

# SENTINEL - CE985

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## O.T3.2 - Policy recommendations targeted at national level

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*Executive summary in English*

# HUNGARY

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## National context/environment of social economy and description of the challenge/problem which the recommendations aim to tackle

The roots of social enterprises and the social economy in Hungary reach back to the 1990s, when the structural changes of comprehensive systems resulted in major social and economic tensions, among which more flexible responses were needed, than previously. Due to this process the non-profit sector emerged and strengthened.

In the aftermath of the economic crisis social enterprises played a major role, primarily locally, in managing the crisis. These organisations achieved significant results in coping with the challenges of employment in disadvantaged regions and among disadvantaged groups of society.

In the past decade, in parallel to economic growth, positive changes happened in the area of employment, which brought results in the integration of previously inactive groups of society. This is partly the reason why the expansion of the social enterprise sector has stopped and it seems to have stabilised. Since in Hungary the majority of social enterprises deal with employment issues, their significance will obviously lie in helping disadvantaged groups of society, also in the future.

The main aim of the policy recommendations is the acknowledgement of the social enterprises' socio-political role and their motivation: to create a legal, institutional and financial framework which effectively helps the work of social enterprises - for which the need is expected to increase after the pandemic.

Today, from an economic point of view social enterprises suffer from a disadvantage. They often have to comply with the regulations of both non-profit and for-profit systems, whereas their special status is not acknowledged. Thus they seldom benefit from the national credit market or economic incentives. This significantly hinders their economic stability, which ultimately causes harm to societal tasks they are called to fulfil. Therefore, the economic stabilisation of social enterprises should be considered a priority in the policy recommendations.

### Main SENTINEL activities and results leading to the recommendations

As a result of the project the Hungarian partner organisations gained significant and useful knowledge in the field of social enterprise support and the development of service provision. During the Hungarian implementation of the SENTINEL project the Hungarian Charity Service of the Order of Malta and the KONETT Hungaria Nonprofit Ltd. assessed the challenges of the sector, and provided tailor-made support for seven social enterprises in organisational development and networking.



The policy recommendations formulated by these two organisations are based on the needs encountered during the project and the remarks of the social enterprises and stakeholders involved in the project and the pilot action.

## Summary of policy recommendations formulated

The factors hindering the effective operation of about 3-4000 Hungarian social enterprises that play a significant role in the development of disadvantaged regions, in job creation and social inclusion, are the following:

- Partial lack of a supporting legal and strategic framework
- Lack of financial, tax, and administrative incentives and operational framework. The financing mechanism is primarily project-based.
- There are not enough other, sectoral incentives and initiatives, which facilitate the survival and development of social enterprises (initiatives helping them to enter the market, organisational development initiatives).

In view of these shortcomings and challenges the policy recommendations presented here aim to address the following:

1. The establishment of a supporting legal and strategic framework
  - a. Creating a conceptual and legal definition for social enterprises
  - b. Creating an accredited quality assurance and registration system
  - c. Revision and harmonisation of other legislations.
2. The establishment of a financial support system
  - a. Establishing targeted financial, tax, and administrative incentives and operational funds.
  - b. Establishing a general credit portfolio, which aims to help the financing of social enterprises.
  - c. Ensuring that social enterprises are eligible for national and EU funds targeted at business development, under the same conditions as SMEs. EU funds currently available for social enterprises should not require an increase in the number of employees, since this often damages the efficiency of the enterprise.
3. The support of sectoral initiatives with grant application-based financing
  - a. Supporting initiatives helping social enterprises to enter the market (branding, establishing trademarks and quality assurance systems, running public awareness raising programmes, establishing logistical and distribution chains).



- b. Supporting initiatives helping organisational development and management (organisational development and leadership skills programmes, establishment of a service provision system, network-building, investment incentives, strengthening inter-sectoral relations as a means of social responsibility)

4. Communication conveying the value of social enterprises

Various forms of coordinated communication targeting the wider public, business circles, suppliers, partners, related sectors, and the labour market on various channels about the added value created by social enterprises, about the difficulties they face, and about their possibilities of connecting with other sectors, markets and developments.