eu.int/comm/regional\\_policy/sources/docgener/evaluation/doc/rathe/asec8:pdf](http://europa.eu.int/comm/regional_policy/sources/docgener/evaluation/doc/rathe/asec8:pdf)

*The EU 'Partnership principle' revisited*

[http://www.mpp-rdg.mpg.de/pdfdat/2001\\_13.pdf](http://www.mpp-rdg.mpg.de/pdfdat/2001_13.pdf)

What is GOPP? <http://www.gopp.org/gma/gmagopp.html>

Handbook to establishing and operating small regional civil fora (ECOVAST Hungarian Association) [www.ecovast.hu](http://www.ecovast.hu)

Gyula Horváth: Decentralisation, partnership, regionalism – tasks arising from connecting to the European spatial structure, II. Comitatus, March-April 1997 pp 17-29

### **Related institutions, websites**

Central-European network of local developers – [www.celodin.org](http://www.celodin.org)

Good practices in partnership from the European Union

<http://www.worldbank.org/urban/led/steponegoodpractice.html>

## 22. Summary (Mária Frey)

The second part contains information meant for *practical experts*.

**At the outset it defines the actors of social economy dividing them into outside and inside circles. It interprets partnership as a form of cooperation between two or more organisations established in a formal or informal agreement, and whose motivations may be different from those of the individual actors of social economy. It highlights the points to consider when selecting partners, and provides consultancy concerning recommended partnership structures.**

There are hardly more than a few hundred organisations in the domestic not-for-profit sector that operate on a clearly business footing. Over the last decade social economy has produced a wide variety of structural and legal forms: associations (persons, foundations), public foundations, public benefit associations, and public bodies. Familiarity with the most frequent legal forms is important for two reasons: firstly, a choice must be made on the optimum form of financial management in the framework of which it seems best to pursue the particular social economy service, and secondly it is convenient to know about the legal forms that not-for-profit organisations may encounter as partners. Chapter 11 gives an overview of the major legal and financial regulations.

Chapter 12 discusses strategic planning. It walks the reader step by step through the planning process. Planning is not a single act, it cannot be ticked off simply by producing e.g. the planning document. Accepting it means the closure of a planning phase, but the laying of foundations for the next phase begins right there by acting upon results, and the indication of the necessary strategic modifications.

Prior to launching an activity in social economy it is of paramount importance to assess current needs for the medium and short term from several aspects. Why this is so important is explained in chapter 13 giving details of what points of view are best considered in that process. The methods, results, and the most important conclusions of the needs assessment must be summarised in a closing document.

Business planning is no less than proving to the owner/manager of the organisation, and to possible funders that the business concept is viable, possible to implement, and the objective set is achievable. The production of the business plan has its distinctive features in social and community enterprises. These are discussed in chapter 14.

The operation of social economy is weakened by numerous contradictions. The following are the most typical:

- a general state of shortage of capital, and problems of liquidity from day one;
- projects built on non-solvent demand, and aspects of project economy following the funder's logic;
- a business activity subordinated by necessity to the fundamental NGO objectives, and the compulsion of self-sustainment;
- non-stop work under pressure, often without professional management at social organisations traditionally understaffed;
- missing financial strategies, and the resulting accounting problems in project financing;

- missed deadlines which jeopardises the NGOs' existence, but which has no consequences for the project promoter;
- deficient funding environment.

From among the items listed above, chapter 15 deals with the problems related to the NGO features of social and community enterprises.

Human resources management is gaining ground in management science, and works a decisive effect on strategic and operative decisions related to the management of organisations. Chapter 16 discusses the current issues in conjunction with not-for-profit organisations' human resources management.

The concept of blending the marketing efforts for business and for not-for-profit organisations is not widely known in Hungary as yet. Moreover, not-for-profit marketing, applied in the community sector having in fact a greater influence on social economy is also a rather young discipline in spite of the fact that people concerned increasingly realise the indispensable nature of a marketing approach. The prime condition of the marketing approach to strike root is – even in social economy – to recognise that marketing is a philosophy emphasising identification with customers/buyers, and a system of action aiming at the mutual satisfaction of the parties that offers the basis for, and eventually completes the exchange.

Not-for-profit organisations are much more exposed to the controlling effect of publicity than any actor in the primary business sector. The social objectives undertaken by not-for-profit organisations as well as their share from public funds elicits public attention. Greater awareness of the public dimension may improve the general image of these organisations anyway. That is why *public relations* has a priority role in the toolset of their marketing efforts. That is what chapter 17 explains to the reader.

*The relationship of social economy and the public sector* is apparent in four major areas.

- the public sector produces the legal and financial regulations that determine the operation of social economy, and which may significantly facilitate, but also complicate that operation. If that be the case, emphasis shifts toward the potential, and the typical channels of interest representation, and interest assertion.
- the public sector – as part of the public mechanism of redistribution, see above – subsidises the operation of social economy. Community funding available on a per capita basis or through application play a decisive role in the functioning, and the development of social economy. That activity of the public sector can be influenced by the internal actors of social economy by representative action, and more specifically by getting involved in the planning process.
- social economy may take over some of the services traditionally performed by the public sector. In such cases the public sector appears as an important market development agency to social economy. The relationship of the two is usually characterised by a business-type link built on mutual interests, and peer-level partnership.
- the public sector may participate in the organisations of social economy as either a founder or a member.

**The various aspects of how social economy becomes involved in performing public tasks is described in chapter 18.**

Interpreting the actors of social economy as not-for-profit organisations involved in employment-related issues, or more generally as organisations undertaking employment promotion one may state that their unfolding was helped by domestic, foreign, and international organisations alike. The first and foremost among Hungarian funding organisations has been OFA (National Employment Foundation), and the European Union among the international ones, and among foreign ones we need to mention countries (eg. Great Britain or Austria) whose organisations organised study trips, and provided expertise concerning the theory and practice of the role of not-for-profit organisations in the labour market.

Chapter 19 gives details on what development resources and on what forms of subsidy the actors of social economy could and will be able to build their work.

*Evaluation cannot be regarded a mechanical process expressed in templates and clichés. The uniformisation of the methods and documentation of evaluation serves mainly the purpose that the Commission should receive clear and comparable answers to questions of a uniform character. Within that framework, however, the teams and persons doing the evaluation may choose among instruments, and methods that correspond to the nature of the project or the programme and the given phase of implementation. Evaluation closely relates to the process of planning, implementation, and monitoring, and may thus be regarded a key element of programme management. It contributes to the improvement of programme quality little by little, to the creation of harmony between the priorities of the Structural Funds, and the national policies, and to the systemisation of best practices, and useful experiences.*

*Programme evaluation breaks into three phases: ex-ante, mid-term, and ex-post. As we have seen above, in each phase of the evaluation a number of specific issues related to programme implementation must be tackled. The most important source of information for the evaluation process are the indicators used in the planning and monitoring phase, while the evaluator himself must take an active role in improving the quality of the set of indicators. The practical application of evaluation becomes possible through a flexible approach based on criteria of content and methodology, but dependent on the nature of the programme.*

Chapter 21 convinces the reader that the establishment, and the strengthening of social economy can only be conceived of in the framework of a strong technical support system. The task of the support system is the training, and development of the sector, supplying it with information, and ensuring it has its own mechanism of interest representation. The necessity to build a network is evidenced by both domestic and international experience. The uniquely colourful and multifaceted world of social economy assuming a multitude of forms can only be held together through properly functioning coordination mechanisms.

# APPENDIX

### Classifying small and medium sized enterprises in accordance with Act 34 of 2004

*In the foregoing we have made frequent references to the fact that one form is micro-, and the other is the adequate form of the small enterprises. That distinction is also important when trying to win in individual applications. We therefore present the differences in the size of enterprises and the essence of these differences.*

The criteria related to the three categories permitted as a result of EU legal harmonisation as of 1 January 2005

	Micro enterprise	Small enterprise	Small and medium sized enterprise
Number of employees	≤ 10	≤ 50	≤ 250
Net annual sales	Max 2 million EUR	Max 10 million EUR	Max 50 million EUR
Total assets	Max 2 million EUR	Max 10 million EUR	Max 43 million EUR
Other: The law appoints staff size, annual sales, and total assets to be the three major categories of economic activity, job creation, and commercial effectiveness, compounded by the extent of proprietary influence.	An enterprise will not qualify as sme if 25% or more is directly or indirectly, individually or collectively controlled by the government, the municipality, or another sme.		

There are about one million two hundred thousand registered, and eight hundred fifty thousand operating enterprises.

**A comparison of the benefits provided to public benefit associations, priority public benefit association, non-public benefit association, public association, and social organisations**

(The table below has been made available to the Foundation and the participants by representatives of the Szeged Civil House at a training course held by the SEED Small enterprise Development Foundation at to NGOs in 2005. We thank them for their generosity.)

	<b>PUBLIC BENEFIT ASSOCIATION</b>	<b>PRIORITY PUBLIC BENEFIT ASSOCIATION</b>	<b>NON-PUBLIC BENEFIT ASSOCIATION</b>	<b>NON-PUBLIC BENEFIT SOCIAL ORGANISATION</b>
<b>Act 117 of 1995 (Personal Income Tax (PIT) Act)</b>				
Funder's tax benefit on amount of donation for public purpose	30% of donation but max HUF 30000	30% of donation but maximum HUF 100000	None	None
Special tax benefit on long-term donations from the second year of subsidy (Act on Public Benefit Organisations <b>(PBO Act)</b> Article 6 Para (1) subparagraph d))	In the event of long-term cash grant to public benefit association a further 5% of the grant sum may be deducted from the tax.	In the event of long-term cash grant to a priority public benefit association a further 5% of the grant sum may be deducted from the tax.	None	None
Tax exemption of revenue in kind. (PIT Act attachment I, subpara 3.3)	From public benefit foundations, public foundations, and social organisations, proportionately to the public benefit objective of the articles of association	From priority public benefit foundations, public foundations, and social organisation, proportionately to the public benefit objective of the articles of association	None	None
Tax exemption of social aid (PIT Act attachment I, subpara 3.1)	From public benefit foundations, public foundations, and social organisation, proportionately to the public benefit objective of the articles of association	From priority public benefit foundations, public foundations, and social organisation, proportionately to the public benefit objective of the articles of association	None	None
Tax exemption of social aid (PIT Act attachment I, subpara 1.3)	From social organisations also undertaking a self-help task	From social organisations also undertaking a self-help task	None	From social organisations also undertaking a self-help task
Tax exemption of Funeral aid (PIT Act attachment I, subpara 1.3)	From an interest representative organisation	From an interest representative organisation	None	From an interest representative organisation

	<b>PUBLIC BENEFIT ASSOCIATION</b>	<b>PRIORITY PUBLIC BENEFIT ASSOCIATION</b>	<b>NON-PUBLIC BENEFIT ASSOCIATION</b>	<b>NON-PUBLIC BENEFIT SOCIAL ORGANISATION</b>
Tax exemption of research grant (subpara 3.1 of Attachment I of the PIT Act)	From public benefit foundations, public foundations, and social organisation, proportionately to the public benefit objective of the articles of association	From priority public benefit foundations, public foundations, and social organisation, proportionately to the public benefit objective of the articles of association	None	None
Tax exemption of research grant (subpara 3.1 of Attachment I of the PIT Act)	From public benefit foundations, public foundations, and social organisation, proportionately to the public benefit objective of the articles of association	From priority public benefit foundations, public foundations, and social organisation, proportionately to the public benefit objective of the articles of association	None	None
Tax exemption of scholarship for foreign study trip (subpara 3.1 of Attachment I of the PIT Act)	From public benefit foundations, public foundations, and social organisation, proportionately to the public benefit objective of the articles of association	From priority public benefit foundations, public foundations, and social organisation, proportionately to the public benefit objective of the articles of association	None	None
Participant of student and leisure time centre tax exemption of the service up to 500 HUF (subpara 3.1 of Attachment I of the PIT Act)	From public benefit foundations, public foundations, and social organisation, proportionately to the public benefit objective of the articles of association	From priority public benefit foundations, public foundations, and social organisation, proportionately to the public benefit objective of the articles of association	None	None
Tax exemption of any sum (subpara 3.3.1 of Attachment I of the PIT Act)	Exclusively from foundations, and public foundations	Exclusively from foundations, and public foundations	Exclusively from foundations, and public	None

	established by a foreign person prior to 1993, if it did not issue a certificate authorising a tax benefit.	established by a foreign person prior to 1993, if it did not issue a certificate authorising a tax benefit.	foundations established by a foreign person prior to 1993, if it did not issue a certificate authorising a tax benefit.	
Tax exemption of any sum from foundations, public foundations, and associations not operating a profit-oriented business, if they did not issue a certificate authorising a tax benefit (subpara 3.2.2. of Attachment I of the PIT Act)	Yes	Yes	Yes	Yes
The tax payable on the private use of a car need not be paid if the car is used exclusively to transport seriously disabled persons (para (8) of article 70 of the PIT Act)				
	Yes	Yes	Yes	Yes
Tax exemption of service provided as a targeted benefit (PBO Act, subpara h) of para (1) of article 6)	Yes	Yes	None	None
<b>Act 81 of 1996 – Business Tax Act (BTA)</b>				
Benefit reducing the tax base based on the value of the donation (BTA para (5)-(7) of article 7.)	The full sum of the donation, but no more than 20% of the pre-tax profit may be deducted. (If donation is granted to a priority public benefit association, then a total of 25% of the pre-tax profit may be deducted.)	One and a half times the sum of the donation, but no more than 20% of the pre-tax profit may be deducted. (If donation is granted to a priority public benefit association, then a total of 25% of the pre-tax profit may	None	None

		be deducted.)		
After a long-term donation special tax-base deduction benefit from the year following the first tax payment (BTA para (5) of article 7.)	20% on top of the donation sum may be deducted, but only up to 20% of the pre-tax profit.	20% on top of the donation sum may be deducted, but only up to 20% of the pre-tax profit.	None	None
The extent of the beneficiary business activity within which no tax has to be paid. If, however, that limit is exceeded, the entire business revenue will be subject to tax. (BTA para (1) of article 20.)	None	None	Its business revenue does not exceed 10% of the total revenue, not to exceed 10 million HUF.	Its business revenue does not exceed 10% of the total revenue, not to exceed 10 million HUF.
The extent of the beneficiary business activity within which no tax has to be paid. If, however, that limit is exceeded, the tax is computed on the basis of the ratio of the full revenue and the sum of the excess. A further consequence of exceeding the preferential limit is that the donation received will be added to the pre-tax profit. (BTA para (3), (6)-(7) of article 9.)	10% of the full revenue, not to exceed 20 million HUF	15% of the full revenue	None	None
If publicly beneficial, the registered main activity as the subsidised activity qualifies as a business including the grants, allowances, and membership fees received, and the sales function serving these activities. (BTA Attachment 6. subpara A)	Yes	Yes	None	None
The part of the banking yield of the free funds of the business revenue	Yes	Yes	None	None

that publicly beneficial or the registered main activity represents among total revenues (BTA Attachment 6. subpara A/3 ).				
<b>Act 76 of 1992 - VAT Act</b>				
A donation in kind to a public benefit association, a priority public benefit association, or in the interest of fulfilling the publicly beneficial commitment does not qualify as a sale of product as long as Act 71 of 1996 on Corporate tax, and dividend tax qualifies it an item to come off the tax base (VAT Act, article 7, para (3), subpara a ) )	Yes	Yes	None	None
Obtainment of financial gain originating from public donation aimed at promoting domestic scientific research, art, education, culture, public welfare shall be exempt from under donation stamp duty. (Stamp Duty Act (SDA), article 17, para (1) )	Through a foundation: yes	Through a foundation: yes	Yes	Yes
The procedure aimed at registry with the court of justice is free of any stamp duty (SDA, article 17, para (1) )	Yes	Yes	Yes	Yes
<b>Act 100 of 1995 (Customs Act, CA)</b>				
Goods subject to tariff, associated to the publicly beneficial activity listed in the articles of association arriving without financial compensation except cars and motorbikes	In the case of foundation, and a public foundation: yes.	In the case of foundation, and a public foundation: yes.	Yes	Yes

shall be exempt from tariff (Act 100 of 1995, para 114)				
Sports equipment, sports gear, and sportswear arriving without financial compensation to a sports organisation (including a sports club with its association) to be sold in the domestic market shall be exempt from tariff (CA, para 114)	In the case of a social organisation: yes	In the case of a social organisation: yes	None	None
The tax authority is empowered to allow on grounds of equity, and if so requested on justified grounds, the reimbursement of tax levied on a preliminary basis, not permitted to be deducted by the provisions of the present Act, and computed for the expenses arising in conjunction with the activities listed under subpara e) (not including cars, and the fuel used to operate it) to social organisations, churches having concluded a relevant agreement with the state, or the independent representative organisation of that church (not including institutions with a public purpose maintained by the church) and foundations, which satisfy all of the following conditions a) performs social, health related, educational, training, cultural, religious,	Yes	Yes	Yes	Yes

<p>environmental, territorial, and community development related tasks concerning a large number of private individuals, and was registered as an organisation performing such an activity at least one year prior to the year of submitting the application for tax reimbursement.</p> <p>b) it does not aim at generating profit either on the basis of its articles of association, or any other documents otherwise establishing the organisation, nor in actual fact, and it uses the profit possibly generated despite its intentions to maintain, improve, and expand the activity listed under a), and</p> <p>c) it does not provide financial or in-kind compensation (including cost reimbursement) to its manager or any persons rendering managerial services or holding membership in its management, and neither these persons nor their close connections do not benefit directly or indirectly from the operation of the organisation. For the purposes of this paragraph non-taxable revenues as per attachment I of PIT Act do not qualify as compensation.</p>				
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d) the provisions of para c) above may be ignored if the church requests the reimbursement of the tax deducted in advance on the basis of the investments, or renovations carried out with the sum of the real estate damage compensation. The stipulation in subpara c) of para (8) shall not apply to the case where the reimbursement request is submitted by a foundation, or social organisation rendering a social or health related service registered as a priority public benefit association.				
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**Act 100 of 1990 (LOCAL TAX ACT, LTA)**

Tax exemption if no obligation to pay corporate tax applies based on the business in the previous year (LTA, article 3, para (3))	In the case of foundations and social organisations: yes.	In the case of foundations and social organisations: yes.	In the case of foundations: yes.	Yes
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**Act 82 of 1991 (VEHICLE TAX ACT, VTA)**

Tax exemption if no obligation to pay corporate tax applies (VTA, article 1, subpara h))	In the case of foundations and social organisations: yes.	In the case of foundations and social organisations: yes.	In the case of foundations: yes.	Yes
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**ACT 93 OF 1990 (STAMP DUTY ACT, SDA)**

Full personal exemption of stamp duty if the business activity in the previous year generated no obligation to pay corporate tax (SDA, article 5)	Yes	Yes	Yes	Yes
Obtaining a donation for domestic scientific, artistic, educational, cultural,	Yes	Yes	Yes	Yes

public welfare purposes shall be exempt from stamp duty on donations (SDA, article 17, para (1))				
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**Dr Mária Frey**

**The job creation effect of Phare programme No. HU0104-02 entitled 'Labour market reintegration of women'**

***Interpreting the task***

The Phare programme aimed at facilitating the labour market reintegration of middle-aged women inactive due to their long absence raising their children or for other reasons was launched with 17 winning applicants in 2003. The tender winning applicants had to undertake to reintegrate into the labour market at least 40 women of the target group through three channels. The target job had to be unsupported by placement services, and the method had to be the establishment of a business of their own, or a *not-for-profit employment scheme* that was meant to provide personal services in short supply at the time, constituting an employment barrier for the women concerned thereby ensuring a job for members of the target group, and creating an opportunity for other women to free up their working potential for gainful activities by taking advantage of these services.

We analysed the employment effect of this scheme from a double point of view. One was the evolution of the human resources potential of not-for-profit organisations, and the other the job creation potential of goods and services produced/rendered in the framework of the pilot project. We based the analysis on the projects' closing studies. The information in these studies, however, set a limit to the depth and detail of the present investigation for the simple reason that those studies were not written with that aim and under these instructions.

**The effect of the programme on the human resources capacities of not-for-profit organisations**

The information contained in the closing studies did not provide enough input for us to discuss the subject appropriately. Only the application documents could have contained information concerning management, but these were not available. At the same time the reports of each organisation referred to the composition of the management, which served as grounds for assumptions regarding the ideal/typical staffing structure. Project management consisted of 5 persons on average: project manager, project coordinator, economic/financial manager, the manager of the pilot subproject and one assistant. That professional team specialises in implementing a variety of schemes, and pays the wages of its staff from the funds it generates through the project. It created a total of 85 jobs in 17 projects for a specified (18 months) period. A wide array of technical services had to be provided in the framework of the project: personality development courses through motivational, communicational, and job search training, entrepreneurial skills training, various labour market, economic, and social services: employment and mental hygiene consulting, job placement, mentoring, legal, and economic counselling. The work plans suggested that most projects hired outside experts for these services. The full-time equivalent of these numbers about 10 per project; in addition to these there were 5-6 mentors, 4-5 trainers, one legal counsellor, one entrepreneurial advisor, one employment advisor, and one mental hygiene advisor. Half of the outside experts works on the project for 24 months due to the fact that some services (mentoring,

entrepreneurial, legal counselling) must be kept up for half a year following the conclusion of the project. The work contract of the other half expired in 18 months.

The technical staff of the 17 projects was estimated to reach 170 having extended the core HR capacities of the project by 5100 manmonths.

### **The impact of the project on target group's employment options**

Appendix 3 summarises – on the basis of the closing studies – the number of participants having found a job from among the members of the target group. That information, however, must be treated with some reservations as e.g. even the number of persons involved in the project seems unreliable in some cases. Giving credit to all such statistics would mean that some projects did not deliver the minimum head count requirement of 40, and several ignored the criterion whereby one fourth of the launch-day membership had to be involved in the pilot subproject. Accounting for the project headcount is also inaccurate. While most organisations enable the tracing of the route followed by participants, a good number of projects use hazy categories to describe status (neither employed, nor drop-out): still in training, still seeking a job.

After these preliminary remarks the appendix suggests that a total of 816 persons were involved in 17 projects, of whom 353 managed to find employment on the primary labour market; 17 persons ended up as entrepreneurs (three further ones obtained the so-called entrepreneurial license); 239 were offered a job in the pilot sub-project. The total number of successful job placements in the three channels amounted to 619, which translates into an average placement rate of 75.9%.

**The BMVK\* calls for an explanation. The closing study offers the following comment: „...We expected a group of relatively interested, well-informed women responding to motivation at least at a basic level. What we found instead were functionally illiterate women, who in many cases suffered from psychiatric and other health problems, and who were burned out, and hard to handle.”**

Drop-outs numbered 75 on aggregate corresponding to 9.2% of the launch-day participation level. During the period our report was prepared 122 former participants were still (or again) seeking a job.

From among those placed on the primary labour market and those who became entrepreneurs we credited 18 months to the programme, and as for the pilot subproject participants, we credited 24 months. That led us to estimate that those having found a job through a subsidised project spent a total of 12576 months in the programme. This is an important statistic as we wanted to compute project costs projected onto manmonths as well.

### **Specific costs**

In Appendix 2 we summarised the grant won and actually used through the application, and the match funding as that also adds to the costs of job creation. The latter is expressed in Forints in the auditor's financial report, so we relied on that upon computing the specific costs.

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\* BMVK - Baranya County Enterprise Development Centre

We raised the staffing level in each project by an average of 5-10 persons to take account of the management membership and the various specialists who obtained employment through the project (Appendix 3).

Based on the above the "recognised" costs per one employee equals 1096.3 HUF, which had a spread between 637.3 and 1590.7 HUF million HUF across the projects.

The performance of the target group, the specialists and management totalled 17676 months in man-months. Based on that the monthly per capita cost is HUF 54209.

### *Pilot subprojects as the pledge of social economy*

The novelty about the Phare project was that it tried to encourage the participants to launch initiatives that aimed at ensuring missing services to the local population that are self-sustaining jobs for those excluded from the labour market after the grant dries up. That required the applicants to corroborate their development plans by needs assessments placing great emphasis on the period following the expiration of the grant. What activities did the pilot projects undertake to pursue? In what follows we provide examples of their efforts.

- The BMVA did not establish a separate organisation for the pilot subproject, but expanded the profile of the not-for-profit organisations by the members of the target group, whereupon
  - it created a support service for persons with disabilities
  - launched a home care service, and
  - created an alternative labour market and human development consulting office.
- The BMVK relied on the municipalities' needs assessments to determine the activities.

„As witnessed by the answers received, in educational/social, and health institutions, and in the area of pedagogy, speech therapy services, in home care of elderly people, in culture and maintenance of public areas, park creation there is a known shortage of workforce.”

- The Foundation for the Somogy Unemployed has launched new personal services based on real needs in the framework of the pilot project in the area of elderly care and community management. They employ one additional person to coordinate the work of voluntary workers, and two persons two operate an alternative child supervision service
- The Human Resources Service Agency of the Dunaferri Employment Foundation created a service package with the following activities:
  - personal services, case management
  - labour market services: job placement, workforce hiring, designing a database, provision of information to facilitate finding employment
  - facilitating the operation/activities of municipalities, their background institutions, NGOs, businesses, private individuals through provision of information, writing of applications, management, and office services.
- The Tokaj Microregion Foundation opened a not-for-profit office to serve private individuals' and communities for the purposes of the pilot subproject for the following activities:
  - work around the house: work in the garden, mowing the lawn, chopping firewood, shoveling snow, harvesting fruit and vegetables,

- household work: complete house-cleaning, window cleaning, washing curtains, painting the fence, disposing of worn-out household items,
- health services: fetching medication from pharmacy, accompanying patients to doctor,
- advice on life style management, mental care.
- The Regional Social Resource Centre Public Benefit Association in Szombathely employed 10 social helpers in seven communities for 2x12 months.
- The Nógrád County Enterprise Development Foundation provides part-time employment to 10 persons at development associations in Bátonyterenye, primarily for monitoring, and writing applications,
- The MIOK arranged a creche nurse / kindergarten educator service with a staff of 20, and the Chance Regional Social Resource Centre Public Benefit Association set the objective of launching 4 family day-care centres in 3 communities, which provides employment to 13 women.
- The Public Work Association of district XVIII renders human resources and personal services in the framework of the pilot subproject, specifically:
  - home help to elderly, sick, disabled persons
  - household work
  - child care
  - helping with the homework
  - home delivery of food, and medication, shopping,

Apart from that they employ women with changed working abilities to do needlework and sewing

- VÉDESE Ltd established a social kitchen service where it provides restaurant and home delivered food services targeted also at special nutrition needs. In addition, it also renders home care services required by the home delivery clients.
- Finally, the Motivation Foundation has extended its services by 10 personal helpers.

The following summarises the distribution of those working in the pilot sub-project broken down to areas of activity:

- support services to disabled persons	14 persons
- home care, elderly care, social catering	68 persons
- alternative labour market services	11 persons
- office assistant, administrative tasks	7 persons
- coordinating voluntary workers	1 person
- alternative child supervision	21 persons
- writing and monitoring applications	22 persons
- household, around-the-house jobs	11 persons
- social helper, crèche-nurse, kindergarten educator, family helper	43 persons
<u>- community manager, and other municipal tasks</u>	<u>41 persons</u>
<b>Total:</b>	<b>239 persons</b>

In terms of labour market status, out of the 239 jobs:

- full-time, open ended work contract:	37
- part-time, open ended work contract:	2
- full-time work contract for specified period	151
- part-time work contract for specified period	49

In the case of those finding employment in the primary labour market, and those starting their own business we had no information concerning either the nature of their activity or their labour market status on the date of going to press:

*The sustainability of the services and jobs created*

Support services (labour market, economic, legal counselling, mentoring) must be made available for project participants by the respective consortia for half a year following the expiration of grant disbursement. That stipulation was respected by all organisations concerned. Then they planned to continue operating them by involving further resources, where the activity generating revenues of their own would form the match funding in upcoming applications. Indicative of that intention is the fact that 14 out of the 17 project management teams submitted further applications to some of the HEFOP or ROP sub-projects or to the EQUAL programme.

Only three organisations remained outside that group. One is the Tokaj Microregion Foundation which concentrates its efforts on generating its revenues from the market rather than on project implementation. They will, however, submit other applications as soon as they find one that fully overlaps with their business objectives. VÉDESE Ltd follows virtually the same philosophy. Only the BMVK gave up applying altogether. Their comments: „...because we were left to our own devices. The programme was declared to be a pilot programme, however, no space was given for piloting/experimentation, instead we kept receiving instructions.” They are the only ones believing that „the services launched cannot be maintained after the expiration of the contractual duration of the employment”.

The situation concerning the pilot subproject is somewhat more complex in both technical and financial terms. Each participant is trying to comply with the obligation of one year of continued employment following the expiration of the funding, but only few have vision beyond that date.

Out of the 239 jobs created in the framework of the pilot project 83 (35%) have a truly uncertain future. Their commented it as follows: „As the target group does not constitute solvent demand, not-for-profit organisations can only stay afloat by grants, or other organisations assuming part of their tasks. That means that keeping experts on board depends on further funding applications.” There were even some opinions claiming that if there was solvent demand for their services, equal opportunities would suffer. „Low-earning pensioners, or Roma children with compound disadvantages would have to be turned away saying that they/their parents cannot pay for the services. Many rights including social rights, and children’s rights would be infringed.” That comment would be justified only if there was not enough workforce available to meet solvent demand. There are, however, abundant reserves of that.

*53 jobs may be sustained on a longer term through grants by the local or the central government (22%).*

The most frequent example for the former is social care, which projects undertake through the service contract concluded by the government, but the operation of family day care centres also belong here, for which there is state funding on a per capita basis. The equal opportunities coordination office deserves special mention from among the above, whose funding was undertaken by the Equal Opportunities Government agency, which was meanwhile converted into the Ministry of Social affairs and Labour.

The sustainment of 55 jobs (23%) will be based on a multi-channel funding: local government funding, fee-revenue, and on the involvement of financial resources accessible through further applications.

48 jobs (20%) generated the costs of their sustainment already during the time of the survey. Part of the coverage for that is the revenue from monitoring, and writing applications, and designing projects. The other part is based on realistic business plans.

The VÉDESE Kht. Created a social kitchen service of 300 portions, which is profitable already now, operating at 60% of its capacity, which translates into 20 jobs sustainable on a longer term.

The Tokaj Microregion Foundation builds its market in a very conscious fashion, and introduced a subsidised charge payable for their services as from 2004 August. That brought a major cataclysm in their business: „If we charge a fee, most clients do not want us, so our sales dropped significantly.” The introduction of a charge was preceded by a market research, which investigated the future sustainability of the services. That projected sales worth 60 million per annum for the personal and community service office with the additional comments that it would have to be founded by aggressive marketing efforts, and a constant, high quality service. The survey has indicated that the services that households badly need are as follows: home care of elderly people, home help, cleaning, gardening, work in the courtyard, shopping. These, however, are jobs that would not keep a business running, thus only the not-for-profit pattern of operation seems viable for the future. Demand for social services requires the contribution of the state: the local government is expected to purchase services for those in need. The activity may be extended even to business undertakings, whose potential clients were attached by the market research firm to the closing report.

The Foundation extends its services to other communities as well in an attempt to expand its client base. The experience learnt here was that the project generated its own competition. Workers of one of the elderly care centres offer their services for 120 HUF per hour, and other communities seem to follow suit.

In addition to introducing charging a fee, a radical reduction of costs was also necessary to ensure a profitable operation. That is because prior to that the hourly charge to keep the business running would have been 1038 HUF, which is an unrealistic charge in a community where a day (8 hrs) of shoveling is paid at 3000 HUF.

### **Difficulties**

**The project was received with lack of trust, and suspicion occasionally, and in some locations by both the municipalities, and the clients. That negative approach had to be worked down with serious, unbroken efforts.**

Further difficulties could be divided into two major groups: professional and technical.

The first one to mention under professional errors is organisational and personal instability from programme management through consortia to programme management.

The second is that there is little (solvent) demand for services in social economy. Elderly women in rural areas are not used to being served, even if they had the money to pay for it. The dire financial situation of small municipalities is a definite hinderance in providing the match funding. Contrarily to common belief the employment chances of members of the target group in cities are no better than elsewhere. Even though there is greater responsiveness, and solvent demand to personal services in urban cultures, and sets of value, this is present even today, and in the black economy.

Missed deadlines, and the resulting piling up of tasks deserve special mention among technical difficulties. It was compounded by the fact that the Handbook to explain how the programme was implemented was printed with some delay. The contract with the monitoring firm also failed, so on-going control was missing. The projects found it a grievance that they received no help for tendering, and complained about the rigid approach of the CFCU in the public procurement process.

**The fact that other central programmes or ones initiated by the county labour centres were launched, working toward a competing objective meanwhile came as an unexpected obstacle from the point of view of the project plans E.g. several projects planned and implemented training courses (not-for-profit office administrator) with the objective of training specialised staff for NGOs. The successful employment of the target group was, however, disturbed by the fact, that following acceptance of the projects the county labour centres trained school leaving higher education graduates for the very same function, moreover, a centrally orchestrated programme called `sending civil servants to the not-for-profit sector`, which ensured major benefits to NGOs that committed themselves to extend the employment relationship of civil servants laid off at the end of 2003.**

### ***Policy recommendations***

- 1. There is a clear need for the services launched under the Phare programme, but potential clients cannot or do not want to take advantage of them at the price that would enable their self-sustainment. Thus social economy could implement a local employment development concept by connecting unmet demand in the community, and among the local population with available workforce if jobs become self-sustaining by the presence of *solvent demand*. The required financial arrangement (e.g. tax benefit ensured to the clients under the title of job creation; handing out discounted vouchers to companies that would take some of the household workload off the shoulders of their workers by offering them the services available through the vouchers) *must be elaborated*. At the same *resolute incentive measures* should be taken to benefit both providers and beneficiaries of the service *in order to legalise the mushrooming black market of services rendered in the framework of social economy*.**
- 2. Assessing local needs prior to meeting demand for various services requires accurate information. That could be facilitated by the creation of a *social map*, whose introduction we recommend in the framework of one of the larger EU programmes.**
- 3. The presence of programme management is indispensable during programme implementation. *Regular technical consultations, and technical***

- assistance are necessary in order to complete the procurement processes, just as technical monitoring, and financial control following through the project implementation process. Financial/technical regulations must not constitute a barrier to technical implementation. A solution should be found to sanctioning partners breaching their contracts.*
4. Calls for applications should be more varied. Applications should be built on real demand, and their time frame should be more generous. *The life of disadvantaged persons may be helped only if they are also taught a trade/profession.* It is unacceptable that an OKJ (national qualification register) accredited course cannot fit into the duration of a programme. It should be possible that the employment and the training should run simultaneously. All the more so, as the time of the training does not constitute qualifying period.
  5. A factor of uncertainty in sustaining the programme is the constant change in social sector related legislation. There is a contradiction between raising the standards of the social profession, and the objective of social economy whereby elderly age groups excluded from the labour market on a longer term should be able to become personal home carers. *Harmony should be created between social policy and employment policy objectives.*
  6. The subsidy system should be reviewed with an eye to enabling NGOs to receive regular, predictable subsidy if they agree to provide services, and alternative programmes to disadvantaged target groups. *It may be stated in general that transferring subsidies to NGOs is a practice still in its infancy.* It is likewise a thought-provoking situation that no particular sanction awaits partners in contractual default (non-performance of statutory obligations) or for performing non-essential tasks.
  7. Operating NGOs requires a proficient team whose members are interested its success both financially and morally. No one plans the future with teams recruited ad hoc. Diversification is a requirement as all projects are finite, but one should know that several projects mean more responsibility. The National Civil Base Programme has triggered favourable changes, but it will take several years before NGOs can enjoy real equality of opportunity vis-à-vis civil servants and public servants with special regard to the guarantees applicable to them.

Budapest, February 2005

## Annex 1

## The employment impact of individual projects

Organisation	Participants in projects	Placements in primary labour market	Business start-ups	In pilot employment projects	Total employees	Employees as % of project participants
1. Békés MVA	40	16	0	12	28	70,0
2. Baranya MVK	67	12	0	12	24	35,8
3. Somogyi Munkanélküliekért	43	26	1	11	38	88,4
4. Szegedi Ifj. Ház	69	45	3	15	63	91,3
5. Dunaferri „Foglalkoztatásért”	48	16	4 (+ 3 mellékfogl.)	20	40	83,3
6. Tokaj Mikroreg	40	16	1	11	28	70,0
7. RSzFK Szhely	55	36	1	10	47	85,5
8. Nógrád MRVA	40	18	2	10	30	75,0
9. Felső-Kiskun	40	20	0	10	30	75,0
10. Zalafalu	39	10	4	11	25	64,1
11. MIOK	41	17	1	20	38	92,7
12. Esély RFK	43	17	1	13	31	72,1
13. XVIII. Közmunka Egy.	57	21	3	20	44	77,2
14. RÉV	60	30	0	15	45	75,0
15. Impulzus	40	12	6	19	37	92,5
16. VÉDESE Kht	54	15	0	20	35	64,8
17. Motiváció	40	26	0	10	36	90,0
<b>Total</b>	<b>816</b>	<b>353</b>	<b>27(+3 mellékfogl.)</b>	<b>239</b>	<b>619</b>	<b>75,9</b>

## Annex 2

## Planned and actual expenditures of individual projects

Organisation	Planned (thousand EUR)			Actual (thousand EUR)			Costs approved by auditor (HUF) (HUF 253.7/EUR)		
	Grant	Own funds	Total	Grant	Own funds	Total	Grant	Own funds	Total
1. BMVA	272,1	32,6	304,7	240,7	28,7	269,4	61,1	7,3	68,4
2. BMVK	242,1	21,3	273,4	208,1	23,6	231,7	52,8	6,0	58,8
3. SOMA	269,9	30,1	300,0	172,5	10,9	183,4	43,5	2,7	46,2
4. Szeged	222,9	28,9	251,8	197,7	25,6	223,3	50,5	6,2	56,7
5. Dunaferr	227,4	27,0	254,4	227,4	26,2	253,6	57,7	6,6	64,3
6. Tokaj	231,9	31,2	263,1	232,0	31,2	263,2	58,8	7,9	66,7
7. RSZFK	204,6	26,9	231,5	204,5	29,2	233,7	51,8	7,4	59,2
8. NMRVA	151,5	17,3	168,8	142,5	16,3	158,8	36,4	4,6	41,0
9. FKKME	220,5	32,9	253,4	181,9	27,1	209,0	46,2	6,9	53,1
10. ZFE	176,4	23,0	199,4	150,1	19,6	169,7	38,1	5,0	43,1
11. MIOK	201,3	29,4	230,7	138,5	20,9	159,4	35,1	5,3	40,4
12. ESÉLY	260,0	33,5	293,5	220,8	19,8	240,6	56,0	5,0	61,0
13. XVIII.k	148,7	20,5	169,2	126,9	21,3	148,2	32,2	5,4	37,6
14. RÉV	299,5	34,2	333,7	255,6	31,3	286,9	64,8	8,0	72,8
15. IMPULZ	270,0	37,0	307,0	195,7	39,3	235,0	49,6	10,0	59,6
16. VÉDESE	271,1	34,5	305,6	255,0	33,6	288,6	64,7	8,5	73,2
17. Motiváció	216,4	29,6	246,0	194,8	26,6	221,4	49,4	6,7	56,1
<b>Total</b>	<b>3886,3</b>	<b>499,9</b>	<b>4386,2</b>	<b>3344,7</b>	<b>431,2</b>	<b>3775,9</b>	<b>848,7</b>	<b>109,5</b>	<b>958,2</b>

## Annex 3

## Dropouts – Placements in training – Costs per placement

Organisation	Dropouts		People in training or seeking employment	Total placements in jobs (including +15 persons)	Cost per job placement (m HUF)
	Persons	As % of project participants			
1. Békés MVA	2	5,0	10	43	1590,7
2. Baranya MVK	9	13,4	34	39	1507,7
3. Somogyi Munkanélküliekért	4	9,3	1	53	871,7
4. Szegedi Ifj. Ház	6	8,7	0	78	726,9
5. Dunaferr „Foglalkoztatásért”	3	6,2	5	55	855,4
6. Tokaj Mikroreg	4	10,0	8	43	1551,2
7. RSzFK Szhely	1	1,8	7	62	954,8
8. Nógrád MRVA	0	0	10	45	911,1
9. Felső-Kiskun	4	10,0	6	45	1180,0
10. Zalai Falvak	1	2,6	13	40	1077,5
11. MIOK	3	7,3	0	53	762,3
12. Esély RFK	3	7,0	9	46	1326,1
13. XVIII. Közmunka Egy.	9	15,8	4	59	637,3
14. RÉV	1	1,7	14	60	1213,3
15. Impulzus	2	5,0	1	52	1146,2
16. VÉDESE Kht	19	35,2	0	50	1464,0
17. Motiváció	4	10,0	0	51	1100,0
<b>Total/average</b>	<b>75</b>	<b>9,2</b>	<b>122</b>	<b>874</b>	<b>1096,3</b>

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