



SOCIAL ENTERPRISE INVENTORY

Exploiting Potentials of

Social Enterprises through Standardized

European Evaluation

and Development System

SOCIAL SEEDS

Interreg Europe



SME competitiveness



European Union
European Regional
Development Fund

I. INTRODUCTION

1. SOCIAL SEEDS project

Recent years have seen a burgeoning interest in social enterprises (SEs) across Europe, strongly driven by a growing recognition of the role social enterprises can play in tackling emerging challenges. Particularly in the current period of economic and social recovery, social enterprises are able to bring innovative solutions for social cohesion and inclusion, job creation, growth and the promotion of active citizenship. Yet, despite interest in and the emergence of examples of inspirational and 'disruptive' social enterprises, relatively little is known about the scale as well as the ecosystems of the emerging social enterprise 'sector' of Europe as a whole. Best practices across Europe show that social enterprises are effective & efficient policy tools at policymakers' hands to reduce territorial disparities, bridge the public private sphere and to boost economic growth, employability of vulnerable social groups by improving the performance of regional development policies and programmes.

Today only eight countries out of the EU-28 countries, namely Bulgaria, Greece, France, Italy, Luxembourg, Slovenia, Sweden, and United Kingdom have a policy framework in place to encourage the development of such enterprises via legal, administrative and financial instruments. Motivated by the above fact, SOCIAL SEEDS tackles this policy challenge with innovative policy diagnostic tool, the European Standardized Evaluation and Supportive System. The consortium consisting of 7 partners representing 6 partner regions and an associated strategic partner with complementary experiences and policies, aims to seek policy alternatives to improve social entrepreneurship and social innovation landscape in Europe.

2. Regional / National Social Enterprise policies

SOCIAL SEEDS regions need to identify their policies in the very beginning in order to prepare for the final phase of the project when regions will decide how to integrate lessons learned into regional / national policy instruments through respective implementation (Action) plans. This exercise is the preparatory phase for the policy improvements taking place in the second phase of the implementation of SOCIAL SEEDS. The identification of the policies addressed gives a general picture of each region's specific context and insight into the social entrepreneurship developments proposed as well as main stakeholders and relationships among them.

Aiming at a status quo description, all regions were asked to summarize their respective data concerning existing policies and strategies on social entrepreneurship, social innovation and social economy including future plans structured in three passages. The first passage is addressed to clarify the challenges facing the social enterprise ecosystem and it also indicates existing or potential policy intervention areas. These policy areas include: Access to Finance; Access to Talent; Scaling Up; Regional Inclusiveness; Sourcing and Pipeline; Capacity Building and Training; Impact Measurement, Transparency and Reporting; Ecosystem Coordination, Policy and Regulation; and Investment Exits. The second passage is dedicated to provide a comprehensive overview on existing policies and strategies on social entrepreneurship. The description also refers to the available ESIF European Structural and Investment Funds Operational Programmes and their intervention logic as well. Policies and social enterprise supporting services are also reviewed in light to access to market, skills enhancement, internationalization of social enterprises, incubation services, trainings and coaching services and access to finance. Last but not least, the last passage shows the policy niches and our partners' solutions on overcoming the barriers identified.

II. POLICY MAPPING

HUNGARY

The developments of the social enterprise ecosystem should be considered in the context of policy discussions at both a national and international level where inclusive innovation and social enterprises are priorities. This passage seeks to shed some light on the policy context, and clarifies some of the key terminologies and concepts for the landscaping results. It also endeavors to place the discussion about the promotion of social enterprises in the framework of wider policy context addressed to access to finance for Micro, Small and Medium Sized Enterprises, and innovation policies and taxation legislations.

a) STATE-OF-THE-ART (2000 characters max.)

1. Legal definitions and background: is there any legal definition for social enterprises and social economy

In Hungary, the terms: social economy, social entrepreneurship, social services and social innovation aren't clearly distinguished within public policies. Social innovations and social entrepreneurship are strongly interlinked, having a complementary and an important role to play in tackling major societal challenges in Hungary, which are: poverty and social exclusion, aging population, youth unemployment and too early exit of 55+ year old, discrimination against Roma and homelessness.

As mentioned, there is no legal definition of social enterprises and of social economy. There is also lack of institutional arrangement (specific Ministries or departments focused on social enterprises explicitly) and clear strategy to promote the development of the sector formulated by the government. The institutional form of social enterprise in Hungary exists under the label of social cooperative defined by the Act no X of 2006¹ on cooperatives. Social cooperatives often provide employment opportunities for the long-term unemployed or groups who are disadvantaged on socio-economic ground.

Besides, there is also some number of entities operating under two other forms which fulfil the EU operational criteria and hence can be seen as social enterprise. Those two forms are traditional cooperatives pursuing general or collective interests and non-profit companies as follows:

- **Social cooperative:** appearing after 2006, introduced by new legislation establishing this new organisational form and offering them certain tax advantages (as compared to normal employment contracts, for example)⁹, social cooperatives are currently the most visible form of social enterprise in Hungary and relatively wide-spread, boosted by public funds made available for establishing and operating them.
- **Traditional cooperatives:** whereas most of the traditional cooperatives (with a legal statute known in Hungary since the 19th century) are just vehicles serving the economic interests of their members (examples are agricultural cooperatives, cooperatives in

¹ Passage 1 of §8 of the 141/2006. (VI.29) governmental decree says: Social cooperative, in accordance with the §7, is a cooperative: The aim of which is to establish the working conditions for its socially disadvantaged members, and to improve their social state in other ways; That works as a school association; The social association has to include in its name the nomination social association –or - in case of scholar association- the nomination scholar association.

certain professions such as hairdressers, homebuilders' cooperatives etc.), some also have explicit social aims.

- **NGOs with economic activities:** Many associations and foundations undertake significant economic activities in the pursuit of social aims, for example by operating sheltered workshops, employing persons normally excluded from the labour market, or carrying out activities in the fields of education, culture and preservation of the environment. But their economic activities are rarely commercially viable and sustainable, and are dependent on continuous external funding.
- **(Private) non-profit companies with social aims:** these can be community-supported micro-enterprises producing goods for the purpose of providing employment for participating families, with the produce being often sold locally.
- Foundations;
- **Public Benefit Companies:** are legal entities of public benefit, serving the common needs of the society without the aim of gaining profit or fortune.

2. Social enterprise landscape in numbers - Hungary:

Due to the lack of available statistics, there are only estimates based on the data published by the Hungarian Central Statistics Office (abbreviated as KSH, available at www.ksh.hu). It is estimated that there are circa 3,000 social enterprises fulfilling the criteria of EU operational definition. Statistics explicitly accounting for social enterprises do not exist in Hungary, but data is available on the number and economic performance of organisations under the relevant legal forms. According to data from KSH, there were 2,976 cooperatives, of which 293 registered (for-profit) "social cooperatives" are the most relevant, offering employment to their disadvantaged members and services improving their living conditions. Social and employment cooperatives have mushroomed recently, thanks to an ESF co-financed grant programme for their setting up and operation. Also, there were 65,561 registered non-profit organisations (broken down to 23,236 foundations and 42,325 non-profit companies) with a total revenue of 1,238 billion HUF (over €4 billion) in 2011, of which only 211 million HUF is commercial revenue.

Concerning the number of social enterprises in Hungary, there are different estimations, and there is an overall lack of statistics. Petheő (2009) states that there are around 500-600 organizations to be regarded social enterprises. In the SELUSI research from 2010 however, only 104 social enterprises participated (see Tóth et al, 2011). Most recently, G. Fekete et al (2014) estimated that there are around 3360 social enterprises in Hungary.

3. Sectoral characteristics:

However, about the number of registered enterprises by legal forms accounts only for circa 300-400 social enterprises according to the EDIOP Economic Development and Innovation Operational Programme. Geographically, the majority of social enterprises are present in Central Hungary (and Budapest) and the Region of Northern Hungary; there are significantly less in the Western and Central Transdanubia region. Due to the intense growth within the sector within the last 5 years, for profit social enterprises have also appeared – social enterprises have become stronger and stronger.

Social enterprises in Hungary are not very old. According to the SELUSI report their average age is 15.9 years and half of those organizations are 13 years old or younger. However, NESsT, according to its own stricter definition, considers that the first social enterprises appeared only some 16 years ago, so the average age is much younger. Half of the social enterprises in Hungary are small (1-10 employees) and only 12% has above 1M € revenues.

The reasonably broad and colourful non-profit organisation scene – and social enterprises within - is present in all economic sectors: Health and Social Work; Business Activities; Education; Community, Social and Related Services; and Wholesale and Retail Trade. The remainder was active primarily in: Personal Service Activities; Agriculture, Hunting, Forestry and Fishing; and Manufacturing. It is assumed (Ruszkai & Mike 2012) that such NGOs are most prevalent in three main areas of activity: education and training, social services and economic development. Organisations active mainly under these three areas account for 25% of all non-profit organisations, and to 33% in terms of aggregate revenue.

4. The Stages of Business Development for a Social Enterprise: specify available financial and non-financial support

Due to the financial problems and the vulnerability, more and more organizations seek to diversify their resources to ensure the sustainability of their operation. One way to do so can be starting social entrepreneurial activities. Hungarian social enterprises are financing their activities from the following sources:

- Fees for services or sales of products;
- Investors' capital (equity);
- Loans;
- Grants;
- Private donations;
- Microfinance;

4.1 Grants and policy instruments

The social enterprise financing field shows very diverse picture in Hungary. The characterisation of the demand side for social investment is difficult, given the very nascent nature of the market in Hungary, the small number of social enterprises that are ready for investment, as well as the high prevalence of public grants crowding out other forms of finance. The primary source of external financing for organisations active in the social economy are grants.

Currently, there is two policy instruments addressed to enhance the social enterprise landscape in Hungary:

- EDIOP Economic Development and Innovation Operational Programme, Priority 5 NSO.10.2 Employment capacities of social enterprises will be strengthened (European Social Fund (ESF),
- EDIOP Economic Development and Innovation Operational Programme, Priority 8 NSO 17.1, Improved access of enterprises – including social enterprises working for society – to external funding, which realize investments that stimulate employment (European Regional Development Fund)

More specifically, the MarketMate (in Hungarian: PiacTárs) priority project (under EDIOP Economic Development and Innovation Operational Programme 5.1.2-15) address social enterprise enhancement and social entrepreneurial skills development. It provides preliminary audit (pre-selection of applications based on qualitative and quantitative measurement of business performance and social impact) for social enterprises willing to get access to HUF 6.000.000.000 (HUF 6 000 000 – 250 000 000 per project) in the form of non-refundable grants.

Besides grants, social enterprises are provided with the chance to participate in networking events addressed to the internationalization of social enterprises as well as joining professional bodies.

4.2 Donations and crowdfunding

The limited track record of social enterprise funding in Hungary, coming from NESsT, only contains small investments (6,600-55,000 USD in individual loans, adding up to not more than 100,000 USD per supported enterprise; and 1,700 USD in equity funding), although it is acknowledged that some social enterprises are slowly ready for higher scales of external financing. As a general trend, social enterprises in Hungary get no access to adequate market opportunities because of their unfamiliarity and relative lack of experience in financial planning. Similarly, Ashoka, founded in 1994 in Hungary, is electing and supporting outstanding social entrepreneurs (SEs) through various mentoring and coaching programmes.

4.3 Community banks and CSR

Besides social enterprise accelerators, socially responsible banks, namely the Citibank, Raiffeisen Bank, Erste Bank run programmes for strengthening the social enterprise landscape in Hungary. A community bank (MagNet Bank, considering itself as an 'ethical bank') has recently started its operations in Hungary, offering favourable conditions to SMEs, social enterprises and non-profit organisations. Some other banks occasionally publish small-scale tenders providing a modest grant to non-profit organisations or social enterprises (as part of their CSR activities). Erste Bank and Unicredit are among the examples.

4.4 Social enterprise empowerment

Furthermore, a range of non-profit organisations offer counselling to community enterprises or other non-profit organisations, without being involved in financing; for instance the Association of Community Developers (Közösségfejlesztők Egyesülete), providing inter alia pre-start and investment readiness support, help in the execution and monitoring of business plans, networking opportunities. Similarly, non-profit making branches of consultancies, e.g. IFUA Non-Profit Ltd. and Civil Support provide social impact assessment reports and trainings to social enterprises applying the *Theory of Change* methodology.

Generally speaking, the size of investment sought is currently mostly very small, which leads to high relative transaction costs; making the commercial viability of funding questionable. The transaction costs as well as accompanying consultancy services offered need to be funded from other sources. Social enterprises may often receive only one-off funding (e.g. grant) and follow-up financing would not be ensured, endangering the financial stability or the mere survival of the company no secondary market exists for equity capital, at least for small enterprises in the social economy.

5. Key stakeholders

The Hungarian social enterprise landscape brings together a great number of stakeholders.

- Policymakers:
- Intermediaries:
- Umbrella organization:
- Higher education institute:
- Social enterprise catalysts:
- Social cooperatives:
- Social enterprises:
- Ethic banks:

6. Opportunities and barriers

Opportunities:

- Social enterprises reported to be much more innovatively active than commercial enterprises,
- Impact measurement among Hungarian social enterprises is in a very initial phase. There are a lot of discussions around the topic, primarily among NGOs, and there are many players committed to improve in the area, but most lack tools and resources to track the actual impact of their activities,
- Skills enhancement programmes addressed to the internationalization of social enterprises is also in a very initial phase,
- Taxation discounts, regulations providing supporting market operation, support of the roads leading to the extension of paying demand are all missing (e.g: voucher system, etc.). Furthermore another very serious boundary of sustainability is that although there are supports, but they are not present at the place and the time requested by the third sector, they can be taken often in the format of tenders, that is uncertain, but often it does not precede the needs.

Barriers:

- Lack of high-level national strategy and high-level political commitment for social enterprises,
- Low viability of business models of existing social enterprises, also due to **overreliance on the grants**,
- In Hungary there is not yet specific infrastructure or public support system to promote the creation and development of social enterprises, and no special legal form or official certification exist for social enterprises.
- The unpredictability of the regulatory environment makes difficult the creation, functioning and development of social enterprises.
- The business activities of a social enterprise functioning in a non-profit form can only have a secondary character therefore its total annual revenue from the economic and entrepreneurial activity cannot reach or exceed 60% of its total annual income.
- Generally people trust the non-profit sector in Hungary although the lack of transparency and the weak financial management which characterizes the sector negatively affect this social perception.
- The social perception of economic activities carried out by non-profit organizations is characterized by rejection: the majority believes that non-profit organizations should not carry out this kind of activity at all. However, lately, as the concept of social enterprise has become better known, the rejection is gradually decreasing.

b) POLICY LANDSCAPE

Publicly funded schemes specifically designed for or targeting social enterprises (2014-2020)

Support type	Are there any schemes specifically targeting social enterprises?	Are any of these schemes funded by ERDF/ESF?	Are any of these schemes funded by the policy instrument you address?
Pre-start support (e.g. incubators)	NO	NO	NO
Awareness raising (e.g. awards)	YES	YES	NO

Social entrepreneurship education (e.g. school for social entrepreneurs)	NO	NO	NO
Business support (e.g. business planning, management skills, marketing etc.)	YES	YES	YES
Training and coaching schemes	YES	YES	NO
Investment readiness support	YES	YES	YES
Dedicated financial instruments	YES	YES	YES
Physical infrastructure (e.g. shared working space)	YES	YES	NO
Collaborations and access to markets	YES	YES	YES
Networking, knowledge sharing, mutual learning initiatives	YES	YES	YES
Internationalization	YES	YES	Partly

Policies:

Under the EDIOP Economic Development and Innovation Operational Programme there are currently 2 policy instruments addressed to social enterprises:

- Priority 5, NSO.10.2 Employment capacities of social enterprises will be strengthened (European Social Fund (ESF), Investment Priority 10: 1304/2013 (EU) ESF Regulation Article 3 (1) a) (i))

Description: There is a large potential in untapped opportunities of the social economy in Hungary, -among others – in the field of employment. This segment of the economy could be a sustainable solution for those who are having difficulties finding employment on the open labour market. The main objective is to increase the employment capacities of the social enterprises, - in a sustainable manner; and thereby assisting job seekers and inactive individuals living primarily in disadvantaged regions in finding jobs. As a result of the measures, the number of sustainable job opportunities in the social economy will grow and the employability of disadvantaged unemployed and inactive will improve.

Indication: Number of workplaces created by the supported social enterprises

Target value: 4000 (by 2023)

- Priority 8, NSO 17.1, Improved access of enterprises – including social enterprises working for society – to external funding, which realize investments that stimulate employment. (European Regional Development Fund)

Description: Through using financial engineering instruments and combining them with the interventions in other EDIOP priority axes, the access to external funding and employment potential will improve in case of enterprises launched by youth and job seekers as well as social enterprises. As a result of the developments the enterprises –including start-ups and social enterprises – will strengthen in a sustainable way.

Indicator: 3 year surviving rate of the enterprises (%)

Target value: 53 % (by 2023)

The Managing Authority for both policy instruments is the Ministry for National Economy.

c) POLICY NICHES (2000 characters max.)

Social enterprises are relatively new in Hungary, therefore, there are policy niches to be improved based on interregional exchange of good practices. Regarding the enhancement of the employment opportunities delivered by social enterprises, it is envisaged that self-assessment diagnostic tool will enable social entrepreneurs to benchmark themselves to other social enterprises across Europe and to make economically reasonable decisions on areas to be further improved (e.g. training, professional support, mentoring, coaching, business development and access to finance and markets, etc.). In close cooperation with the previously mentioned field, social investment market is still (very) nascent & social enterprises are inadequate (investment readiness) to absorb refundable financing.

- Priority 5, NSO.10.2 Employment capacities of social enterprises will be strengthened (European Social Fund (ESF), Investment Priority 10: 1304/2013 (EU) ESF Regulation Article 3 (1) a) (i))

Improvement necessity: Social enterprises are relatively new in Hungary, but gaining ground & recognition fast, thanks to successful examples (e.g. Hello Mum!, Ízlelő Familyfriendly Restaurant). Therefore, the evaluations and support system needs to be established and tailored in such a way, which makes the operation of these enterprises and thus, their labour demand predictable & measurable through improved governance and through structural change. Developing adequate monitoring tool for policy makers on the internal dynamics of the social economy has the potential to not only provide an overview on the entire social enterprise landscape but to enable direct and indirect interventions by policy makers based on the concrete requirements of such enterprises. The objective of the improvements is to contribute to the establishment of new social enterprises, and the enhancing and stabilisation of already operating enterprises in order to create permanent employment opportunities.

Therefore, the measure improved will elaborate performance assessment diagnostic tool for policymakers with the aim of providing policy makers up-to-date information on social enterprises' organizational development (e.g. training, professional support, mentoring), maturity (e.g. financing allocated to development stages), access to markets (e.g. quantity and quality of market channels & partners), access to finance, labour market legislations and taxation (e.g. tax exemptions to atypical workers, transparent code of labour).

Policy improvements will address the creation of the SOCIAL SEEDS Policy Diagnostic Tool, that delivers up-to-date, measureable and quantifiable pieces of information to policymakers for the following activities:

- recommendations towards improving social enterprise landscape in Hungary,
- identification of market niches for preparing new calls for proposals and tenders (including RRPPPs Socially Responsible Public Procurements),
- proven methodology for the evaluation and monitoring of closed calls.

The Policy Diagnostic Tool will be designed to meet the needs of policymakers (e.g. Managing Authorities of the Operational Programmes containing priority axes addressed to social enterprises as well as intermediary organizations handling calls and evaluations). The policy diagnostic tool will provide useful information to national, regional and local policymakers too. The entire system will be based on qualitative and quantitative sets of indicators. Measurement units will encompass trainings (including mentoring, coaching), access to finance (including early-stage support and investment-ready financing instruments), access to new markets (tax exceptions, atypical work arrangements), business plan information. Data will go through ex-ante and ex-post evaluations together with closing primary desk research on user experiences and further improvement necessity.

- Priority 8, NSO 17.1, Improved access of enterprises – including social enterprises working for society – to external funding, which realize investments that stimulate employment. (European Regional Development Fund)

Improvement necessity: The social enterprise financing field is diverse: there are several players like private social impact investors (NESsT, Ashoka), banks (Citibank, Raiffeisen Bank, Erste Bank), venture capital and private equity organizations (Hungarian Private Equity and Venture Capital Association) and private funds (EEA/Norway NGO Fund).

However, social enterprises often cannot ask for adequate market opportunities because of their unfamiliarity and non-profit organisational background. These organisations do not get a wide range of market sources in case of business model with higher capital requirement, they do not have any opportunities to raise capital.

However, social enterprises, predominantly in mature stage has ability to take up so in their case FI, can be a solution, for example preferential credit or hybrid financial instruments. Based on a survey from NESsT, half of the respondent social enterprises would apply for credit in case of suitable conditions (the most serious difficulty is meet with credit and bank requirements, e.g. offer adequate guarantee). Therefore, the current policy instrument improvements will address the abovementioned financial gap and provide better and more suitable alternatives to finance for the enhancement of the sustainability of such enterprises.

Social Impact Investing is a relatively new, socially driven investment strategy that emphasizes the social, environmental and cultural impact of investments. Whereas the impact investing market is rapidly developing in Western-Europe and is expected increased scale and efficiency in the future, the CEE region lags behind in need of an ecosystem development approach.

Development of financial instruments (including hybrid financing) and structures that enable the stage-oriented support to social enterprise development as follows:

- Option A: **Development of social impact reports** - to prepare ground for social impact financial decisions made by traditional and social impact finance providers (as annex to business plan)
- Option B: **Social enterprise development “voucher”** – pilot testing of innovative voucher system to get better access to pro bono and paid professional services and advocacy
- Option C: **Establishment of Socially Responsible Investment Fund** – in accordance with the EU regulation EC, 346/2013/EU addressed to to evangelize the impact investing approach, that investments shall generate measurable societal impact alongside financial return, and to develop the Hungarian and regional social financing sector’s ecosystem.

III. COMPARATIVE ANALYSIS