

Social enterprises – a way to promote sustainability in the Hungarian nonprofit sector and provide solutions to critical social problems

Research summary of NESsT's¹ recent country assessment about social enterprises in Hungary



NESsT's recent research aims to map the situation of social enterprises in Hungary, to take a look at the nonprofit sector's sustainability, as well as to identify certain features in the working environment of nonprofits that discourage the development of social enterprises. The research also wishes to showcase the key results and challenges of a few operating social enterprises in Hungary. Today's presentation will focus on presenting some key environmental obstacles and NESsT's experiences, which show that in spite of a difficult environment, social enterprises can successfully contribute to the sustainability of nonprofit organizations. NESsT is able to contrast the findings of our recent research with that concluded in 1999 and make interesting comparisons about the past 11 years.

Social enterprises are entrepreneurial, business activities launched and operated by mainly nonprofit organizations with the aim to further their social mission as well as generate income. A social enterprise provides products and services in a regular, responsible and professional way, and works to keep the balance between financial goals and its social mission.

According to the data of the Central Statistical Office, in 2009 around 50% of the nonprofit organizations had some kind of income from economic activities. The weight of self-financing activities in the revenues of an organization varies among these organizations; but on average it is usually around 15-30%. Self-financing can cover a broad spectrum of activities, while social enterprises are deliberate efforts of nonprofits to run a business with social goals.

In Hungary, - although still many believe the opposite - foundations and associations are permitted to engage in economic activities. Up to a certain level, the regulation encourages self-financing activities by providing tax allowances, although there is still conceptual ambiguity regarding some related definitions. Two new entity types, the nonprofit company and the social cooperative, have recently been introduced; time will tell whether these can become adequate legal forms to develop social enterprises.

Based on the research interviews with donors and nonprofit support organizations, the expression and the model of social enterprise are not very widespread in the country. Interviewees identified the unstable financial and political environment, the attractive grant amounts of the European Union funds, the lack of business and management skills, the threat of mission-drift and the risk-averse, non-entrepreneurial attitude as key obstacles to the development of social enterprises.

Nevertheless, social enterprise is gaining ground and recognition in Hungary, thanks to successful examples. NESsT sees an increasing interest from nonprofit organizations in developing social enterprise ideas. The lack of a predictable and stable financial environment is not only an obstacle, but also an opportunity for the sector to realize the need to take steps to find longer-term solutions for the sake of their sustainability. Based on NESsT's decade-old work with social enterprises, we can say that committed nonprofit organizations even with no business skills and background - with professional support - can successfully develop the essential skills to manage a social enterprise. The threat of a mission drift is rare; nonprofit organizations operating a social enterprise tend to always give priority to their mission and beneficiaries, in case of a conflict between the mission and the financial goals.

We were sad to conclude that there has not been much improvement in the last decade regarding the development of a supportive infrastructure for social enterprises in Hungary. There are a few key elements in the current granting practice – especially regarding the European Union and state funds, such as the short term logic behind the support, the condition that grantees have to return profit generated and the lack of efficiency as criteria- that discourage nonprofits to develop sustainable social enterprises that meet real market needs in a profitable way

NESsT sees a strong need to raise awareness about the model of social enterprise in Hungary, and showcase how it can be a successful way to increase the financial sustainability and the overall social impact of the nonprofit organizations by presenting good practices. For the further development of social enterprises the revision of the above mentioned regulations, the promotion of an enabling infrastructure, including additional financial resources and alternative financing mechanisms, and

¹ NESsT is an international nonprofit organization that works to solve critical social problems in emerging market countries by developing and supporting social enterprises that strengthen civil society organizations' financial sustainability and maximize their social impact. Since its founding in Budapest in 1997, NESsT has provided financial and business mentoring support to hundreds of social enterprises in 40 countries.
Email: nesst@nesst.org • <http://www.nesst.org>

professional support are essential to meet the financial and capacity-building needs of both start up and more mature social enterprises.