

The State of Entrepreneurship in Hungary

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The State of Social Entrepreneurship in Hungary

SEFORIS Country Report

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About SEFORIS: Social Enterprise as FORce for more Inclusive and Innovative Societies

SEFORIS is a flagship multi-disciplinary, multi-method international research project on social enterprise funded by the European Commission. Through the generation of robust evidence and internationally leading research, SEFORIS aims to better understand the role that social enterprises play in the EU and beyond in the development and evolutions of inclusive and innovative societies.

SEFORIS will investigate key processes through which social enterprises deliver inclusion and innovation (spanning a range of domains, from organisation and governance, over financing and innovation to behavioural change) as well as the contexts in which social enterprises thrive. In terms of methodology, we will start from policy and social enterprise practitioner questions and challenges together with critically scrutinizing existing academic literature. We use this first step to develop theoretical frameworks that then serve as a basis for thinking systematically about innovation and inclusion processes in context. This is followed by field and lab experimentation with social enterprises and in-depth case studies to expand and enrich our understanding of social enterprises. Unique longitudinal survey data will be collected across 9 distinct countries to test new (and at times counterintuitive) hypotheses to reach novel insights and generalizable conclusions. We engage policy makers and social enterprises throughout the research process to ensure that our research is relevant for them and can inform their practice.

The SEFORIS partnership

SEFORIS is a consortium of 12 organisations from 10 countries including Belgium, China, Germany, Hungary, Portugal, Romania, Russia, Spain, Sweden, and the UK.

Academic partners and research institutes:

KU Leuven (Belgium), Hertie School of Governance (Germany), Autonomous University of Barcelona (UAB, Spain), University of Aveiro (Portugal), Centre for Economic and Financial Research (CEFIR, Russia), Stockholm School of Economics (Sweden), Aston Business School (United Kingdom)

Social entrepreneur support and financing organisations

Oksigen Lab (Belgium), i-propeller (Belgium), Non-Profit Incubator (NPI, China), Nonprofit Enterprise and Self-sustainability Team (NESsT, Hungary & Romania), and The Foundation for Social Entrepreneurs - UnLtd (United Kingdom)

Advisors

Organisation for Economic Co-operation and Development (OECD, France), Harvard Business School (HBS, USA) and the European Venture Philanthropy Association (EVPA, Belgium)

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Executive Summary

In Hungary due to the economic crisis certain societal challenges – poverty and social exclusion, the ageing of the population, youth unemployment, discrimination against Roma and homelessness - have worsened in the recent years.

Some percentages demonstrate the importance of these societal challenges:

- 32.4% of the Hungarian population (40.9% of the children) lives at risk of poverty or social exclusion.
- Between 2007 and 2050, the age-related public expenditure will increase by 4,1% of the GDP.
- Unemployment disproportionally affects Hungarian youth; their unemployment rate in 2013 was 30.5%.

Societal innovation and social entrepreneurship have definitively an important complementary role to play in our economy and society at large in tackling these major societal challenges. Pursuing social goals in an entrepreneurial way, combining societal and economic progress, contribute to growing a “shared value” economy which contributes positively to society and its challenges.

The Hungarian SEFORIS country report highlights ten remarkable findings to illustrate the current status of social entrepreneurship.

1. Awareness about social entrepreneurship is rising

Despite the lack of a legal definition of social enterprise, and the fact that the non-profit and business sectors are still segregated in Hungary, non-profit organizations have recently started to show a growing interest in the self-financing and social entrepreneurship model.

2. Social enterprises are quite new

Social enterprises in Hungary tend to be young. The SELUSI research found that their average age is 15.9 years, although according to the NESsT's definition- enterprises that solve critical social enterprises in a sustainable manner, social enterprises are even younger, averaging about seven to eight years. Half of the social enterprises are small (1-10 employees) and only 12% has above 1M € revenues.

3. Large diversity of business and social activities in which social enterprises are active

76% of the organizations carry out their primary **business activities** in the following five industry sectors: Health and Social Work; Business Activities; Education; Community, Social and Related Services; and Wholesale and Retail Trade. 72% of the social ventures identified their primary **social activities** belonging to the following 8 social sectors: Social Services; Other Education; Environment; Employment and Training; Recreation and Social Clubs; Business and Professional Associations/Unions; Nursing Homes; and, Other Health Services.

4. Ambiguous social perception of the economic activities carried out by non-profit organizations

The lack of transparency and the weak professional level of financial management in the non-profit sector negatively affect their perception among the public. People generally reject the idea that non-profit organizations can carry out economic activities. However, lately, as the concept of social enterprise has become better known, this perception is gradually changing.

5. Social enterprises can opt for a non-profit or a for profit legal form

Social enterprises in Hungary can choose to function either in a non-profit or in a for profit legal form. Social enterprises functioning in non-profit legal form can only carry out business activities in a complementary manner. Those social enterprises which have a special public benefit status may enjoy some discounts or exemptions from taxes, duties and customs. Business activities are regulated in different legal norms which are sometimes inconsistent and the related concepts are unclear.

6. Fee for service/product model, low-income client and employment models are the most popular operational models for social enterprises

44% of the social enterprises offer at least one service following the fee for service/product model while 20% follows the low-income client model which is a variation of the fee-for-service model. 12% of the organizations have at least one service following the employment model.

7. Diversified sources of revenues and funding

Hungarian social enterprises are financing their activities from various sources (e.g. loans, private donations, microfinance etc.) but sales and/or fees (38%) and grant finance (36%) are the most important sources of capital. Social enterprises have recently realized the importance of diversifying revenue streams.

8. There are new, dedicated players in the field

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

9. Social enterprises reported to be much more innovatively active than commercial enterprises

Social enterprises identified various innovation drivers like the social and environmental effect of their businesses or the need to increase range/quality of products and services. The main innovation barriers were cost-related innovation, internal, regulation-related or market barriers. 84% of social enterprises introduced at least one new or significantly improved service, product and/or process to their organization and 59% of those ventures had introduced at least one 'new-to-the-market' innovation.

10. Impact measurement is still in an initial phase

Impact measurement among Hungarian social enterprises is still in a very initial phase as most of them lack tools and resources to track the actual impact of their activities. The few impact results that are available are rather quantitative but do not say much about the quality dimension.

1. Key facts and figures on social entrepreneurship

“Social enterprises are the correction mechanism of the globalization.”

- Mihály Karácsony

“Over the past five years we have witnessed a number of initiatives in our country which aims to put the social enterprises into practice and raise awareness about them. These kind of enterprises don't yet have a significant social and business role in Hungary, but a number of examples demonstrates that there are huge reserves in this area.”

- Attila Pethető: Beyond social responsibility: the social enterprise

1.1 Definition and common understanding of social enterprise

- Currently there is no legal definition of social enterprise in Hungary.
- The following elements are found to characterize social enterprises: limits on distribution of profits and assets; independence from the government; principle of volunteering and self-activity; self-government and institutionalisation.¹
- NESsT uses the term social enterprise to refer to a **business** that is created to address or solve a critical social problem in a financially sustainable (and potentially profitable) way.
- Although non-profit organizations started to show a growing interest in the self-financing and social entrepreneurship model, the concept still sounds unfamiliar to many people. One reason for that is that Hungary is still characterized by the rigid segregation of the non-profit and business sectors ignoring social enterprises operating in both fields.²

1.2 Size of social enterprise

- Due to the lack of legal definition of social enterprise in Hungary, there are no comprehensive statistics. NESsT estimates that, according to its definition, there are 300-400 social enterprises in Hungary.
- The statistics mentioned below come from the European SELUSI framework.³
- Social enterprises in Hungary are not very old. According to the SELUSI report their average age is 15.9 years and half of those organizations are 13 years old or younger. However, NESsT, according to its own stricter definition, considers that the first social enterprises appeared only some 16 years ago, so the average age is much younger.
- Half of the social enterprises in Hungary are small (1-10 employees) and only 12% has above 1M € revenues.

¹ GEM 2009 Report for Hungary: <http://www.gemconsortium.org/docs/2620/gem-hungary-2009-social-entrepreneurship-report>.

² NESsT 2011 Hungary Country Assessment:

<file:///G:/NESsT/Seforis/material/2011%20Nesst%20Country%20Assessment%20Hungary-hu.htm>.

³ SELUSI is a broad, multidisciplinary research initiative which has initiated Europe's first panel database of 550 social businesses in five EU Member States: Hungary, Romania, Spain, Sweden and the United Kingdom. Two action / research experiments were implemented to test how social entrepreneurs' skills can be coupled to a genuine need for innovation at a mainstream business. It also formulated policy proposals in the field of innovation, service provision and societal reform at local, national and European level. For more information see: <http://www.selusi.eu>.

Table 1: Key data on size of social enterprises (Source: SELUSI⁴, 2010)

Key Data		
Organizational age	Number of employees	Revenues
60% older than 10 years	52% 1-10 employees	12% above 1M revenues
20% between 5 and 10 years old	28% 11-49 employees	
20% younger than 4 years	17% 50-249 employees	
	3% 250+ employees	

1.3 Sectors and regions in which social entrepreneurs are active

Industrial sector

76% of the interviewed organizations identified their primary **business activities** belonging to the following 5 industry sectors: Health and Social Work; Business Activities; Education; Community, Social and Related Services; and Wholesale and Retail Trade. The remainder was active primarily in: Personal Service Activities; Agriculture, Hunting, Forestry and Fishing; and Manufacturing.

72% of the interviewed Hungarian social ventures identified their primary **social activities** belonging to the following 8 social sectors: Social Services; Other Education (that is, not Primary, Secondary or Higher Education); Environment (including organic goods); Employment and Training; Recreation and Social Clubs (but not in Sports or Culture and Arts); Business and Professional Associations/Unions; Nursing Homes; and, Other Health Services. The rest were predominantly active in Economic, Social, and Community Development; Research; and, Hospitals and Rehabilitation.

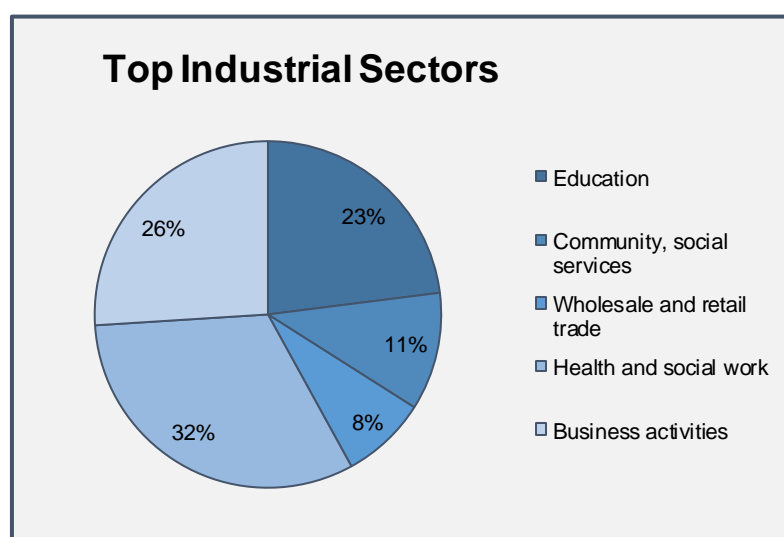


Figure 1: Top Main Industrial Sectors (Source: SELUSI, 2010. N=104). We used the General Industrial Classification of Economic Activities (NACE)

⁴ SELUSI Research Consortium. 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

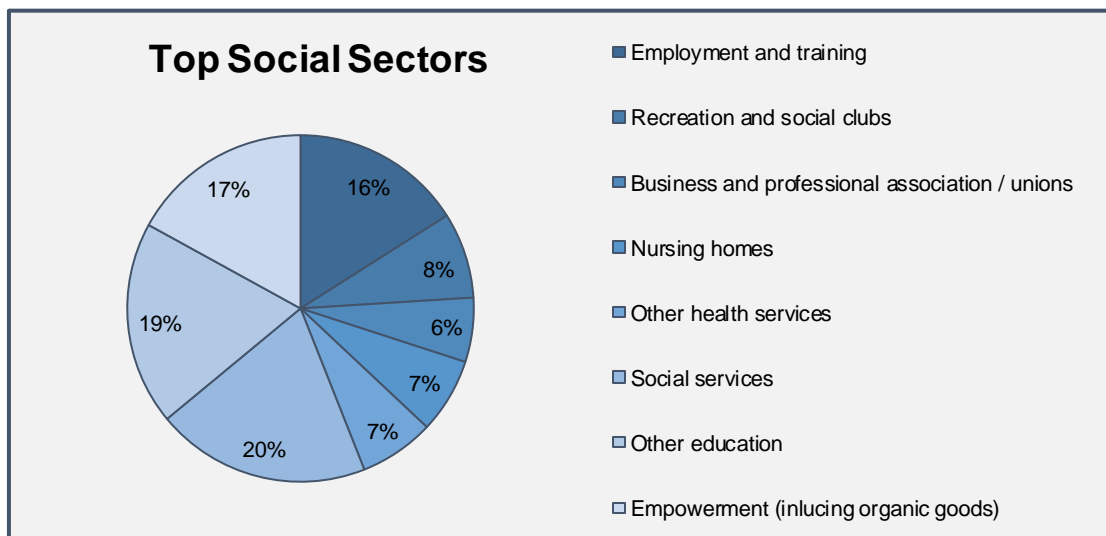


Figure 2: Top Main Social Sectors (Source: SELUSI, 2010. N=104). We used the International Classification of the Nonprofit Organizations (ICNPO)

Regional level

The majority of social enterprises are present in Central Hungary (and Budapest) and the Region of Northern Hungary; there are significantly less in the Western and Central Transdanubia region.⁵

1.4 Recent developments in social entrepreneurship

- The expression “social enterprise” is more and more known in the country although awareness-raising around the term and sector is still a crucial issue. The concept is becoming more and more popular among accelerators, NGOs, start-up communities, academics and students.
- Yearly event for the sector (Social Enterprise Day – organized by NESsT) with stronger and stronger interest.
- Within the last 5 years, for-profit social enterprises have also appeared and they have become stronger and stronger.
- Strong governmental intentions to strengthen certain types of social enterprises, but unfortunately these programs are linked mainly to one single legal form: social cooperative. The majority of EU Funds directed to the development of social economy were used to support social enterprises, but some social enterprises were able to use grants under priority areas other than social economy of the EU Funds to launch or expand their activities.

⁵ GEM 2009 Report for Hungary.


2. General country context

“However, there is a pressing need: those who are operating or starting a social enterprise, or interested in the model and the representatives of the public sector have an increasing need to gain more insights and other perspectives of the field. What are the factors and challenges that influence the position of the Hungarian social enterprises (insights) and how others provide solutions for the same challenges (other perspectives)?” (Eva Varga: Ecosystem of the social enterprises - International examples and best practices)

- Eva Varga: Ecosystem of the social enterprises - International examples and best practices

2.1 Number of inhabitants and size of country

Table 2: Number of inhabitants and size of country

Number of inhabitants	9,908,798 (1/1/2013 ⁶)	
Size of country	93,036 km2 / 35,921 sq mi	

2.2 Top 5 societal challenges

Table 3: Top 5 societal challenges

Poverty and social exclusion
<ul style="list-style-type: none"> - 32.4% of the Hungarian population (3,2M people) lives at risk of poverty or social exclusion. - Children are in a significantly worse situation: 40.9% of them live below the poverty threshold or in a situation of severe material deprivation or live in a household with very low work intensity.⁷
Aging population
<ul style="list-style-type: none"> - By 2050 33% of the Hungarian population will be over 60 years of age⁸. - The age-related public expenditure will increase to 25.7% of the GDP (in 2007 it was 21.6%)⁹.
Labour market: Youth unemployment and too early exit of +55 year olds
<ul style="list-style-type: none"> - In the first quarter of 2013, the employment rate in Hungary was 11.8% (509,000 people). - Youth unemployment (people aged 15 to 24) in the same period reached 30.5%. - 7.8% of people aged 55 to 64 did not have a job either. - 44.7% of the unemployed had been seeking job for one year or longer¹⁰

⁶ http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_wdsd001b.html

⁷ http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/People_at_risk_of_poverty_or_social_exclusion

⁸ http://hvg.hu/gazdasag/20110401_oregedo_tarsadalom_tb_koltsgek.

⁹ The Burden of Our Long Lives, Allianz Demographic Pulse, 2011:

https://www.allianz.com/v_1339679620000/media/responsibility/documents/demographic_pulse_the_burden_of_our_long_lives.pdf.

¹⁰ <https://www.ksh.hu/munkanelkuliseg>.

Discrimination against Roma ¹¹
<ul style="list-style-type: none"> - In 2012 42 % of the Hungarian Roma respondents aged 16 and above looking for work in the past 5 years said that they experienced discrimination because of their Roma background.¹² - Roma job-seekers are hired for shorter amounts of time (six hours a day, or for less months) than non-Roma, and when Roma and non-Roma with the same levels of schooling are hired, Roma are assigned to lower-status physical work (outside), while non-Roma job-seekers are given indoor office and cleaning jobs.¹³
Homelessness
<ul style="list-style-type: none"> - In Hungary the number of people living in the street has grown from 3578 (1993) to 10,684 (2012) but given that not everyone is registered this number is probably higher. - One third of homeless people live in Budapest while the rest live in other parts of Hungary.¹⁴

2.3 Overview of (social) policy, entrepreneurial and civil society landscape

Table 4: Overview of landscape

(Social) Policy Landscape	Entrepreneurial Landscape ¹⁵	Civil Society Landscape ¹⁶
<p>SOCIAL EXPENDITURES % GDP¹⁷ 21,6 in 2013</p> <p>POLITICAL STABILITY AND ABSENCE OF VIOLENCE¹⁸ Rank 69 (0=lowest; 100=highest) in 2012</p> <p>RULE OF LAW Rank 68 (0=lowest; 100=highest) in 2012</p>	<p>HIGH Global Entrepreneurship Monitor (GEM) SCORE</p> <ul style="list-style-type: none"> - Fear of failure - Belief in high status to successful entrepreneurs <p>LOW GEM SCORE</p> <ul style="list-style-type: none"> - Perceived opportunities - Perceived capabilities - Entrepreneurial intentions - Entrepreneurship as a good carrier choice - Media attention for entrepreneurship 	<ul style="list-style-type: none"> - 65,300 civil organizations - Economic weight: 4% Growth trend - Broad range of activities: leisure and hobbies, education, culture, sport, health etc. - Human resources: 144,000 employees (4% of total employment) and 504,000 volunteers (circa 50M working hours)

Note: GEM stands for Global Entrepreneurship Monitor. The scores indicate nationwide attitudes, activities and characteristics which have a positive or negative influence on entrepreneurship. The scores for Hungary are compared with the mean scores of the *efficiency-driven* countries comparison group.

¹¹ Racism and related discriminatory practices in employment in Hungary, European Network Against Racism, 2014: <http://cms.horus.be/files/99935/MediaArchive/publications/shadow%20report%202012-13/Hungary.pdf>.

¹² The situation of Roma in 11 EU Member States, Survey results at a glance, FRA, 2012., http://fra.europa.eu/sites/default/files/fra_uploads/2099-FRA-2012-Roma-at-a-glance_EN.pdf.

¹³ Report of the Parliamentary Commissioner for Civil Rights in case no. AJB 5317/2012.

¹⁴ http://hvg.hu/itthon/20120404_hajlektalanok_menhely

¹⁵ "Global Entrepreneurship Monitor 2013 Global Report." GEM Consortium 2013.

¹⁶ KSH, Statisztikai Tükör, A nonprofit szektor legfontosabb jellemzői 2012-ben:

<https://www.ksh.hu/docs/hun/xftp/stattukor/nonprofit/nonprofit12.pdf>.

¹⁷ http://stats.oecd.org/Index.aspx?DataSetCode=SOCX_AGG

¹⁸ <http://info.worldbank.org/governance/wgi/index.aspx#reports>

Explanations for the “Entrepreneurial landscape” section:

The perception of entrepreneurial opportunities reflects the percentage of individuals who believe there are opportunities to start a business in the area they live in. Perceived capabilities reflect the percentages of individuals who believe they have the required skills, knowledge and experience to start a new business. The measure of fear of failure (when it comes to starting your own business) applies to those who perceive opportunities only. Entrepreneurial intentions is defined by the percentage of individuals who expect to start a business within the next three years. “Belief in high status to successful entrepreneurs”, “Entrepreneurship is a good career choice” and Media attention for entrepreneurship indicators are measured by percentages of population agreeing with these phrasing.

3. Social enterprises in (an institutional) context

“... The direct measures of the social enterprises lose their strength when the general legal and economic environment is working against them.”

- Eva Varga: Ecosystem of the social enterprises - International examples and best practices

3.1 Institutional and stakeholder landscape of social enterprises

- **State and other supervisory bodies** regulating the activities of non-profit SEs:
 - Parliament: adopts the SE related legislation.
 - Government: plans and adopts policy related to SEs.
 - National Tax and Customs Administration: tax inspection of SEs.
 - State Audit Office: control on the use of budget support allocated to SEs.
 - Public prosecutor: supervision of the legality of SEs.
 - Courts: registration of SEs.
- **Umbrella organizations:** they have some sort of relationship with the SEs (membership, sponsorship or partnership)
 - National Employment Non-profit Ltd. (Országos Foglalkoztatási Közhasznú Nonprofit Kft.)
- **Social enterprise communities and coalitions:**
 - Social entrepreneur club (NESsT and Kék Madár Foundation) launched in 2012: free workshops for 15 participants for 8 months
 - Social Enterprise Day annual (NESsT and National Employment Non-profit Ltd): fair for social enterprises
- **Universities:** Corvinus University in Budapest has a one-semester social entrepreneur course in which social enterprises are also involved. Students have the opportunity to do a traineeship in social enterprises.

3.2 Key context dimensions for social entrepreneurs

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

3.3 Linkage between social entrepreneurs and inclusive society

One of the most critical social issues in Hungary is the exclusion of many disadvantaged groups from the labour market. Disabled, young and elderly people, Roma communities, people with low education, as well as women confront many barriers to access employment and sustainable income. Therefore an important proportion of social enterprises have a labor inclusion or sustainable income related mission. The business model in many cases is the employment of disadvantaged groups and offering products and services designed to be produced by beneficiaries. Another typical model is the increase of the employability of these groups through education, vocational training and job placement services. Also there is a relatively high incidence of social enterprises with an environmental focus.

4. Organization of social enterprises in the market and society

“There is no explicitly created social enterprises legal form or status in Hungary. Social enterprises can have a wide range of legal forms, with all their advantages and disadvantages. This results in a colourful palette that is beneficial to the further development of the sector, as it leaves room for innovation and experimentation.”

- Eva Varga: Ecosystem of the social enterprises - International examples and best practices

4.1 Legal form of social enterprises

- Social enterprises in Hungary can function either in non-profit legal forms (e.g. foundation, association, non-profit business association etc.) or in for profit legal form (e.g. social cooperative).

Social enterprises functioning in non-profit legal form can only carry out business activities in a complementary manner. Those social enterprises which have a special public benefit status may enjoy some discounts or exemptions from taxes, duties and customs.

- The business activities are regulated in different legal norms which are sometime inconsistent and the related concepts are unclear.

4.2 Operational model of social enterprises

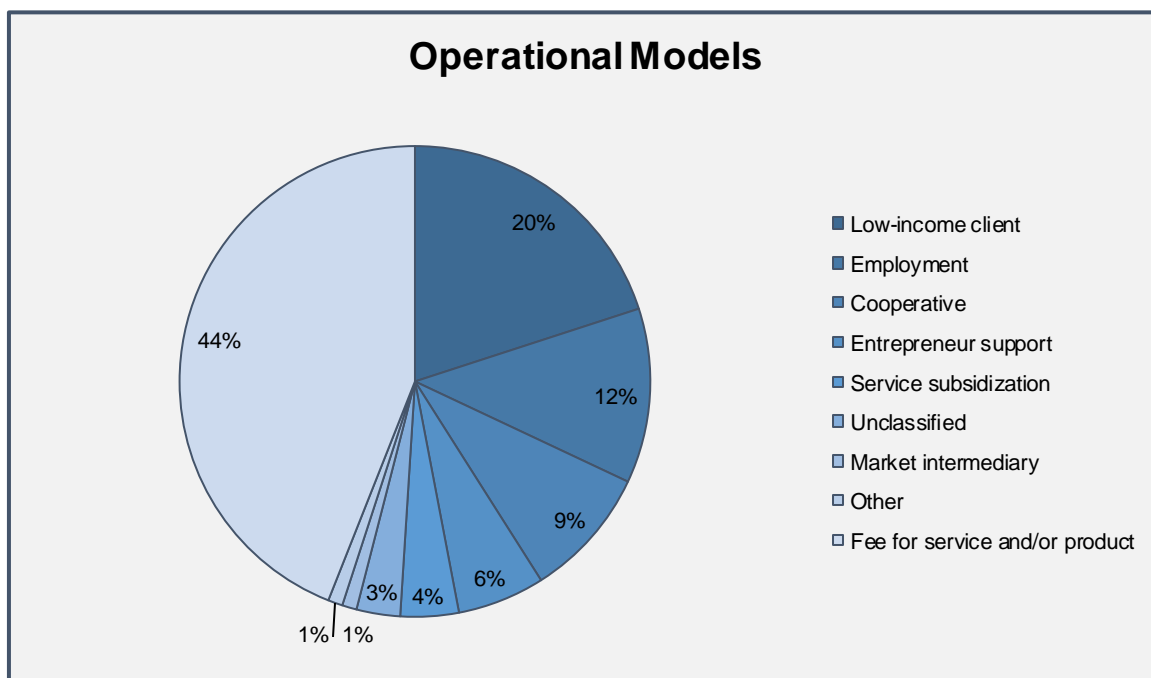


Figure 3: Operational Models (SELUSI, 2010. N=104). See Annex for explanation of the different models.

4.3 Important values for social entrepreneursError! Bookmark not defined.

On average Hungarian social entrepreneurs emphasize experimenting with new processes and methods and also typically act proactively, i.e. are introducing products, services and processes ahead of similar organizations and/or competitors. Moreover, they emphasize developing new products, services and processes. At the same time Hungarian social ventures are somewhat less inclined to take risks, i.e. when faced with uncertainty they tend to take more cautious actions and typically make more incremental rather than wide-ranging changes in their organizations.¹⁹ Social enterprises often become dependent on the donor or they have to satisfy the expectations of the owner who provides the start-up capital which restricts their possibilities.²⁰

¹⁹ SELUSI, Personalized Feedback Report Hungary, 2012: http://www.selusi.eu/uploads/images/101216_Selusi_Report_HU.pdf.

²⁰ Attila István Petheő, A vállalati társadalmi felelősségen túl: a szociális vállalkozás, 2009: http://phd.lib.uni-corvinus.hu/398/1/petheo_attila.pdf.

5. Financing of social enterprises

“There are no large number of major private donors, especially on the field of supporting social enterprises. Therefore, others need take over this role. Major companies may consider this kind of support and target group as part of their CSR activities, but rather it would be more desired if they integrate it to their core business processes.”

- Eva Varga: Ecosystem of the social enterprises - International examples and best practices

5.1 Sources of revenue and funding for social enterprises

- Hungarian social enterprises are financing their activities from the following sources: 1) Fees for services or sales of products; 2) Investors' capital (equity); 3) Loans; 4) Grants; 5) Private donations; 6) Microfinance; or 7) Other. Sales and/or fees (38%) and grant finance (36%) are the most important sources of capital.²¹
- As social enterprises are mainly unknown to the Hungarian political actors, there is no state support system to stimulate the concept of social entrepreneurship. Those social enterprises which function as a non-profit organization, due to their legal status, are excluded from the economic development tenders designed for small and medium-sized enterprises.²²
- Social enterprises have realized the importance of diversifying revenue streams.

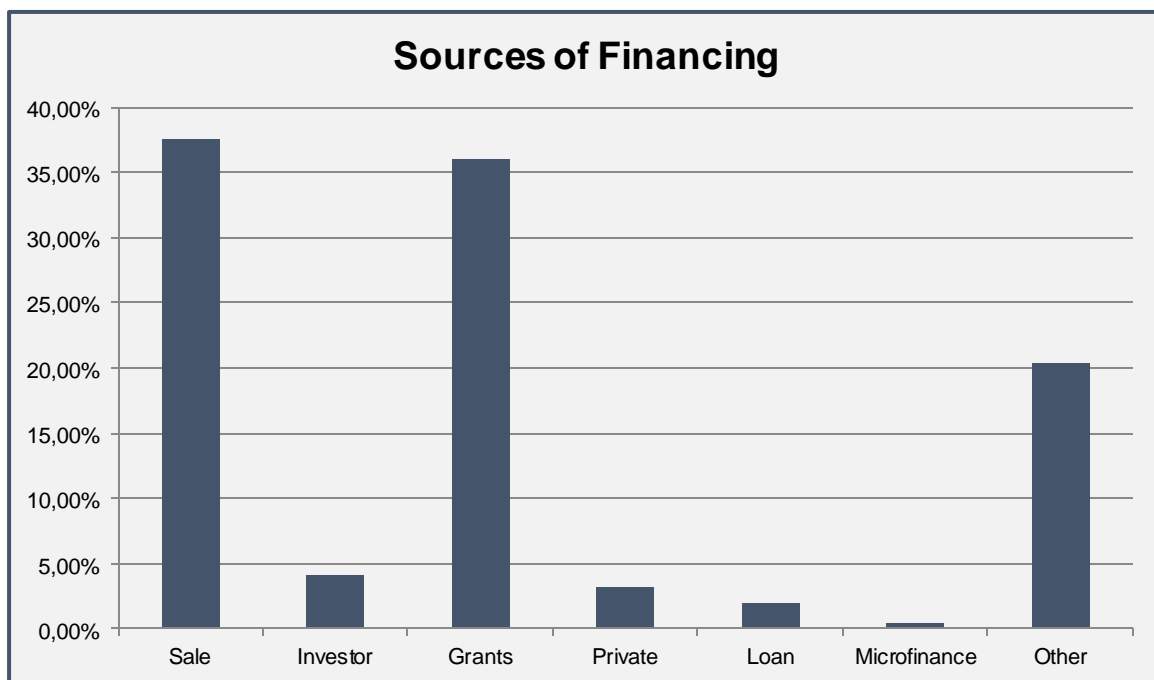


Figure 4: Sources of Liquidity over the Past 12 Months (Source: SELUSI, 2010. N=102)

²¹ SELUSI, Personalized Feedback Report Hungary, 2011:
http://www.selusi.eu/uploads/images/101216_Selusi_Report_HU.pdf.

²² NESsT 2011 Hungary Country Assessment:
<file:///G:/NESsT/Seforis/material/2011%20Nesst%20Country%20Assessment%20Hungary-hu.htm>.

5.2 Financial Crisis

Between November 2007 and November 2008 despite the financial crisis in Hungary, the overwhelming majority of social enterprises experienced moderate to strong growth: 40% reported moderate growth (up to 20%) and 38% reported strong growth (20% to 40% or more than 40%), with an even split between the latter two categories. 22% of social enterprises experienced a reduction in revenues, while zero reported stable revenues (i.e. 0% growth).

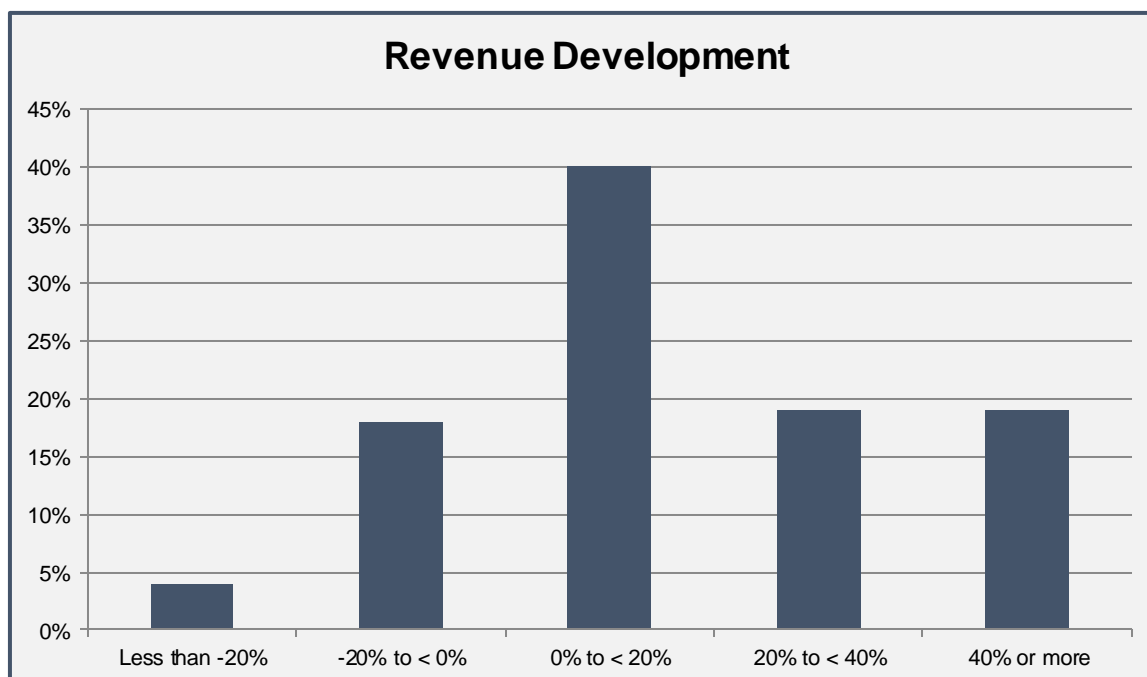


Figure 5: Revenue Change from Nov '08 to Nov '09 compared to Nov '07 – Nov '08 (Source: SELUSI, 2010. N=84). Figure shows percentage of social enterprises in each category. Number of companies for which this question does not apply because they were founded after November 2008 is equal to six.

5.3 (New, dedicated) players

- Private social impact investors:
 - NESsT, launched in 1997: investment: seed capital in the form of grants and soft loans; capacity support; social capital.
 - Ashoka²³, launched in 1981: since 2009 it financially supports social entrepreneurs in Hungary for 3 years so that they can spread their model. However, not all social entrepreneurs supported by Ashoka are leading social enterprises they are solving social issues using some of the tenants of entrepreneurship but they are not necessarily running socially driven businesses.

²³ The mission of Ashoka is to support social entrepreneurs who are leading and collaborating with changemakers, using a team model that addresses the fluidity of a rapidly evolving society. Ashoka believes that anyone can learn and apply the critical skills of empathy, team work, leadership and changemaking to be successful in the modern world. Ashoka identifies and invests in leading social entrepreneurs and helps them achieve maximum social impact. For more information see: <https://www.ashoka.org>.

- Polgár Alapítvány az Esélyekért: Kiútprogram (group-based, unsecured microloans for people living in deep poverty, primarily Roma, to support their self-employment).
- Other dedicated private financial players are:
 - Banks: Citibank (since 2005 it has launched several tenders with NESsT for social enterprises); Raiffeisen Bank; Erste Bank (since 2010 it has led a campaign for the promotion of Mohammad Yunus's 'social business' model).
 - Venture capital and private equity industry: Hungarian Private Equity and Venture Capital Association (partner in NESsT's Business Development Program).
 - Funds: EEA/Norway NGO Fund.
- Corporate Social Responsibility is increasing in Hungary but private companies have provided no significant sources for non-profit social enterprises.
- The majority of the sources of the non-profit sector still come from the state (European Union funding included): central budget, local government budget, 1% of taxpayers' income tax and operational and project support of the National Civil Fund.

6. Innovations of social enterprises

“The concept of social innovation were brought to life by the recognition coming from the policy makers and scientific circles that the technological and business innovation cannot answer every social challenge.”

- KOINE Innovation Magazine

6.1 Innovation drivers and barriers

In the SELUSI research virtually all social ventures considered innovation important. Social entrepreneurs identified six main clusters of innovation drivers: social and environmental effect (increasing quality/spreading social impact, reducing environmental impact, 61%); increase range/quality of products and services (45%); financial sustainability and market expansion (36%); pressure from competitors and financing organizations (13%); process improvements: flexibility, capacity, cost reduction (10%); responding to regulatory change/requirements (6%).

The most widespread driver of innovation activity was to achieve the social venture's social goals: for example, to improve the quality of how the venture delivers social impact and/or increase the spread of social impact by increasing the number of people they reach; while the main driver of innovation of commercial enterprises has been to increase the range and/or quality of their products and services (Eurostat, CIS 2006; Parvan, 2009).

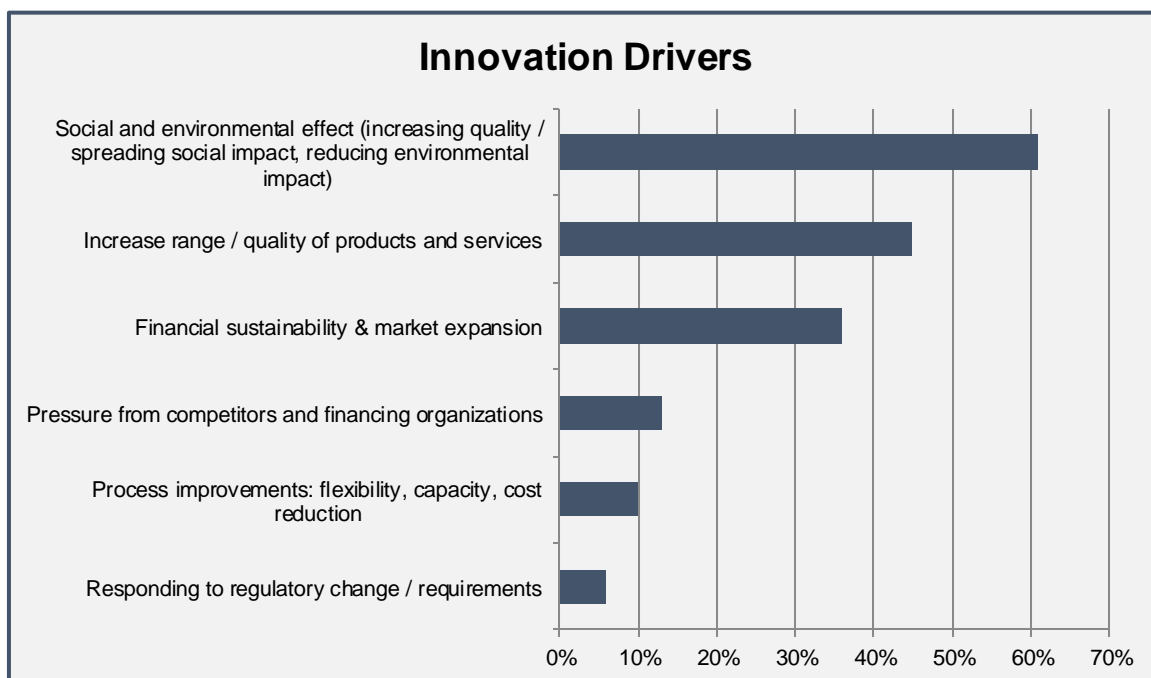


Figure 6: Innovation Drivers (Source: SELUSI, 2010. N=104). The categories were obtained through prior exploratory research, and from the Community Innovation Surveys (available through Eurostat).

The identified innovation barriers were the following:

- **Cost-related innovation barriers** (much like with commercial enterprises) were the most frequently mentioned (52.4%).

- **Internal barriers** – such as lack of time or qualified personnel - were also detected by 23.3%.²⁴
- On the other hand, **regulation-related barriers** (14.6%) and **market barriers** (7.5%) (and this is different to commercial enterprises) were least frequently raised.

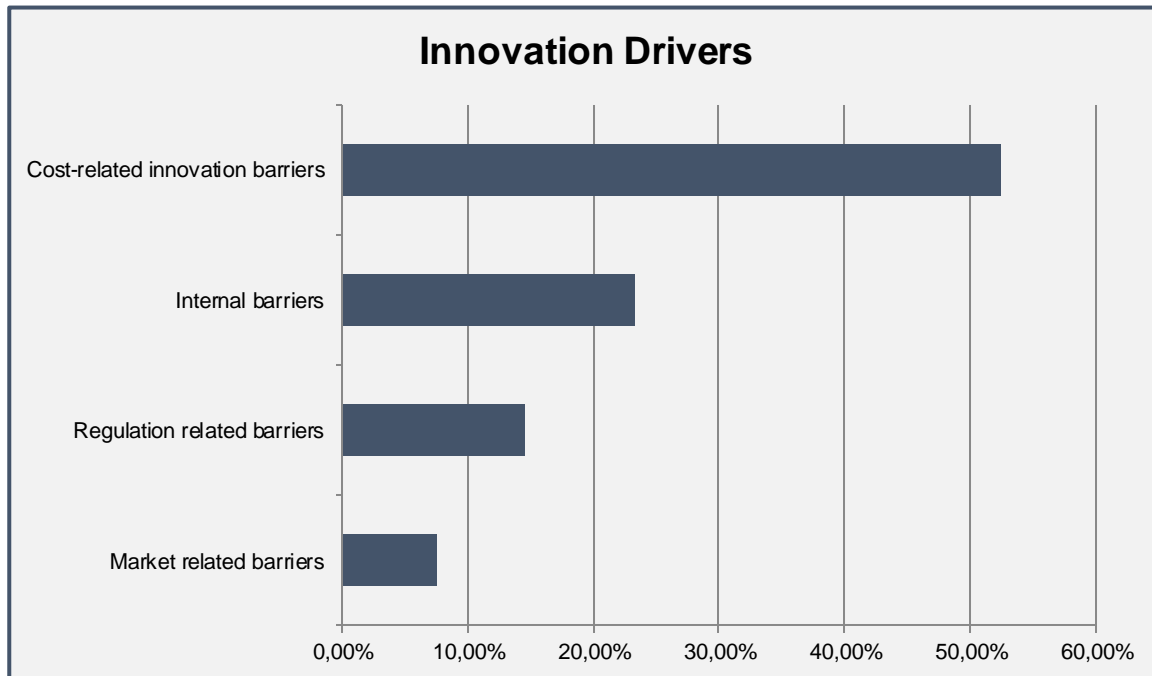


Figure 7: Innovation Barriers (Source: SELUSI, 2010. N=103)

6.2 Typology of innovations

- According to the SELUSI research 84% of Hungarian social enterprises introduced at least one new or significantly improved service, product and/or process to their organization in 2009. Moreover, 59% of those ventures had introduced at least one 'new-to-the-market' innovation, i.e. a 'radical' innovation in 2009. When we contrast these figures with comparable data on commercial enterprises, we find that social ventures reported to be much more innovatively active.

²⁴ See definition in Annex taken from the already cited SELUSI Report.

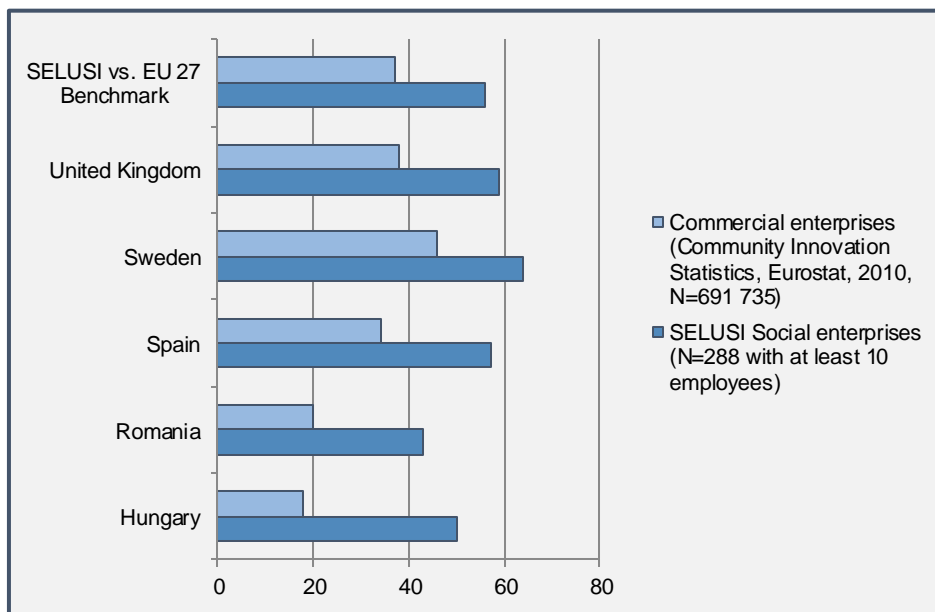


Figure 8: Proportion of Social Ventures that had introduced New-to-the Market Innovations in 2009 (Source: SELUSI, 2010)

6.3 Innovation process

There is no dedicated source to support innovation activity of social enterprises. In most of the cases their innovations are not technological ones, but e.g. labour, communication or process related. Successfully balancing between the social impact and financial sustainability is already an innovation since social activities are not normally market driven. NGOs can find governmental and EU funds for social innovation, but for technological innovation hardly any. For for-profit social enterprises there is hardly any financial source for social innovation, either.

7. Impact of social enterprises

“Impact measurement is a path leading to individual responsibility and through that strengthening democratic values. Also, with the help of the impact measurement, communication between the donor/investor and organization receiving funds or investments becomes more efficient.

- Gabor Lévai - Social Impact Working Group

7.1 Impact measurement: does this take place?

- Impact measurement among Hungarian social enterprises is in a very initial phase. There are a lot of discussions around the topic, primarily among NGOs, and there are many players committed to improve in the area, but most lack tools and resources to track the actual impact of their activities.
- NESsT has developed and is using its own performance management tool (including social impact measurement) as a basis of its social enterprise development work and to measure its own social impact.

7.2 Impact results and dimensions

The very few impact results that are available are rather quantitative but do not say much about the quality dimension.

7.3 Trends and developments related to social impact

The Hungarian Social Impact Working Group that contains players from NGOs, government, donor organizations and social enterprise incubator (NESsT) was set up and started to discuss opportunities to join forces and share experiences in early 2014.

8. Overview of studies

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9. Annex 1: Operational models explained

Operational models describe how social enterprises align social and economic value creation²⁵.

1. Employment model

The organization provides employment opportunities and job training to its target population or people with high barriers to employment.

2. Cooperative model

The organization provides direct benefits to its target population or clients through member services: market information, technical assistance, collective bargaining power, economies of bulk purchase, access to products and services, etc.

3. Market intermediary model

The organization provides services to its target population or clients, usually small producers to help them access markets.

4. Entrepreneur support model

Similar to the market intermediary model, the organisation sells business support and/or financial services to its target population or clients, which are self-employed individuals or firms. Its mission centres on facilitating the financial security of its clients by supporting their entrepreneurial activities.

5. Fee for service and/or product model

The organisation commercialises its social services and/or products, and sells them directly to the target population or clients, individuals, firms, communities, or to a third party player.

6. Low-income client model

The low-income client model is a variation of the fee for service and/or product model. The organisation designs and sells services specifically to low-income clients.

7. Service subsidisation model

The organisation sells products or services to an external market and uses the income it generates to fund its social programmes. Social and business activities may only align weakly.

8. Organisational support model

The organisational support model is similar to service subsidisation model, but the business activities are separate from the social programmes through different legal entities.

²⁵ Based on **Alter, Sutia K.** 2006. "Social enterprise models and their mission and money relationships." In *Social Entrepreneurship: New Models of Sustainable Social Change*, edited by A Nicholls, 205–232. Oxford: Oxford University Press.



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