



A map of social enterprises and their eco-systems in Europe

Country Report: Hungary

European Commission

This report provides a non-exhaustive overview of the social enterprise landscape in Hungary based on available information as of August 2014. Although a range of stakeholders were interviewed to verify, update and supplement the information collected from secondary sources, it was not possible to consult all relevant stakeholders within the constraints of the study.

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Charu Wilkinson
Lead Managing Consultant
+44 (0)782 794 6021
charu.wilkinson@ghkint.com

ICF Consulting Services
Limited Watling House
33 Cannon Street
London
EC4M 5SB
T +44 (0)20 3096 4800
F +44 (0)20 3368 6960
www.icfi.com

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Prepared by	Máté Vincze (ICF), Éva Fekete (country expert), Gergely Hámori (legal expert)
Checked by	Charu Wilkinson
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Headline summary

Definition(s) and concepts

There is no legal definition of social enterprise in Hungary yet neither there is single, non-legal based and widely accepted definition for social enterprises. Certain ambiguity regarding the terms 'social enterprise' exists even among potential social entrepreneurs and social investors.

Policy and legal framework

No legal definition of 'social enterprise' exists in Hungary. 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.

Public support and initiatives

Public funding is crucial for functioning of many organisations that could be broadly classified in the spectrum of social enterprises. National funding is often 'bridged' with EU sources (strong grant component). In addition, some forms of business support schemes (i.e. business advisory, training/coaching schemes) typically co-financed from public sources have also emerged recently.

Networks and mutual support mechanisms

Cooperation taking also the form of mutual support between social enterprises exists, albeit to limited extent. Networking opportunities are provided by some regular conferences gathering key stakeholders in the sector. There are also some sporadic initiatives of the consultancy and financial industry (partly within their CSR activities) aiming at supporting of non-profit organisations, primarily through provision of free advisory time or limited financing.

Marks, labels and certification systems

There is no social enterprise mark or certification system in Hungary.

Social investment markets

Social investment market is still (very) nascent. There is very limited number of private investors and the public financing (also combined with the EU one) accounts for large proportion of available financing. On the demand side, adequate investment readiness to absorb refundable financing is still limited.

Spectrum of social enterprise

The institutional form of social enterprise in Hungary exists under the label of social cooperative defined by the Act n^o X of 2006 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 (to note that the recent new Civil Code has abolished this legal form).

Scale and characteristics

Due to the ambiguities related to the definition of social enterprise as well as lack of available statistics, it is currently very difficult to gauge the size of the social enterprise population in Hungary.

Based on authors own estimates using data published by Hungarian Central Statistical Office (KSH) on the number of registered entities by legal forms, it is estimated that there are circa 3,000 social enterprises fulfilling the criteria of EU operational definition.

Factors constraining the start-up and development of social enterprise

The chief barriers and challenges to the growth and development of social enterprises in Hungary can be summarised as follows:

- The low level of awareness and understanding of the concept of 'social enterprise';
- At policy level, the major barrier is the lack of a high-level national strategy for social enterprises, preferably one that would survive government changes;
- The sector lacks supporting infrastructure (platforms);

Low viability of business models of existing social enterprises, also due to overreliance on the grants.

1 Definitions and concepts of social enterprise in Hungary

Certain ambiguities exist to date in Hungary as regards to which organisations can be considered 'social enterprises'. Even the term itself is not widely known among stakeholders – potential social entrepreneurs and financiers. Foundations, associations and other non-profit organisations working under different legal statutes may form part of the broader 'social economy', but they are also often referred to as social enterprises, although their business model might entirely be dependent on government grants and lacking commercial orientation. Traditional cooperatives that may operate with an asset lock and partial profit distribution constraints but without explicit social aims and for-profit organisations such as firms with substantial CSR activities may often also lay claim to the social enterprise label.

A single and widely accepted definition for social enterprises does not exist in Hungary. Some academic papers¹ refer to the definition used by the EU 'CONSCISE' report² according to which, social enterprises:

- are *not-for-profit* organisations;
- seek to meet social aims by engaging in economic and trading activities;
- have legal structures which ensure that all assets and accumulated wealth are *not in the ownership of individuals* but are held *in trust* and for the *benefit* of those persons and/or areas that are the intended beneficiaries of the enterprise's social aims;
- have organisational structures in which full participation of members is encouraged on a *co-operative basis* with equal rights accorded to all members;
- encourage *mutual cooperation*.

According to NESst, a charity promoting social enterprises in Eastern Europe and Latin-America, and a key player on the Hungarian social investment market, the features of the social enterprise are as follows:

- Innovative solutions for social problems;
- Dual purpose: improving financial sustainability and pursuing social objectives;
- Selling products and services with high quality and in a responsible manner.

In this interpretation, social enterprises can be non-profit organisations and also commercial organisations which use sustainable business models to carry out their basic social mission. The social mission may concern various objectives. One of the common examples is assistance to disabled people or the long-term unemployed excluded from the labour market, for instance through offering of employment, such as sheltered workshops.

Amongst authorities and programme managers, approaches based on the direct referencing to the EU interpretation of social enterprises, albeit to various degree, are popular. The Ministry for National Economy (NGM), responsible for the drafting of EU-co-financed operational programmes containing, *inter alia*, grants in support of social enterprises, has based its definition of eligible beneficiaries on the European Commission's approach. Apart from the obvious social mission, an important mandatory element was ensuring democratic decision-making procedures (somewhat restricting the scope of possible beneficiaries). The representative of the Ministry confirmed that in future calls for application, the Commission's *Social Business Initiative* communication³ and the *Social Europe Guide* (Volume 4: "Social economy and social entrepreneurship")⁴ will serve as main source for the definition of social

¹ Including 'A vállalati társadalmi felelősségen túl: A szociális vállalkozás', Petheő Attila István, PhD, Corvinus University of Budapest, 2009

² The Contribution of Social Capital in the Social Economy to Local Economic Development in Western Europe (CONSCISE), DG Research, European Commission, April 2013

³ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: "Social Business Initiative - Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation (COM(2011) 682)

⁴ Available at: <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7523&type=2&furtherPubs=yes>

enterprise: democratic decision-making is listed as an important criterion in these documents as well.

Box 1 Origins and development pathways

The state has been traditionally having a strong role in tackling social problems, especially employability and social exclusion issues in Hungary, a former socialist country. After the democratic transition a newly emerged third sector has shown significant engagement in addressing social needs, establishing a broader 'social economy'. However, these organisations are still heavily reliant on public funding. Market-oriented 'social enterprises' with both social aims and sustainable business models have appeared in recent times but they are still relatively rare and not sufficiently visible among the broader public.

Cooperatives, an organisational form that may be regarded as social enterprise, look back at a long history in Hungary. The first cooperative was established in 1845, and the milestone Code of Commerce of 1875 (Kereskedelmi Törvény, 1875. évi XXXVII tv.) enshrined this new enterprise form into law (Fekete 2010, pp. 18-19). From the late 19th century onwards, the first agricultural cooperatives were joined by consumption- and credit cooperatives, cooperatives for joint purchasing and production in other sectors, as well as homebuilders' cooperatives. These organisations were exhibiting some characteristics of a modern-day social enterprise employing democratic decision-making processes, and sometimes also putting an emphasis on social goals. In the socialist era after the Second World War, these existing cooperatives were all put under state control, whilst – under a top-down approach - a number of new ones were created, and rural smallholders and certain professionals (e.g. hairdressers) were left with little choice but to join them⁵. Relaxations of state rule in the economy in the 1970s-1980s, and ultimately the democratic transition in the late 1980s, cleared the way for private (not state-controlled) cooperatives to reappear again.

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

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

Developing a 'social economy' has been on the government's agenda for recent years. Considerable funds – from the national budget and later from EU-cofinanced programmes – were allocated to support the establishment, investments and ongoing operations of social cooperatives. The majority of these cooperatives serve as employment vehicles for the work integration of the long-term unemployed - often Roma – which is a prime government priority. Experience so far shows that these organisations could typically not develop into viable businesses and cannot survive without further funding. Although recent times saw new types of more 'business-like' social enterprises emerge this is still a rather slow process to date (G. Fekete 2012).

⁵ During the communist dictatorship, privately owned land was taken over by cooperatives controlled by the State. Previous smallholders were forced to join these cooperatives by decree and continue agriculture labour.

2 The ecosystem for social enterprise in Hungary

The backbone of the Hungarian eco-system for social enterprise are a host of non-profit organisations engaged in economic activities of some sort – and cooperatives, including primarily social cooperatives (and its subgroup ‘employment cooperatives’). This group is complemented by a small number of social enterprises working under a ‘traditional’ for-profit organisational form (without democratic decision-making). Many of these social enterprises are embedded in a vivid network including associations and other non-profit organisations that support them with general advice or specialist services.

2.1 The policy and legal framework for social enterprise

At present, Hungary lacks a legal definition or an exclusive legal form for social enterprises (the term ‘social enterprise’ does not appear in legal documents). Existing legislation and government policy is focusing on the role of organisations of a set of concrete legal form – i.e. (social) cooperatives and various types of non-profit organisations - in pursuing social goals in the economy. Public grant programmes offering support to organisations in the ‘social economy’ of course apply definitions and concrete criteria to determining eligible applicants. These criteria are based on EU definitions (SBI) and linked to various existing Hungarian legal company and non-profit organisational forms, but they are not part of a more comprehensive national framework.

The closely related concept of social cooperatives is legally recognised. According to Law No. X. of 2006 on cooperatives, social cooperatives aim to provide adequate work conditions and improve the social circumstances of its socially disadvantaged members. Social cooperatives providing employment opportunities for the long-term unemployed or groups who are disadvantaged on the labour market are seen as an important vehicle of the government’s employment policy - but other forms of social entrepreneurship do not seem to appear on the political agenda.

The employment chapter of the New Széchenyi Plan⁶ (the Economy Development Programme of the Hungarian Government), launched in 2011, does, however, mention the concept of ‘social enterprise’ in the context of increasing sustainability of the non-profit sector. It recognises the need of adapting the business models of non-profit organisations to market trends while concentrating their activities on socially disadvantaged groups.

Furthermore, it was emphasised that the New Széchenyi Plan will break with the tradition of subsidising organisations that rely solely on public funds and rather support the ones which focus on achieving social aims in a sustainable manner. Also it intends to support organisations offering innovative solutions for the creation of new employment opportunities.

There is no web platform or a collaboration mechanism at national to date bringing together social enterprises. This may add to the problem of low visibility of social enterprises.

2.2 Public support schemes targeting social enterprises

Within the ‘social economy’, social and employment cooperatives are clearly emphasised in government policy as vehicles for employment of persons who have difficulties entering the labour market. One of the measures of the Social Renewal Operational Programme (*Társadalmi Megújulás Operatív Program*)⁷ cofinanced from the EU’s ESF and ERDF focuses on the *development of the social economy* (measure 2.4.3) and includes a popular grant programme supporting social/employment cooperatives. Regular calls for non-refundable grants were issued under the measure which concentrated on cofinancing investments in equipment (ERDF) and financed employees’ training and workplace inclusion, as well as regular wages for a given period. Slightly smaller emphasis was put on

⁶ New Széchenyi Plan, Employment Programme, pg 279, 2011, http://www.nfu.hu/uj_szechenyi_terv

⁷ Downloadable at: <http://www.nfu.hu/download/44027/tamop%202011%20EN.pdf>

organisational and HR development, training for business planning and management capabilities, as well as and investment-readiness activities. Social enterprises eligible for support had to engage disadvantaged population groups and address concrete barriers to their employability. A consultant platform providing advisory services has also been set up.

The availability of public funding had a major impact on the development of the market: a large number of social cooperatives had been established throughout the country. Further and to certain extent different types of funding supporting the social economy will be available under the relevant Operational Programme (the Economic Development and Innovation OP) for the next EU programming period between 2014 and 2020. Social enterprises (under various legal forms, for instance social cooperatives) can also access mainstream business development programmes not specifically targeted at them, although the project selection criteria of the schemes may not always be favourable for them.

Table 2.1 Overview of publicly funded schemes specifically designed for or targeting social enterprises

Support type	Are there any schemes specifically targeting social enterprises?	Are any of these schemes funded by ERDF/ ESF?
Pre-start support (e.g. incubators)	X	na
Awareness raising (e.g. awards)	X	na
Social entrepreneurship education (e.g. school for social entrepreneurs)	X	na
Business support (e.g. business planning, management skills, marketing etc.)	✓	✓
Training and coaching schemes	✓	✓
Investment readiness support	✓	✓
Dedicated financial instruments	✓	✓
Physical infrastructure (e.g. shared working space)	X	na
Collaborations and access to markets	X	na
Networking, knowledge sharing, mutual learning initiatives	X	na

2.3 Other specialist support and infrastructure available to social enterprises

Three private award initiatives were identified targeting social enterprises or organisations active in the social economy. KPMG's *Programme for a Responsible Society* (Felelős Társadalomért Program) supports non-profit organisations or social enterprises active in education, health and environmental protection across Europe. Started in Hungary in 2009, it provides pro bono professional support, such as audit, tax advisory, strategy, operations, IT and HR consultancy for one year for 3-4 selected organisations, specially focusing currently on organisations working with disadvantaged children. The advisory work is complemented by an operational grant of 250,000-750,000 HUF (€830-2,500) and donations of used laptops if needed.

UniCredit bank's *Social Responsibility Project "Social Innovation"* was launched in 2013 in Hungary and is also implemented in several other European countries. It is a competition among non-profit civil associations and foundations, social cooperatives, supporting innovative initiatives addressing the economic vulnerability of disadvantaged groups by helping them establish economic self-sufficiency. The three best placed organisations are awarded (1st placed project: €19,500, 2nd: €18,000, 3rd: €16,500).

The *Competition of Social Enterprises* (Társadalmi Vállalkozások Versenye), organised since 2009 by NESsT in its European countries of operation. A sum of \$10,000 is awarded to the social enterprises with the best business plan among the companies included in NESsT's first stage portfolio (i.e. help in the detailed elaboration or refinement of their business plan). Companies successfully completing the first stage may receive funding from NESsT. The award is given out in collaboration with Citibank, financed from the bank's Social Responsibility Fund.

Young social entrepreneurs can also apply for an international exchange project within the framework the Erasmus for Young Entrepreneurs programme, for calls specifically designed for them.

2.4 Networks and mutual support mechanisms

Networking among social enterprises, support organisations and investors is taking place both at smaller scale (e.g. among companies in the portfolio of NESsT, or sessions organised by the Védjegylet association) and at larger regular events, notably the conference and investors' fair 'Day of Social Enterprises' (Társadalmi Vállalkozások Napja). Organisations such as the Association of Community Developers (Közösségfejlesztők Egyesülete) also provide useful advisory support to NGOs active in the development of the social economy, including networking opportunities.

2.5 Marks, labels and certification systems

There is no social enterprise mark in Hungary – partly explained by the ambiguities connected to the understanding of the concept among stakeholders. Private initiatives exist that try to collect and network social enterprises, but no endeavours towards introducing a specific mark or label has been identified. The lack of knowledge and tools for measuring social impact, as well as platforms providing information to prospective donors, public decision makers and the general public about these impacts has been highlighted by local experts as a major gap of the social enterprise ecosystem to be addressed.

2.6 Social investment markets

2.6.1 The supply of finance

As regards to social investment, the landscape includes - first and foremost – the national government (through Structural Funds-cofinanced operational programmes) and municipalities, providing the bulk of funding to actors of the 'social economy', and only a handful of private actors that provide or could potentially provide funding. The only actual participant on the market to date is NESsT, whilst a new 'ethical' bank has started offering financial products to social enterprises and the non-profit sector.

It is believed by practitioners that the attractiveness of private financing of social enterprises is seriously impeded by public grants – on the other hand, 'social enterprises' in the strict sense of the word may not be able to access private financing. On the other hand, there are also very small numbers of possible social investors. Firstly – as explained above – the concepts of 'social enterprise' and 'social investment' are not yet well understood by possible suppliers of funding: large companies, many commercial banks, even by policymakers. Secondly, those who understand the concept are very cautious at the moment and do not plan to enter the market. The management of commercial banks struggle aligning potential social investment activities with the profit orientation of their bank. The market size is currently very small; volumes that would justify the development and marketing of new banking products are not there. Consequently, relative transaction costs are assumed to be prohibitively high.

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.

There is to date only one SIFI operating in Hungary, the local office of the US social enterprise support organisation NESsT, which entered the country in 2001 (they are also active in a set of other Central and Eastern European countries and in Latin-America). NESsT may be considered a Venture Philanthropy Fund in some respects, although it is not operated as a fund. They provide both capacity building services and investment for social enterprises, channelling apart from loans, guarantees and capital investment a considerable amount of non-refundable grants. In fact, grants give the lion's share of their financing portfolio. At the end of 2012, the total value of all financing outstanding (live projects) was 580.4 thousand USD, of which 455.3 million USD (78%) was in the form of grants; while loans accounted for 15%, guarantees to 6.5% and equity to only 0.3% of the funds paid out (see Table 2.2).

The value of NESsT loans supplied ranged from 6,600 to 55,000 USD, the duration from 6 months to 6 years. Interest charged varied between 1.5% (for a loan denominated in USD) and 6% (HUF). Grant sizes varied from 1,500 to 55,000 USD.

Table 2.2 Total outstanding investment/financing of NESsT in Hungary (end of 2012)

Type	Value of investment (USD)	Number of investments	As % of total portfolio/ funds under management
Loans	\$ 85,587.32	2 social enterprises	14.7%
Lines of credit/Working capital	-	-	-
Leases	-	-	-
Guarantees	\$ 37,600.00	3 social enterprises	6.5%
Bonds	-	-	-
Equity	\$ 1,969.73	1 social enterprise	0.3%
Quasi equity/ revenue participation	-	-	-
Grants	\$ 455,295.30	41 Social enterprises / 80 disbursements	78.4%
Other (Investment fund for loans for Social Enterprises)	-	-	-
Total	\$ 580,452.35	47	100%

Source: NESsT

Capacity building services offered by NESsT include pre-start and investment readiness support, general and specialist consultancy services and networking. The NESsT model involves a two-stage process for the selection of companies in which they decide to invest. First, a larger pool of companies is selected, which then undergo a thorough business planning/investment readiness preparation process. Only a small fraction of companies with the highest potential may be selected for funding in the second stage.

NESsT receives its capital from its founding individuals and foundations. The financing mix changes from year to year. They are cooperating with Citibank who provide expertise and funds an award given to the most successful social enterprises.

2.6.2 The demand for finance

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. As stated above, the primary source of external financing for organisations active in the social economy are grants. 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.

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. A regular conference and fair ('Day of Social Enterprises'), organised by NESsT, mentioned further above, brings together all of the above actors.

2.6.3 Market gaps/ deficiencies

From the demand side, the main barrier to creating a strong social enterprise sector – as confirmed by various interviewees – is that the concept of social enterprise and its possibilities are not well known amongst potential investors. Non-profit organization forms, such as foundations or associations, are the ones considered in first place as vehicles to follow a social mission. Many foundations and associations operate in the field of culture preservation, environmental protection, social inclusion. These organisations however do not act as businesses, being restricted in the extent they can pursue commercial activities. They lack commercial orientation, they do not have business plans, collaterals and will not put forward demand for more commercial types of financing, primarily being dependent on public grants or charity.

Even those social enterprises that operate under an organizational form that is more accommodative of commercial activities (cooperatives, social cooperatives, to a certain extent non-profit companies) mostly rely on funding in the form of non-refundable grants (from public or in some cases from private sources). Genuine demand for equity investment is almost negligible to date. Even bank loans are rarely applied for; if so, they are usually linked to a grant-funded project or activity (one example concerns a social cooperative securing a bank loan with favourable conditions needed to pre-finance their operation until the public grant they were awarded was paid out).

Demand for public grants is however strong. Non-profit organisations and social cooperatives alike are dependent on public funding, and may have various sources at their disposal, with EU-cofinanced support programmes being the most significant for them. Interviews with social enterprises suggest however that the funds accessible are sometimes too small to ensure the creation of a sustainable business. It is particularly difficult to fund operations if the grant programme only covers a part (typically: 50%) of eligible costs of the social business.

Stakeholders point to a number of structural problems on the social investment market.

- Firstly, a funding gap does indeed exist due to an investment-readiness gap. According to practitioners, many small social enterprises or prospective start-ups would be interested in external financing but are mostly not ready for investment due to vague business plans, unsustainable operations and a lack of management capabilities.
- Secondly, the size of investment sought after by fledgling social enterprises 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.

- Thirdly, 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. NESsT tries to mitigate this risk and ensures that its portfolio companies receive follow-up funding after the termination of the first funding period. In the long run, however, social enterprises will need incentives for self-sufficient management with a view to become sustainable, and prospective investors will need incentives to be willing to fund initiatives promising longer-term social gains.
- Fourthly, no secondary market exists for equity capital, at least for small enterprises in the social economy. In fact the primary market itself is - almost - non-existent.

2.7 Overview of the key actors in the social enterprise ecosystem

The table below provides a snapshot of the main actors involved in the social enterprise ecosystem. This should, however, not be seen as an exhaustive list.

<i>Policy makers - Governmental departments or institutions designing or implementing policy, support instruments and measures for social enterprises and infrastructures</i>	Ministry for National Economy, State secretariat for employment policy, Unit for employment programmes (Ministry for National Economy, State secretariat for planning coordination) National Employment Employment Public Benefit Nonprofit Company Ltd. (Országos Foglalkoztatási Közhasznú Nonprofit Kft.)
<i>Customers – authorities contracting social enterprises</i>	Szekszárd and other municipalities (Kék Madár foundation) Gödöllő (Gödölye social cooperative) Panyola and Rozsályközös municipalities (Ízek Háza project) etc.
<i>Organisations promoting, certifying and awarding social enterprises labels</i>	-
<i>Institutions, civil society initiatives or other social enterprises promoting social entrepreneurship education and training, and presenting role models</i>	Association of Community Developers (Közösségfejlesztők Egyesülete) KÖVET Association for Sustainable Economies (KÖVET Egyesület a Fenntartható Gazdálkodásért) etc.
<i>Organisations that have the capacity act as an observatory and to monitor the development and to the assess needs and opportunities of social entrepreneurs/social enterprises</i>	<i>not known</i>
<i>Providers of social enterprise start up and development support services and facilities (such as incubators)</i>	NESsT
<i>Business support providers</i>	NESsT Association of Community Developers (Közösségfejlesztők Egyesülete)

	proHáló etc.
<i>Facilitators of learning and exchange platforms for social enterprises</i>	NESsT
<i>Social enterprise (support) networks, associations</i>	Association of Community Developers (Közösségfejlesztők Egyesülete) National Association of Social Cooperatives (Szociális Szövetkezetek Országos Szövetsége)
<i>Key providers of finance</i>	NESsT
<i>Research institutions</i>	Corvinus University Budapest

3 Mapping social enterprise activity in Hungary

3.1 The spectrum of social enterprises in Hungary

According to recent research trying to classify social enterprises in Hungary and stakeholder interviews, social enterprises or similar organisations typically appear in four forms⁸:

- **Social cooperatives:** 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. The mission of most social cooperatives is to provide work for their previously unemployed members – integrate or reintegrate them into the labour market. Social cooperatives have, apart from the main category, two distinct sub-categories: school cooperatives and employment cooperatives. School cooperatives aim to find job opportunities for its student members. Employment cooperatives were introduced in 2012: they are established by at least 500 natural persons and/or a national ethnic minorities' organisation (notable the Roma). A number of social cooperatives have been established, but this was made possible only by considerable – project-based – public support. The new legislation has allowed all social cooperatives to include individuals or legal persons not actively taking part in its activities among its members ('new type' cooperatives)
- **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 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. Some enterprises specialise in region-specific products (food and drinks), which may sometimes find wider market uptake, especially in case of high-quality products from geographically protected denominations. Other enterprises operate sheltered workshops or offer services for the public benefit, such as education for pupils with special needs or with learning difficulties, preserving cultural heritage, cleaning the urban environment etc. They often also employ persons who normally face difficulties entering the labour market (for instance disabled persons). This group contains examples of viable social enterprises, operating under sustainable business models and meeting all the criteria of the Operational Definition.

3.2 Application of operational definition: determining the boundaries

The operational definition applies to the main types of social enterprises in Hungary as presented in the table below.

⁸ Adapted from G. Fekete (2012), amended on the basis of expert interviews

⁹ 2006. évi X. törvény és a 141/2006. (VI.29.) Korm. számú rendelet (Law X of 2006 and Directive no. 141/2006 (29th April))

Table 3.1 Social Enterprise Spectrum in Hungary

Organisational forms/ labels are generally considered as social enterprises	Discussion on whether they meet criteria or not
Social co-operatives ('old type': established between 2007 and 2013) Sub-groups: <ul style="list-style-type: none"> ■ School cooperatives ■ Employment cooperatives 	<ul style="list-style-type: none"> ■ Engagement in economic activities: aimed at creating employment for the disadvantaged and/or promoting their living conditions. ■ Explicit social aim: provision of social services such as the care of children, elderly and disabled people, and the integration of unemployed people into the workforce. ■ Limits on distribution of profits and assets: profit-oriented entities but assets and profits have to be used for the benefit of the communities and members and cannot be distributed. ■ Democratic decision-making process: one member one vote mechanism
Social cooperatives ('new type': established or reshaped after May of 2013)	<ul style="list-style-type: none"> ■ Engagement in economic activities: aimed at creating employment for the disadvantaged and/or promoting their living conditions. ■ Explicit social aim: provision of social services such as the care of children, elderly and disabled people, and the integration of unemployed people into the workforce. ■ Limits on distribution of profits and assets: profit-oriented entities but assets and profits have to be used for the benefit of the communities and members and cannot be distributed. ■ Loss of independence: the new type allows local government participation as member, this might affect independence and weaken democratic decision-making procedures.
Traditional cooperatives (with social aims)	<ul style="list-style-type: none"> ■ Engagement in economic activities: undertakes economic activities, without focusing on profit generation. ■ Explicit social aim: may focus on the pursuit of social objectives in the fields of culture, education, health, sports, etc. ■ Limits on distribution of profits and assets: assets and profits have to be used for future activities and cannot be distributed.
Associations and foundations (NGOs) undertaking some economic activity	<ul style="list-style-type: none"> ■ Some engagement in economic activities: may be engaged in but can't be established with the primary aim of undertaking economic activities. ■ Lack of explicit social aim: foundations must operate primarily for a public benefit, whereas associations may serve the interest of their members, not necessarily having an explicit social aim. ■ Limits on distribution of profits and assets: profits/assets are used for achieving the organisations' goals not for the benefit of its members.
Non-profit companies (formerly: companies for public interest)	<ul style="list-style-type: none"> ■ Engagement in economic activities: established to undertake economic activities, but not focusing on profits but on its social objectives. ■ Explicit social aim: by definition, the economic activities of the company are undertaken for public interest. ■ Limits on distribution of profits and assets: assets and profits earned can't be distributed among the members but invested in future activities.

3.3 Measurement of social enterprises

Due to the nascent nature of the market and related policies, and due to a lack of unambiguous and widely accepted definitions of what constitutes a 'social enterprise', no specific data exist on the size of the sector.

The Hungarian Central Statistical Office (KSH) collects data on the number of registered businesses, cooperatives and non-profit organisations (including associations, foundations), broken down by legal form, and – in the case of non-profit organisations – by whether they are engaged in economic activities or not, as well as the sources of their financing (donations, grants, membership fees, commercial revenues). The proportion of organisations that could be considered 'social enterprises' can be estimated based on assumptions described in Table 3.1 above. Data on organisations supported from programmes cofinanced from Structural Funds are obtainable from a monitoring database maintained by the National Development Agency.

Apart from these official resources, there are a number of studies that tried to identify, describe and estimate the number of social enterprises in individual regions, e.g. (G. Fekete & Solymár 2005).

It is evident that 'genuine' social enterprises – according to the operational definition, having a sustainable business model - are relatively rare, although their precise number is unknown. This could be attributed to the fact that social enterprise/community enterprise is only a category label not a legal term in Hungary. Surveys asking for self-declaration have not been carried out and would in any case not yield reliable results due to the ambiguity of definitions mentioned above. Nor would a tally based on legal form and areas of activity – derived from mandatory registry records – be sufficient for a robust classification lacking important details on company objectives, motivations and business models.

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-cofinanced 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.

Table 3.2 Estimated scale of social enterprise in Hungary (2011, unless otherwise stated)

Type	Total number (registered)	% meeting EU operational criteria	Estimated number of social enterprises
Social cooperatives 'old type', established between 2007 and 2013	260	100%	260
Social cooperatives 'new type', since May 2013	250 (2013)	100%	250
Traditional cooperatives	3,000	20%*	600
Associations and foundations (NGO) undertaking some economic activity	400	100%	400
Non-profit companies with social aims	2,600	60%*	1,600
Total	6,510		3,360

Note: the data should be treated as indicative range estimates only. They are based on indicative (and often subjective) assessment of the share of social enterprises among particular groups of entities and other assumptions. The reference periods for which data are available differ and are not available on a regular basis as time series. 2011 has been selected as a reference year given that exist data for various types or organisations either for 2011 or a close period

3.4 Characteristics of social enterprises

Any characterisation of Hungarian social enterprises is difficult due to the lack of consensus on definitions and data collection. A comprehensive criteria system in which specific features are required so that a given entity is classified as a social enterprise does not exist in Hungary. Nevertheless, there is a rather common approach according to which social enterprises do not compete with traditional for-profit enterprises. They aim to maximise social gains instead of profits. Any profits gained are used to cover future activities furthering social aims and are not redistributed among the shareholders. The social purpose is often expressed as the support in professional inclusion of specific groups or assistance in vocational training.

3.4.1 Legal forms

Social enterprises, as explained above, may typically be found under four legal forms:

- **Social cooperatives** and sub-types such as school cooperatives or employment cooperatives, as defined under Act no. X of 2006 on cooperatives. Social cooperatives are autonomous associations of individuals (membership of legal persons is now also permitted by law) who voluntarily cooperate for their mutual, social, economic, and cultural benefit. They fall partly under the legislation on companies (concerning e.g. registration, thus they have to be registered at the Registry Court) but they do not fall under the scope of the Companies' Act.
- **Traditional cooperatives** under Act No. X of 2006 on cooperatives. Many or most cooperatives do not have explicit social aims, but some do. The Act refers to "cultural, educational, social or health" needs. Cooperatives have democratic decision-making procedures (with voting rights tied to natural persons or capital share).
- **NGOs with economic activities** that operate under Act no. CLXXV of 2011 on associations and the public benefit status.
- **(Private) non-profit companies with social aims** which are established under the non-profit enterprise legal form, and often receive an acknowledgement of their 'public benefit' status from the state – this comes with benefits but also with the prohibition of profit distribution.

3.4.2 Business models

Sources of income

Almost all social enterprise forms are heavily reliant on continuous external financing (grants and subsidies), mostly from public funds. For non-profit organisations including associations, foundations as well as non-profit companies, external funding accounted 57% of the revenues in 2011, 42% of which was paid from public money. Private commercial investment is usually not considered a viable alternative – neither for investors, nor for the organisations. More than half of commercial revenues were collected by non-profit enterprises, a category that includes relatively large, fee-charging local utilities and public service providers.

Table 3.3 Sources of revenue of non-profit organisations in Hungary, 2011 (million HUF)

Non-profit organisational forms	Number of organisations	Public external funding	Private external funding	Revenues from core services	Revenues from commercial activities	Other revenues	Total funding and revenues
Foundations	21,845	67,220	81,159	31,102	19,157	1,185	199,823
Public foundations	1,391	26,727	8,462	2,373	2,258	1,155	40,975
Associations	35,549	70,783	46,646	74,325	51,527	2,554	245,835
Public bodies and associations	299	14,984	2,074	18,286	1,653	106	37,103
Trade union	1,009	566	3,102	6,929	1,757	7	12,359
Professional body, employers' organisations	2,497	3,724	3,278	36,155	10,334	64	53,555
Non-profit enterprises	2,834	327,228	39,171	139,846	119,513	3,416	629,174
Non-profit institutions	35	8,571	821	3,225	718	337	13,671
Economic interest groupings	102	117	274	1,008	4,293	3	5,695
Total	65,561	519,919	184,985	313,249	211,209	8,828	1,238,190

Social impact

To date, the lion's share of social impact delivered by actors of the social economy, especially social cooperatives (that are a priority vehicle for combatting unemployment under current government policies), comes through the people they employ.

Cultural, educational and other welfare services, as well as environmental services may be less prominent or visible, but they are also being delivered, typically by associations (but also by other forms of social enterprises, e.g. cooperatives).

Use of paid workers

No data has been found on the extent to which social enterprises rely on voluntary workers. For the majority, i.e. social cooperatives and a set of non-profit companies whose main mission is to provide sustainable sources of income for those disadvantaged on the labour market, paid labour is evidently the norm. Voluntary work seems to be typical for associations engaged in the delivery of welfare and environmental services.

3.4.3 Fields of activity

The reasonably broad and colourful non-profit organisation scene – and social enterprises within – is present in all economic sectors: primarily education, social services, culture and health. 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.

Table 3.4 Breakdown of non-profit organisations by selected areas of activity, 2011

	Number of organisations	% of total	Total revenue (million HUF)	% of total
Education and training	8,785	13.4	135,990.4	11.0
Social services	5,825	8.9	104,739.9	8.5
Economic development	1,883	2.9	164,712.0	13.3
Others	49,068	74.8	832,748	67.2
Total	65,561	100	1,238,190	100

Social cooperatives, as presented earlier, are a prime vehicle for translating social mission into commercial activity. Social cooperatives usually engage in the provision of social services such as the care of children, elderly and disabled people, agriculture, crafts or tourism in rural areas and provision of cleaning services or park maintenance in cities.

'Genuine' social enterprises meeting all the criteria of the operational definition, having an explicit social aim of improving the living conditions of disadvantaged groups, are typically microenterprises, most often employing persons who are disadvantaged on the labour market (disabled, the Roma, persons lacking appropriate education and training). Many of the social enterprises are active in the poorest regions of the country, often in rural settings.

3.4.4 Target groups

The prime target group for many of the social enterprises are the long-term unemployed, those with major difficulties to integrate into the labour market. They are often unskilled persons from the Roma minority, as well as disabled workers. Government policy promotes organisations with this mission, explained by the weight of the corresponding social problem: Hungary is characterised by very low levels of employment and persistent, often cross-generational unemployment in certain regions and among certain groups of the population.

3.5 Summary of mapping results

Major conclusions from the mapping of organisations are as follows (please refer to the table overleaf):

- Several types of organisations comply with the de minimis criteria (economic activity and social aim)
- The majority of the social enterprises are non-profit companies, although the most visible currently (most likely offering the majority of employment opportunities) are social cooperatives
- New types of 'genuine' social enterprises with sustainable market-oriented business models could be present under all forms but are maybe most prevalent among non-profit enterprises and social cooperatives

Table 3.5 Mapping the 'universe of social enterprises in Hungary

Dimension	Criterion	Organisational forms including social enterprises				
		Social cooperatives 'old type', established between 2007 and 2013	Social cooperatives 'new type', since May 2013	Traditional cooperatives	Associations and foundations (NGO) undertaking some economic activity	Non-profit companies with social aims
Core criteria						
Entrepreneurial dimension	Engagement in economic activity	Yes	Yes	Yes	Yes	Yes
Social dimension	Social aim (public benefit)	Yes	Yes	Some only	Yes	Yes
Independence and governance	Distribution of profits and/or assets according to defined rules and procedures	Yes	Yes	Yes	Yes	Yes
	Profit cap - existence of profit cap/ limited profit distribution	Yes	Yes	No	Yes	Yes
	Asset lock - existence of asset lock	Yes	Yes	No	Yes	Yes
	Autonomy - organisational autonomy	Not explicit, but de facto	Not explicit, but de facto	Not explicit, but de facto	Not explicit, but de facto	Not explicit, but de facto
	Stakeholder participation - interests of relevant stake-holders are duly represented in decision-making processes	Members are represented	Members are represented	Members are represented	Members are represented	Not required
Estimated number (2011 unless stated otherwise)		260	250 (2013)	3,000	400	2,600
Estimated % meeting eligibility criteria (appx)		100%	90%	40%	100%	60%
Estimated number meeting eligibility criteria		260	230	1,200	400	1,600
Mapping criteria						

		Organisational forms including social enterprises				
Dimension	Criterion	Social cooperatives 'old type', established between 2007 and 2013	Social cooperatives 'new type', since May 2013	Traditional cooperatives	Associations and foundations (NGO) undertaking some economic activity	Non-profit companies with social aims
Entrepreneurial dimension	Share of income derived from : fees (incl. membership fees);trading income; rental income on assets; income from public contracting (both competitive tenders and direct contracting); grants and donations etc.	Trading income present, but dependent on external financing	Trading income present, but dependent on external financing	Trading income present	Fees and trading income present, dependent on external financing	Trading income present, additional external financing
	The use of paid workers	Yes	Yes	Yes	Some only	Typically yes
Social dimension	Fields of activity	Employment opportunities for members / work integration	Employment opportunities for members / work integration	Various fields including cultural, educational, environmental activities	Predominantly in education and training, social services and economic development	Various fields of activity
	Target groups (customers/ users of goods and services provided)	Predominantly long term unemployed, disabled	Predominantly long term unemployed, disabled			
Independence and governance	Transparency - a system for measuring and reporting impact	Some monitoring is linked to public funding	Some monitoring is linked to public funding	Not known	Limited monitoring and measurement of impacts	Limited monitoring and measurement of impacts
Other characteristics						
	Legal forms	Social cooperative	Social cooperative	Cooperative	Association, foundation	Non-profit companies

3.6 Opportunities and barriers

As discussed above, a wide range of organisations that may be considered social enterprises exist, but the low level of awareness and understanding of their operating model are key obstacles to developing a more robust sector. As a legal expert often working with social cooperatives explained, although this legal form itself has many possibilities (not only for the currently supported employment-oriented initiatives), these are unfortunately not widely known, not even amongst lawyers assisting the potential founders.

At policy level, the major barrier is the lack of a high-level national strategy for social enterprises, preferably one that would survive government changes. The government could set out clear preferences for the sectors in which social enterprises should thrive: for example, taking over some of the duties of local governments (social care etc.), and the development of social enterprises in these sectors should be facilitated by legal initiatives and various incentives, such as positive discrimination at public procurements (e.g. tax benefit for the co-op to be able to offer a lower price).

Furthermore, the sector lacks supporting infrastructure (platforms) and more coherent, reliably available, and possibly increased grant programmes in support of social enterprises. Increased coherence would involve adding more flexibility to the grant schemes (in terms of eligible costs and eligible organisations, for example), and safeguard that funded projects will receive follow-up financing for scaling up or that they reach a commercially sustainable level of operations. Reliability would mean guarantees that the support programmes are tendered regularly, with similar conditions, and that there is sufficient funding to meet demand. Practitioners also suggest that funding available for one applicant may be too low to ensure the development and sustainable future operation of social enterprises. The responsible ministry (NGM) plans to address some of these issues in the new EU programming period 2014-2020, creating for instance the possibility to combine ESF and ERDF funds for a more flexible approach to eligible costs.

On the other hand, making grant programmes available and accessible leads to an over-reliance of the social economy on public subsidies. Social cooperatives and non-profit organisations currently have no real incentives to aim for sustainability. As interviews with social enterprises confirm, they are still dependent upon external funding after their grant project (1-2 years normally) finishes. The obvious source for this follow-up financing for them are public funds; or alternatively, non-refundable grants from private charity. Other forms of financing are normally not considered. Even if these would be considered, the weakness of the supply side - lack of finance schemes and specialised products on offer – would make it very difficult for social enterprises to access private finance.

Policy documents recognise in theory that the non-profit sector will have to gradually become self-sufficient, but no concrete steps are perceptible. The typical legal form used by organisations to accomplish social purposes is currently a non-profit setup: foundations or associations. These lack profit motivation and will never reach self-sufficiency by implementing sustainable commercial activities (commercial activities are even restricted by law). Generally, founders of social enterprises do rarely have entrepreneurial skills, and their collaborators are usually people in difficult situations who have limited knowledge or possibilities to run a sustainable business. It must be mentioned here however that many non-profit organisations created to pursue a social mission might have a for-profit company in the background, generating profit from the public funding as they are commissioned with the practical implementation of the objectives of the non-profit corporation (translated into specific project activities).

Nevertheless, social enterprises, first and foremost social cooperatives, are seen by stakeholders as excellent possibilities for the successful implementation of social objectives. In rich countries (where workers are well-paid), social enterprises may be very successful in the provision of services – including tourism, cleaning, maintenance of second homes etc. In Hungary the market is too small, purchasing power too small to pay for many services, although there are segments where the demand is probably there, like care for the elderly.

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

Further possibilities lie, according to the Ministry for National Economy, in the development of the microfinance sector (a model program was already organized by the KIÚT Foundation, supported by the EU PROGRESS program). The expert interviewed also placed emphasis on creating a “critical mass” through collaboration between small, scattered social cooperatives in agriculture. Setting up a cooperation among the cooperatives in production, sales and marketing can help develop sustainable businesses over the medium term. Also, the activities should be scaled up for strengthening the competitiveness of these companies on the market.

3.7 Reflections and concluding remarks

As explained earlier, most organisations understood as ‘social enterprises’ by stakeholders were established on the back of available public funding, provided predominantly from national or regional programmes co-financed from the EU’s Structural Funds. In the poor regions of Hungary, suffering from high long-term unemployment especially among the disabled and Roma, the heavily promoted social and employment cooperatives enjoying favourable tax treatment and public funding are one of the few options to create jobs. A large number of ‘new type’ of social and employment cooperatives have been established using funding from an ESF-cofinanced grant programme for their setting up and operation. However, the jobs created are typically not sustainable without continuing public support. Little emphasis was put on ensuring that there is indeed a market for its activities and on viable business models.

On the other hand, conditions are not favourable to ‘genuine’ social enterprises not depending on public funding: while there is a wealth of social problems to be addressed (unemployment, poverty, limited access to quality education and training, poor health and living conditions, environmental damage, poorly preserved cultural heritage etc.), stakeholders who could address them usually lack entrepreneurial skills, management capabilities and will have difficulties finding private funding. Whereas generic technical advice (business administration, tax etc.) is available from local Chambers of Commerce and Business Development Centres (HVK), social entrepreneurs-to-be are less able to receive help in understanding their market and in developing their business plan. Especially advice on how to create the delicate balance between commercial activities and the pursuit of social goals in a difficult business environment seems to be scarce.

The lack of visibility of social enterprises and insufficient acknowledgement of social entrepreneurs are additional obstacles to the development of the sector.

Annex 1 Comparative overview of the three most commonly used legal forms by social enterprises in Hungary

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
Definition	<p>The non-profit limited liability company (nonprofit kft.) is a subversion of ordinary limited liability company that is a legal person made up of registered capital comprising primary quotas of a pre-defined amount, and for which a member's liability extends to providing his primary (registered) capital contributions defined in the articles of association. The Hungarian limited liability company (short name in Hungarian: "Kft.") is the most common form of doing business in Hungary. The non-profit limited liability company is a subtype of LLC exclusively dedicated for social and other not-for profit enterprises.</p> <p>The new Civil Code came into effect on 15 March 2014 introducing major changes to Hungarian private law, including the company law and the legal framework for social economy and social enterprises.</p> <p>After 15 March 2014 the form of "non-profit company" dedicated exclusively for non-profit enterprises will cease to exist, and every "ordinary" company will be able to adapt its governing document to reflect a primary social aim and ensuring that profits are mainly reinvested.</p>	<p>The foundation is an organisation established by one or more founders (natural or legal person or by a business partnership) through a statute. Under the previous regulation, the foundation must have been established for long-lasting purposes of public interest. This purpose is determined by the founder(s) and the utilisation of the property is decided upon by the governing body (Board of Trustees).</p> <p>The new Civil Code which came into force on 15 March 2014, introduces fundamental changes regarding the establishment and operation of foundations. According to the new regulations, the founder will be entitled to establish a foundation for any long-lasting purpose with the limitation that the foundation may only perform business activities, which are in direct connection with the realisation of its primary purpose. This new regulation will open up new possibilities for a wider application of the form, including a use by a family or a better capability of use by social enterprises.</p> <p>The foundation must not be founded for the primary aim of performing business activity as a core activity, however, a social entrepreneur may adapt the governing document of the foundation indicating a long-lasting primary social aim and ensuring that the primary social aim may be achieved and realised by performing ancillary business (entrepreneurial) activities, which are in direct connection with its primary purpose.</p>	<p>An association is a self-governed, voluntarily established organisation which is formed in Hungary by at least ten founders (natural persons, legal persons, and/or organisations without legal personality) for a common purpose as defined by its articles of association.</p> <p>Under the new Civil Code, the association must not be founded for the primary aim of performing business activity; however, the association may exercise an economic activity that is directly linked with the objective of the association.</p> <p>Social entrepreneurs will be able to adapt the governing document of the association to indicate a long-lasting primary social aim and ensure that the primary social aim be achieved and realised by performing ancillary business activities, which are in direct connection with its primary purpose.</p> <p>The association must use its assets in accordance with the association's objective; it must not distribute its assets to its members and may not distribute profits to the members.</p>

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
Key national legislation governing legal form	<p>Act IV of 1959 on the (old) Civil Code , which will be replaced by</p> <p>Act V of 2013 on the (new) Civil Code from March 15, 2014,</p> <p>Act IV of 2006 on Business Associations (Companies Act) till March 14, 2014, which will be replaced by the new Civil Code from March 15, 2014</p> <p>Act V of 2006 on company court procedures and solvent liquidation ,</p> <p>Act IL of 1991 on Bankruptcy Proceedings, Liquidation Proceedings and Voluntary Dissolution</p> <p>Act CLXXV of 2011 on the Freedom of Association, Public Benefit Status and the Operation and Support of Civil Society Organisations,</p> <p>Government Decree 350/2011 (XII.30.) on Certain Issues of CSO Financial Management, Fundraising and Public Benefit Status</p> <p>Act CXXVI of 1996 on the Use of Specified Amount of Personal Income Tax in Accordance with the Taxpayer's Instruction</p> <p>Act CLXXXI of 2007 on Transparency of Subsidies Provided from Public Funds</p> <p>Act XCII of 2003 on the Rules of Taxation</p> <p>Act LXXXI of 1996 on Corporate Tax and Dividend Tax</p> <p>Act CXXVII of 2007 on Value Added Tax</p> <p>Act C of 2000 on Accounting.</p> <p>Act LVII of 1996 on the Prohibition of Unfair Trading Practices and Unfair Competition enforcing the freedom and fairness of business activities.</p> <p>Act I of 2012 on the Labour Code</p> <p>Act CXXV of 2003 on Equal Treatment and Promotion of Equal Opportunities</p>	<p>Act IV of 1959 on the (old) Civil Code , which will be replaced by</p> <p>Act V of 2013 on the (new) Civil Code from March 15, 2014,</p> <p>Act CLXXV of 2011 on the Freedom of Association, Public Benefit Status and the Operation and Support of Civil Society Organisations,</p> <p>Act CLXXXI of 2011 on the Court Registration of Civil Society Organisations,</p> <p>Act IL of 1991 on Bankruptcy Proceedings, Liquidation Proceedings and Voluntary Dissolution,</p> <p>Government Decree 350/2011 (XII.30.) on Certain Issues of CSO Financial Management, Fundraising and Public Benefit Status</p> <p>Act CXXVI of 1996 on the Use of Specified Amount of Personal Income Tax in Accordance with the Taxpayer's Instruction</p> <p>Act CLXXXI of 2007 on Transparency of Subsidies Provided from Public Funds</p> <p>Act XCII of 2003 on the Rules of Taxation</p> <p>Act LXXXI of 1996 on Corporate Tax and Dividend Tax</p> <p>Act CXXVII of 2007 on Value Added Tax</p> <p>Act C of 2000 on Accounting .</p> <p>Act LVII of 1996 on the Prohibition of Unfair Trading Practices and Unfair Competition enforcing the freedom and fairness of business activities .</p> <p>Act I of 2012 on the Labour Code</p> <p>Act CXXV of 2003 on Equal Treatment and Promotion of Equal Opportunities</p>	<p>Act IV of 1959 on the (old) Civil Code , which will be replaced by</p> <p>Act V of 2013 on the (new) Civil Code from March 15, 2014,</p> <p>Act CLXXV of 2011 on the Freedom of Association, Public Benefit Status and the Operation and Support of Civil Society Organisations,</p> <p>Act CLXXXI of 2011 on the Court Registration of Civil Society Organisations,</p> <p>Act IL of 1991 on Bankruptcy Proceedings, Liquidation Proceedings and Voluntary Dissolution,</p> <p>Government Decree 350/2011 (XII.30.) on Certain Issues of CSO Financial Management, Fundraising and Public Benefit Status</p> <p>Act CXXVI of 1996 on the Use of Specified Amount of Personal Income Tax in Accordance with the Taxpayer's Instruction</p> <p>Act CLXXXI of 2007 on Transparency of Subsidies Provided from Public Funds</p> <p>Act XCII of 2003 on the Rules of Taxation</p> <p>Act LXXXI of 1996 on Corporate Tax and Dividend Tax</p> <p>Act CXXVII of 2007 on Value Added Tax</p> <p>Act C of 2000 on Accounting .</p> <p>Act LVII of 1996 on the Prohibition of Unfair Trading Practices and Unfair Competition enforcing the freedom and fairness of business activities .</p> <p>Act I of 2012 on the Labour Code</p> <p>Act CXXV of 2003 on Equal Treatment and Promotion of Equal Opportunities</p>
Whether the legal	Exclusively for social enterprise.	Not exclusively for social enterprise.	Not exclusively for social enterprise.

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
form is used exclusively or not exclusively for social enterprise	<p>Non-profit companies are allowed to engage in any economic activities that do not jeopardise the mission-related core activity of the organisation.</p> <p>In the case of non-profit companies, which are qualified as "public benefit organisations" or apply for public benefit status, the company must undertake a public benefit activity. Public benefit is defined as an activity that directly or indirectly serves the completion of public tasks and thereby contributes to the satisfaction of the common needs of society and the individuals. In order to qualify as a PBO, the company's statute must clearly define the public benefit activity aimed to serve and the statute shall state that the organisation does not distribute profits, but spends the profits on the activity defined in its statute.</p>	<p>A foundation for any long-lasting purpose may only perform business activity in direct connection with the realisation of its primary purpose.</p> <p>In the case of foundations, which are qualified as "public benefit organisations" or apply for public benefit status, the foundation must undertake public benefit activity. Public benefit activity is defined as an activity that directly or indirectly serves the completion of public (governmental or local governmental) tasks and thereby contributes to the satisfaction of the common needs of society and the individuals. In order to qualify as a PBO, the foundation's statute must clearly define the public benefit activity aimed to serve and the statute shall state that the organisation does not distribute profits, but spends the profits on the activity defined in its statute.</p>	<p>Under the previous regulation, the association could be established for a "common purpose" of the founders. Founders are now entitled to establish an association for any long-lasting purpose with the limitation that the association may only perform business activity that is directly connected to the realisation of its primary purpose.</p> <p>In the case of associations, which are qualified as "public benefit organisations" or apply for public benefit status, the association must undertake public benefit activity. Public benefit activity is defined as an activity that directly or indirectly serves the completion of public (governmental or local governmental) tasks and thereby contributes to the satisfaction of the common needs of society and the individuals. In order to qualify as a PBO, the association's statute must clearly define the public benefit activity aimed to serve and the statute shall state that the organisation does not distribute profits, but spends the profits on the activity defined in its statute.</p>
Methods of creation	<p>To incorporate a nonprofit kft:</p> <p>A completed application to Court of Registration to register a new company including, a declaration to the Tax Authority General director's statements including a statement certifying the entitlement to use the premises of the registered office, a statement on the payment of the starting capital contributions, a statement on acceptance of appointment & a conflict of interest statement, Articles of Association compliant with CA and Act on Public Benefit Status (in case of application for</p>	<p>To incorporate the foundation the following documents shall be enclosed:</p> <p>A completed application form requesting the County Court / Metropolitan Court to register a new foundation, including a declaration to the Tax Authority and trustee statements, Deed of Foundation compliant with the Civil Code and Act on Public Benefit Status (in case of application for public benefit status), A certificate on the incorporation/registration of the founder (if the founder is a legal person or a business partnership),</p>	<p>To incorporate an association the following documents shall be enclosed:</p> <p>A completed application form requesting the County Court / Metropolitan Court to register a new association, including a declaration to the Tax Authority and trustee statements, Articles of Association compliant with the Civil Code and Act on Public Benefit Status (in case of application for public benefit status), Minutes of the constituent meeting A certificate on the incorporation/registration of the founder (if the founder is a legal person or a</p>

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
	<p>public benefit status), Electronic certificate of the State Treasury on payment of administration fees and fee of disclosure, Power of Attorney of the legal representative (the counsel),</p>	<p>Declaration of the founder or certificate of the payment service provider or a legal counsel/ public notary regarding the disclosure/deposit/transfer of assets sufficient to achieve the foundation’s primary purposes, Power of Attorney of the legal representative (the counsel).</p>	<p>business partnership), Power of Attorney of the legal representative (the counsel).</p>
<p>Required capital or assets</p>	<p>Prior to 15 March 2014, a limited liability company could be established with a minimum capital of 500,000 Hungarian Forints (HUF). The new Hungarian Civil Code has increased this minimum starting capital to 3 million Hungarian Forints (HUF) For existing companies this will involve making changes to their articles and a capital increase by way of new capital contributions or by using the excess equity capital of the company. If the limited liability company does not have sufficient equity to cover the minimum subscribed capital prescribed by the law over two consecutive financial years, the members (quotaholders) of the company have to provide for the necessary own funds within three months of the approval of the annual report prepared pursuant to the Accounting Act for the second year. If the business association fails to do so, it has to adopt a decision for transformation into a different business association, or for its termination without succession.</p>	<p>There is no regulatory requirement to hold a minimum level of capital, however a foundation must have and disclose “sufficient assets” to achieve its purposes (closed foundation), or at least to start its operations (open foundation).</p>	<p>There is no regulatory requirement to hold a minimum level of capital, however, the articles of association shall indicate the regular dues (membership fee) including the first payments sufficient to start its operations.</p>
<p>Management and corporate governance</p>	<p>A minimum of one general manager is required for a limited liability company. There is no maximum. General managers (managing directors) are elected and removed at the members’ meeting with simple majority of the votes.</p>	<p>A managing board of trustees or a single trustee is required. There is no minimum or maximum number of board members /trustees. Board members (trustees) are elected and removed by the</p>	<p>The management and representation of associations shall be exercised by a board (a presidency) or the members may designate a single person (president/manager) for such purpose in the articles of association.</p>

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
Rights of members	<p>Legal form has members (called “quota holders”).</p> <p>The members have the ultimate control of the non profit kft. The responsibility for administration and management of the company is delegated to the directors by the members, subject to company law and the Articles of Association. However, the members have the right to request information on the affairs of the company and inspect of its books and documentation, as well as the members have the right to attend, speak and vote at general meetings, to resolve in matters listed above including the amendment of the Articles of Association or the appointment/removal of directors.</p> <p>The new Civil Code does not stipulate an</p>	<p>Legal form does not have members.</p> <p>The foundation has one or more founders.</p> <p>The founder’s role in the foundation’s governance is very limited. The founder may take part in the decisions of the board only if the founder does not maintain controlling influence over the board members, and does not have a conclusive vote in the board.</p> <p>The responsibility for administration and management of the foundation is delegated to the trustees by the founders upon the foundation. However, the founders have the right to request information on the affairs of the foundation and inspect of its books and documentation, as well as</p>	<p>Legal form does have members.</p> <p>The members have the ultimate control of the association. The responsibility for administration and management of the association is delegated to the board members (presidency) or managers by the members upon the establishment. However, the members have the right to request information on the affairs of the association and inspect of its books and documentation, as well as the members have the right resolve in matters listed above including the amendment of the articles of association or the appointment/removal of board members, members of supervisory board and statutory auditor.</p>

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
	<p>exhaustive list of exclusive competence for the members' meeting, however the approval of the annual financial report and decision on enforcement any claims against managing director(s) are still belong to the exclusive competence of the supreme body. The members will be free to enlist other exclusive powers of the members' meeting in the Articles of association.</p>	<p>the founders have the right to appoint or remove trustees if the activity of the managing body (board of trustees) jeopardise or directly endanger the foundation's objectives. A founder may also, in limited cases, amend or modify the deed of foundation, without the modification of the foundation's name, purpose, or without the decrease of the assets.</p>	
<p>Voting and representation of members in general meetings</p>	<p>Members are represented at members' meeting. Companies are required to hold at least one annual general meeting. All other members' meetings are called "general meetings" and may be called at any time by the director(s).</p> <p>The period of notice required is usually 15 days unless a shorter or a longer period is prescribed in the Articles of Association.</p> <p>According to the new Civil Code, at least three days must pass between the date of convening the members meeting and the date of the meeting.</p> <p>Minority members of a company (holding a membership interest equal to at least 5% of the total voting rights of the company, or 1% in case of Public Joint Stock Companies), are entitled to request the calling of a meeting of the members' meeting, indicating the reason thereof. The directors of a company must call and hold a general meeting within 30 days of receiving such a request.</p> <p>All members may be represented in the members' meeting in person or by a person duly authorised (Proxy). Managing directors, directors, supervisory board members and the auditor may</p>	<p>It is not obligatory for the founder(s) to convene or hold annual meetings</p>	<p>Members are represented at the Annual General Assembly or Annual Electoral Meeting at least once a year. The annual meeting shall be called by the board (manager). The competent County Court or members representing at least 1/10 of the total number of members of the association are entitled to request the calling of a meeting, indicating the reason thereof.</p> <p>The members' meeting or the electoral meeting has a quorum, if at least half of the members are represented. Member's resolutions are passed by a simple majority (51% or more) of members eligible to vote and voting, except otherwise provided by the law.</p> <p>Under the new Civil Code, a ¼ majority of the votes of those members present at the meeting is required for the modification of the association's deed and a ¾ majority of the votes of all members having voting rights are required for the modification of the association's primary aim and for the resolution about the dissolution of the association.</p> <p>Members shall exercise membership rights including voting rights in person, however the articles of association may enable that members may be represented in the founder's meeting by a</p>

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
	<p>not act as Proxies.</p> <p>The members' meeting has a quorum if at least half of the initial capital or the majority of the eligible votes are represented. Members' resolutions are either ordinary resolutions which are passed by a simple majority (51% or more) of members eligible to vote and voting, or special resolutions which are passed by 75% or more members eligible to vote and voting. Certain decisions, such as amendments to the Articles of Association, or the resolution on termination of the company requires a three-quarters or higher majority of the votes. A unanimous decision shall be required to increase the obligations of members contained in the memorandum of association, to establish new obligations, or to restrict special rights of certain members.</p>		Proxy.
Types of shares, if any	<p>The limited liability company has no shares, but one or more quotas. Voting rights follow the quota.</p> <p>According to the new Civil Code, the definition will no longer refer to the member's share in the company's assets; however, the quota will mean "all membership rights and duties, including voting rights".</p> <p>If there are more than one owners of the "quota", the co-owners shall exercise their rights to the quota through a joint representative.</p>	Not applicable to legal form.	Not applicable to legal form. Members are granted equal voting rights.
Distribution of dividends on share capital	Profit is not distributed amongst its members.	No dividends are distributed.	No dividends are distributed.
Distribution of	Admissability requirements and restrictions of any	Reserves are not distributable to members.	Reserves are not distributable to members.

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
reserves	disbursements to members are regulated by the Civil Code and the Accounting Act. In the case of an “ordinary” limited liability company, tied-up reserve and revaluation reserve are not distributable to members and no distribution may be made to the detriment of the equity capital. In case of a non-profit limited liability company, reserves are not distributable to members.		
Allocation of the surplus particularly to compulsory legal reserve funds	No requirement to allocate surpluses to compulsory legal reserve funds.	No requirement to allocate surpluses to compulsory legal reserve funds.	No requirement to allocate surpluses to compulsory legal reserve funds.
Distinction dividends/refunds and distribution of refunds	Refunds not applicable to legal form.	Refunds not applicable to legal form.	Refunds not applicable to legal form.
Restrictions on ability to trade	Non-profit limited companies are allowed to engage in any economic activities that do not jeopardise the mission-related core activity of the organisation. In the case of non-profit companies which are qualified as "public benefit organisation" or apply for public benefit status, the company shall undertake a public benefit activity as a core activity.	<p>Foundations may not be established for performing primarily business (entrepreneurial) activities.</p> <p>However foundations are allowed to engage in any economic activity which is in direct connection with the realisation of its primary purpose.</p> <p>A foundation is deemed as an organisation established for primarily business (entrepreneurial) activity if its income from such activity is equal or higher than 60% of the total income of the foundation.</p> <p>In case of foundations, which are qualified as "public benefit organisation" or apply for public benefit status, the foundation shall undertake public benefit activity as a core activity.</p>	<p>Associations may not be established for performing primarily business activity, however associations are allowed to engage in any economic activity which is directly connected to the realisation of its primary purpose.</p> <p>An association is deemed as an organisation established for primarily business its income from such activity is equal or higher than 60% of the total income of the association.</p> <p>In the case of an association that has qualified as "public benefit organisation" or apply for public benefit status, the association’s core activity must be a public benefit activity.</p>

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
Internal financing (e.g. investment title, member investors, increase in members contributions)	<p>The member's meeting may resolve on supplementary capital contribution (without granting new quotas) or a capital increase by way of new capital contributions or by way of using the excess equity capital of the company (with granting new quotas to the members). According to the new Civil Code, the method and deadline for the payment of the supplementary capital contributions will be determined in the members' resolution and only the maximum amount and the restrictions, or frequency of requiring supplementary capital contributions shall only be set forth in the articles of association. A non-profit kft can also seek donations or loans from its members.</p>	<p>To overcome these limits, a foundation may become the majority or single shareholder/ stakeholder in any business associations having limited liability.</p>	<p>The member shall pay regular dues (membership fee) according to the articles of association and the relevant resolutions of the supreme body.</p> <p>An association can also seek donations or loans from its members and it can issue a bill of exchange to its members.</p>
External financing (e.g. banking loans, issuing bonds, specific investment funds) including possibility for non-member investors	<p>A non-profit limited company can be financed by equity investment by issuing quotas to external investors.</p> <p>A non-profit limited liability company can also be financed by loans or other forms of debt, such as bonds. However, there are restrictions and limitations regarding the debts, namely that non-profit companies qualified as "PBO" may only take loans or assume debts that do not jeopardise the mission-related core activity of the organisation and do not exceed the assets of the company,</p>	<p>In the case of an open foundation, third parties may join an existing foundation under the conditions set forth in the deed of foundation, and may become co-founders, by providing assets or other new funding. An investor or donor may grant donations or provide a loan without 'joining' the foundation.</p>	<p>An external investor or donor may grant donations or provide a loan without joining the association. An investor or donor may become a registered member if admitted by the general assembly.</p>
Transparency and publicity requirements (and	<p>All registered companies must file annual financial statements and reports with the Ministry of Public Administration and Justice. These are available to</p>	<p>All foundations must prepare and file/publish annual financial statements. Foundations qualifying as "PBOs" must also produce a public</p>	<p>All associations must prepare and file/publish annual financial statements, associations qualified as "PBOs" must produce a public benefit report as</p>

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
related auditing issues)	<p>the public.</p> <p>All non-profit companies and civil organisations qualified as PBOs must at the same time as filing its financial report publish an annual public benefit report.</p> <p>A company's annual accounts for a financial year must be audited unless the company is exempt from audit under the small companies' exemption. This exemption applies if the Total balance sheet of the company is below HUF 300 million; and the annual average of the number Employees is below 50 people.</p> <p>Statutory Auditors must be appointed for a fixed term, but the maximum of 5 financial years.</p>	<p>benefit report.</p> <p>A foundation's annual accounts for a financial year must be audited unless the foundation is exempt from audit under the small companies' exemption. This exemption applies if the Total balance sheet of the foundation is below HUF 300 million; and the annual average of the number Employees is below 50 people.</p> <p>Statutory Auditors must be appointed for a fixed term, but the maximum of 5 financial years.</p>	<p>well.</p> <p>The association's annual accounts for a financial year must be audited unless the association is exempt from audit under the small companies' exemption. This exemption applies if the Total balance sheet of the association is below HUF 300 million; and the annual average of the number Employees is below 50 people.</p> <p>Statutory Auditors must be appointed for a fixed term, but the maximum of 5 financial years.</p>
Employee involvement systems	<p>Cooperation between the company's management and workers as well as the employee's right to take part in the decision making may be organised and enforced by the shop steward, the works council, central works council, or the corporate-level works council(s).</p> <p>A shop steward shall be elected if, during the half-year prior to the date when the election committee was established, the average number of employees at the employer is higher than fifteen. A works council must be elected if, during the half-year prior to the date when the election committee was established, the average number of employees at the employer is exceeding fifty.</p> <p>Another possibility for employees to take part in the decision making, if he/she becomes a "company manager". It is possible for employees of a limited liability company to become a</p>	<p>Cooperation between the foundation's management and workers as well as the employee's right to take part in the decision making may be organised and enforced by the shop steward, the works council, or central works council. A shop steward shall be elected if, during the half-year prior to the date when the election committee was established, the average number of employees at the employer is higher than fifteen. A works council must be elected if, during the half-year prior to the date when the election committee was established, the average number of employees at the employer is exceeding fifty.</p>	<p>Cooperation between the association's management and workers as well as the employee's right to take part in the decision making may be organised and enforced by the shop steward, the works council, or central works council. A shop steward shall be elected if, during the half-year prior to the date when the election committee was established, the average number of employees at the employer is higher than fifteen. A works council must be elected if, during the half-year prior to the date when the election committee was established, the average number of employees at the employer is exceeding fifty.</p>

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
	<p>"company manager". If permitted by the articles of association, the company's supreme body may decide to appoint one or more company managers to assist the executive officers in their work. Managers work under the executive officers direction and instructions.</p>		
<p>Distribution of the proceeds of dissolution, liquidation, disinvestment (in particular provision of asset lock)</p>	<p>A solvent non-profit limited company will cease to exist when its legal personality has been terminated either by: the company's supreme body adopting a decision for the company's termination without succession (voluntary dissolution) and the company is terminated by the Court of Registration, or termination by the Court of Registration for reasons provided for in the Companies Act</p>	<p>The founder is not entitled to terminate the foundation. According to the new Civil Code, the foundation will cease to exist when its legal personality has been terminated. If a foundation is not insolvent, it shall be terminated by the court without a legal successor in the following cases :</p>	<p>A solvent association shall wind up : in cases of an association founded for a fix term, at the end of the definite term, if the supreme body resolved on dissolution, if a competent court orders the termination, if the association has reached its goals, if the number of registered members of the association does not reach 10 person throughout a half year period.</p>
	<p>There are a number of ways of dealing with companies which are unable (or likely to become unable) to pay their debts, which are identical to main forms of insolvency procedure under the general law for ordinary companies:</p>	<ul style="list-style-type: none"> • if the foundation has reached its goals, • if the purposes cannot be reached anymore and the modification of the deed or the merger with another foundation is impossible, • if the foundation does not perform any activity throughout three years. 	<p>If the association insolvent it may only be terminated by the competent County Court / Metropolitan Court.</p>
	<p>Bankruptcy proceedings are proceedings that aim for the debtor to reach agreement with its creditors and to conclude an agreement on it. If bankruptcy proceedings are initiated by the debtor, the court grants the debtor an immediate, temporary payment deferral until the date on which the bankruptcy proceedings commence. In a bankruptcy agreement, the debtor's debts may be assumed by its creditors or by third parties, who may also take ownership of the debtor's assets or assume a security for its liabilities. If no agreement is reached during the moratorium, or the implementation of the agreement is unsuccessful, the court will officially order liquidation proceedings.</p>	<p>Bankruptcy proceedings are proceedings that aim for the debtor to reach agreement with its creditors and to conclude an agreement on it. If bankruptcy proceedings are initiated by the debtor, the court grants the debtor an immediate, temporary payment deferral until the date on which the bankruptcy proceedings commence. In a bankruptcy agreement, the debtor's debts may be assumed by its creditors or by third parties, who may also take ownership of the debtor's assets or assume a security for its liabilities. If no agreement is reached during the moratorium, or the implementation of the agreement is unsuccessful, the court will officially order liquidation proceedings.</p>	<p>Bankruptcy proceedings are proceedings that aim for the debtor to reach agreement with its creditors and to conclude an agreement on it. If bankruptcy proceedings are initiated by the debtor, the court grants the debtor an immediate, temporary payment deferral until the date on which the bankruptcy proceedings commence. In a bankruptcy agreement, the debtor's debts may be assumed by its creditors or by third parties, who may also take ownership of the debtor's assets or assume a security for its liabilities. If no agreement is reached during the moratorium, or the implementation of the agreement is unsuccessful, the court will officially order liquidation proceedings.</p>
		<p>Compulsory Liquidation: The creditors and the</p>	<p>Compulsory Liquidation: The creditors and the</p>

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
	<p>Compulsory Liquidation: The creditors and the debtor itself may apply to the Metropolitan Court /County Courts for the compulsory liquidation of the company on the legal ground that it is unable to pay its debts which are 20 days overdue and which were not debated by the debtor before the first written reminder. The liquidator will usually realise the assets and distribute the proceeds according to law.</p>	<p>debtor itself may apply to the Metropolitan Court /County Courts for the compulsory liquidation of the company on the legal ground that it is unable to pay its debts which are 60 days overdue and which were not debated by the debtor before the first written reminder. The liquidator will usually realise the assets and distribute the proceeds according to law.</p>	<p>debtor itself may apply to the Metropolitan Court /County Courts for the compulsory liquidation of the company on the legal ground that it is unable to pay its debts which are 60 days overdue and which were not debated by the debtor before the first written reminder. The liquidator will usually realise the assets and distribute the proceeds according to law.</p>
<p>Distribution of the proceeds of dissolution, liquidation, disinvestment (in particular provision of asset lock)</p>	<p>Unless otherwise provided by the memorandum of association, the remaining assets shall be distributed among the members of the company consistent with the percentage of their contributions to the company's capital.</p> <p>In case of non-profit companies qualified as "Public Benefit Organisations", the assets remaining may still be distributed among the members, but the refunds must not exceed the value of the primary capital contribution of members at the time, when the capital contribution was paid or provided.</p> <p>Assets in excess of this value shall be allocated by the Court of Registration to similar non-profit organisations of public interest according to the provisions set out in the articles of association. In the absence of such provisions, the Court of Registration shall allocate/transfer the remaining assets to "National Co-operation Found".</p>	<p>The assets remaining after settlement of all debts from the foundation's own funds available at the time of termination may be distributed among the members, but the refunds must not exceed the value of the primary capital contribution of members at the time, when the capital contribution was paid or provided.</p> <p>Assets in excess of this value shall be allocated by the County Court / Metropolitan Court to similar non-profit organisations of public interest according to the provisions set out in the articles of association. In the absence of such provisions, the County Court / Metropolitan Court shall allocate/transfer the remaining assets to "National Co-operation Found".</p>	<p>The assets remaining after settlement of all debts from the association's own funds available at the time of termination may be distributed among the members, but the refunds must not exceed the value of the primary capital contribution of members at the time, when the capital contribution was paid or provided.</p> <p>Assets in excess of this value shall be allocated by the County Court / Metropolitan Court to similar non-profit organisations of public interest according to the provisions set out in the articles of association. In the absence of such provisions, the County Court / Metropolitan Court shall allocate/transfer the remaining assets to "National Co-operation Found".</p>
<p>Conversion to another form of company</p>	<p>Non-profit business corporation(s) may be transformed into another corporate form only if the company remains functioning as a non-profit company.</p>	<p>Not applicable to legal form. The foundation may merge only with and demerge to other foundation(s).</p>	<p>Not applicable to legal form. The civil law association may merge only with and demerge to other civil law association(s).</p>

Legal form	Non-Profit Limited Liability Company	Foundation	Civil Law Association
	<p>The non-profit limited liability company's assets must continue to be used in a way that is consistent with the rules of non-profit business corporations, and in case of a non-profit limited liability company qualified as "PBO", with the laws on public benefit organisations.</p>		

Annex 2

Annex 3 List of Information Sources

A3.1 References

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National Development Agency (*Nemzeti Fejlesztési Ügynökség*) (<http://www.nfu.hu/>)

Association of Social Cooperatives (*Szociális Szövetkezetek Országos Szövetsége, Szoszöv*) <http://szoszov.hu/forum>

National Development Agency (Nemzeti Fejlesztési Ügynökség, NFÜ), http://www.nfu.hu/uj_szechenyi_terv

A3.2 List of consultees

Name of the person interviewed	Organisation/ Role	Stakeholder category
1. <i>Dr. Erika Forczek</i>	<i>Lawyer</i>	<i>Legal support to social enterprises</i>
2. <i>Áron Jakab</i>	<i>Fruit of care, Founder, General manager</i>	<i>Social enterprise</i>
3. <i>Éva Hencz</i>	<i>Citi Bank (partner of NESsT), Director of Public Affairs</i>	<i>Financing of social enterprise initiatives</i>
4. <i>Zsuzsanna Mészáros</i>	<i>Association of Community Developers (Közösségfejlesztők Egyesülete), Senior expert</i>	<i>Network of social enterprises, advisory support</i>
5. <i>Zsolt Ruszkai</i>	<i>Ministry for National Economy, Desk Officer</i>	<i>Policy</i>
6. <i>Zoltán Tóth</i>	<i>Euroventures Zrt., Director</i>	<i>Advisory support to social enterprises</i>
7. <i>Erika Varga</i>	<i>Romani Design, Founder</i>	<i>Social enterprise</i>
8. <i>Éva Varga</i>	<i>NESsT, Director of Portfolio Performance</i>	<i>Loan and equity financing</i>