

# Forming the conditions for social enterprise in post-socialist states

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Introduction of the research entitled “Social and solidarity economy of post-socialist peripheries”  
(contract number K112928)

# Aim of the research 1.

The research entitled “*Social and solidarity economy of post-socialist peripheries*” supported by the Hungarian National Research, Development and Innovation Office (contract number K112928) aims in general at understanding the weakness of SSE sector experienced in post socialist countries and the potential perspectives, especially focusing on:

- introducing the potential role of SSE in the development of peripheries
  - revealing the impact of state socialist legacy on the development of social and solidarity economy
  - a methodological elaboration of social cost–benefit analysis of social enterprises
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# Aim of the research 2.

*Geographical focus* (G. Fekete 2017)

- post-socialist states in CEE (SSE in semi-periphery)
- in-country differences between regions, rural-urban divide (peripheries)

*Focus on socio-economic factors* (Kerlin 2010):

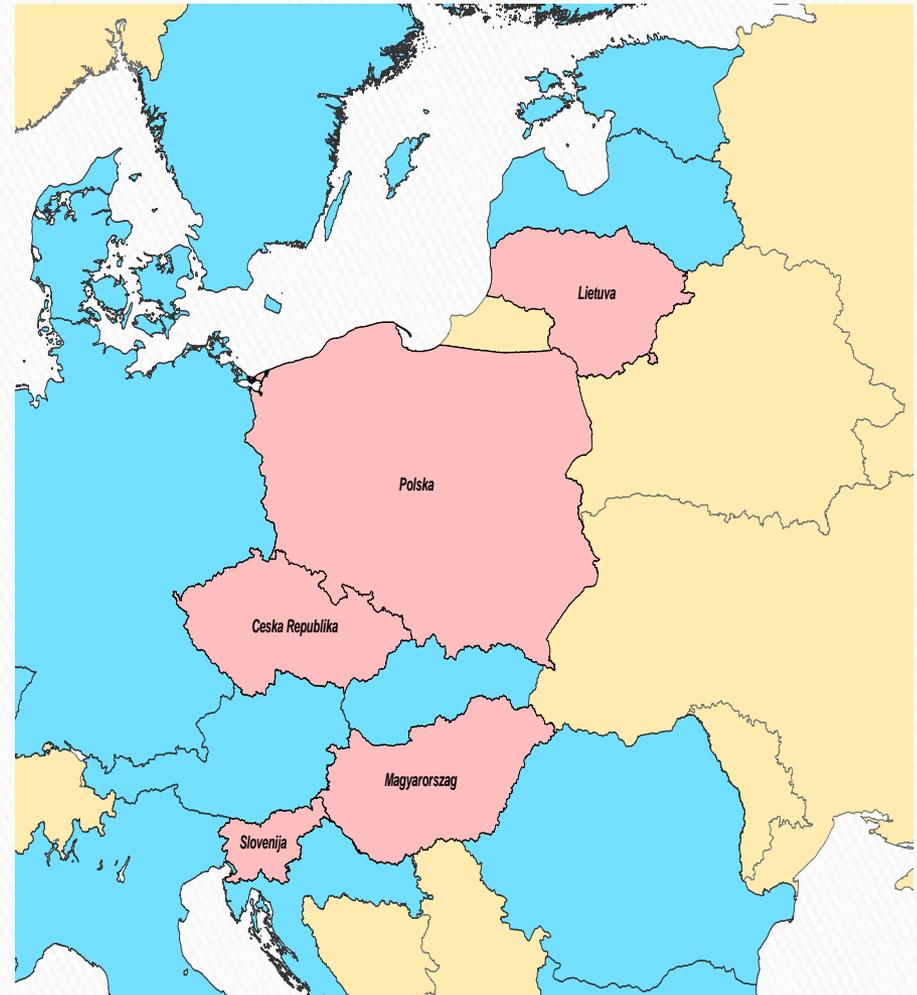
- the state
- the market
- civil society
- international aid

**Altogether 12 hypotheses connected to these factors were developed.**

*Post-socialist characteristics and internal differences based on geographical development discussed thoroughly yet in this region. The research aims at providing such information.*

# Research framework

- Research team: University of Miskolc and international partner researchers from Poland, Czech Republic, Slovenia, Lithuania
- 2015: collection of literature and writing case studies of SEs in Hungary
- 2016: country visits and Hungarian workshop
- 2017: international workshop (researchers from 7 countries) and writing the chapters (end of July)
- 2018 summer: end of project, publication of results



# Methodology

- *collection of available literature and translation of five studies* that are fundamental for post-socialist CEE SSE
- *analysis of five selected post-socialist CEE countries* by writing country studies
- *preparing comparative chapters and overall analysis of the post-socialist CEE region* based accepting or rejecting the hypotheses of the research.

*End product:* online and printed book in Hungarian and English including country chapters (written by the international partners and the Hungarian research team) and comparative chapters on certain topics connected to the hypotheses of the research

*Current paper:* short introduction of the hypotheses based on literature review (comparative reports, country studies, ICSEM, TSI, EC studies, etc.) and input from international expert workshop

# Hypothesis 1 (connected to the state)

*Before the regime change, there was no real possibility or demand for the development of social economy due to the ideology that obstructed civil society organizations as well as the great power of the state. Still, there were various attempts and initiatives pointing in the direction of social economy.*

Historical background similar in post-socialist countries:

- since Middle Ages: organizations present, cyclical development
- under state socialism: powerful political and economic control
- 1970s: economic crisis, softening of the system
- differences among the countries in the level of state involvement

**In Hungary:** importance of third sector organizations since the Middle Ages and especially since the XIXth century, strict control under state socialism, but reforms and more space for independent organizations after the economic crisis in the 1970s.

# Hypothesis 2 (connected to the market)

*The liberal economic shift following the transition, and the abandonment of Soviet-style cooperatives put business companies in the forefront and de-emphasized communal solutions in the economy, thus areas unfit (uncompetitive) for investment depleted economically.*

In post-socialist countries a new and unique form of capitalism developed:

- neo-liberal economic policies, focus on privatization, later it decreased
- economy not meeting the new challenges
- community solutions (e.g. cooperatives) not in the forefront
- entrepreneurial skills and competences not widespread
- entrepreneurs were not focusing on social issues (change recently in CSR)

**In Hungary:** neo-liberal economic policy, focus on privatization (changed after 2010) and decline in number of cooperatives was present as well.

# Hypothesis 3 (connected to civil society)

*After the regime change, growing civic activity reviving mostly in the more developed regions, focused on culture, recreation, environmental protection and charity, areas which are rarely coupled with economic engagement, profit-seeking and employment – the law also partially forbade them to.*

In post-socialist countries, the third sector experienced quick growth:

- major role of CSOs in carrying out political changes
- supportive legal and fiscal environment developed
- the survival of the state-socialist heritage (culture, sports, recreation) and new organizations (human rights, environment, etc)
- increasing role in social services, limited role in economic development
- CSOs are not forbidden to pursue economic activities by the present legislation, the system of fiscal incentives is not yet in place

**In Hungary:** primary activities are sports and culture, after the regime change human rights, environment, education and social services became important too. Economic activities less dominant but growing. Geographical polarization of the sector is apparent.

# Hypothesis 4 (connected to civil society)

*Civil society organizations are dependent on public or international funding, and this dependence is stronger in rural peripheries.*

In post-socialist countries, public funding is of primary importance:

- the ratio of public support is low compared to Western Europe
- minor degree of private giving, income from the market is scarce
- reduction on public funding leads CSOs to pursue economic activity
- in rural areas there is strong dependence on the local government, accessing central public funds is also more difficult

**In Hungary:** for CSOs public (35%) and private funding (32%) is important, as are fees for the basic activities (24%) and income from economic activities (7%). Rural areas receive less funding. Currently, funding is decreasing for CSOs, distribution is more centralized.

# Hypothesis 5 (connected to the state)

*Reduction of public spending on the welfare system, diversification of consumer needs, increase in the number of unemployed and excluded groups strengthens the need for social economy, but this does not necessarily become conscious, and in rural peripheries creativity and the power to act is lacking.*

Significant need for SSE present in the region:

- decline of former universality of social policy, privatization of the formerly state owned welfare system
- general economic decline impacting the populations' standard of living, consumption, employment, infrastructure and social infrastructure
- TSOs have been responding to mass unemployment and poverty
- lack of creativity and organizing power not characteristic to rural areas

**In Hungary:** the economic and social crisis in the 1990s led to greater role of involvement of TSOs in social services, mostly on a local level. However, this role is still limited and currently is declining.

# Hypothesis 6 (connected to the state)

*Paternalism and democratic deficit that was solidified before the change and is still present taking on new forms, hinders the economic engagement of civil society organizations and social innovation.*

Paternalistic attitude from the state still present in several countries:

- the state rarely considers TSOs and SEs as partners in public services
- there are great examples of partnership and pluralistic models as well
- the importance of state engagement and interventions that was passed on as the legacy of socialism is still dominant in public thinking.
- cooperation, autonomous decision-making, voluntary activity is at low level

**In Hungary:** two contradictory traditions of cooperation and mutual mistrust. Polarization of the sector to close-to state entities and classic CSOs. Currently more paternalistic attitude is present.

# Hypothesis 7 (connected to the state)

*Following a temporary retreat, state involvement is becoming stronger again, the state distrusts civil society, hesitating to hand over economic related tasks (services) to civil society organizations, and monopolizes social innovation.*

In post-socialist countries state involvement, centralization varies:

- in several cases, centralized, top-down relationship is present with low third sector involvement in provision of services
- in other cases, social economy organizations are more integrated in the welfare system, they have influence, representation and experience

**In Hungary:** the approach of the current government (since 2010) is less pluralistic compared to its predecessors, excluding certain organizations from support and partnership, attacking independent organizations, decreasing funding and distributing it in a more centralized way.

# Hypothesis 8 (connected to the state)

*Corruption and the lack of trust it brings does not help the formation and strengthening of sustainable socio-economic models which are based on the cooperation between the business, public and third sector.*

High levels of corruption and lack of trust present in CEE:

- significant differences among countries in the level of corruption
- low trust and willingness to cooperate in society in general
- lack of public awareness of SSE and a lack of trust in the quality of its services, often seen as a quasi-corrupt platform
- cooperation with for-profit businesses is low, but on the rise
- contracting with public authorities is difficult due to clientelism

**In Hungary:** corruption, clientelism – and polarization of the third sector – has increased in recent years. However, CSOs – according to recent surveys – are trusted by the public.

# Hypothesis 9 (connected to the market)

*The true demand for social economic products and services is decreased by the determining factor of prices in consumer needs, the low income level of target groups and reduction of needs as a survival strategy.*

SEs use different strategies regarding market activities:

- combining low prices with cost-effective measures (such as governmental subsidies or other methods for cost reduction)
- selling to middle-class customers high quality products for higher prices
- the clients' ability to pay strongly determine the economic opportunities and sustainability of social enterprises
- usually social awareness among citizens is low as customers, because the price is of primary importance.

**In Hungary:** social enterprises cannot solely live off the market, especially in rural areas. Prices are usually at a market level or below, few organizations have product prices above a market level.

# Hypothesis 10 (connected to civil society)

*Increasing social and regional differences mean that the strongest socio-economic initiatives may not necessarily be found in the most disadvantaged groups and areas, the conditions for the formation and adaptation of social innovation and its results are stronger in developed regions.*

Regional and rural–urban differences are relevant in post–socialist countries:

- SEs in cities are in a more advantageous situation in several aspects (accessing funds, channels of market sales, available human capital)
- in rural areas the local government can be a source of dependency
- in some countries most SEs can be found in rural areas
- EU–funded programs to develop the most disadvantaged regions
- uneven distribution of competences causes difficulties, but sometimes the most innovative solutions appear in the most disadvantaged areas

**In Hungary:** the regional differences are significant but this does not mean that there are more SEs in developed regions. EU Funding is available for SEs in disadvantaged regions, but not the capital.

# Hypothesis 11 (connected to international aid)

*The Western European models of social economy are known, the sector is mainly expected to deal with employment and social service problems, however, reliable impact measurement is not typical, and the concept of solidarity economy is less prevalent.*

Western financial, professional technical assistance important after transition:

- recognizing the role of TSOs in strengthening democracy but not economic development
- the concept of SE is not widespread, different definitions in each country
- policy recognition of SSE is still in an early stage: WISE is dominant
- state contracting out and public procurement not developed
- the concept of solidary economy is not widespread
- social impact measurement is not common

**In Hungary:** the notion of SE is not widespread, but its importance is growing. Funding is mostly for work integration and rural development. Social impact measurement is only available in certain pilot projects.

# Hypothesis 12 (connected to international aid)

*The EU's social economy model appears in government policies and development documents, but regulation tailored to national characteristics and development aimed for long-term has not happened yet.*

Role of the EU is of primary importance:

- positive changes, e.g. definition of SE, encouraging new legislation and legal types (e.g. social cooperatives), pilot projects, funding
- negative impacts, e.g. project based organisations, bureaucratic operation
- improvements in the countries: introducing SE into national development strategies, new legal forms, and developing social enterprise status
- deficiencies: long-term, country-wide strategies are not typical, funding is limited, regulations are lacking, related research is scarce

**In Hungary:** mostly EU funding is relevant, EU definition is important is public policy, no long-term strategy or comprehensive regulation has been adopted. Now first EU funding targeting SE in particular.

# Next steps

- Developing country chapters describing the specific situation on SSE in the countries.
  - Receiving chapters from partner researchers or certain specific issues.
  - Writing comparative chapters on issues connected to the hypotheses, understanding the similarities and differences in and accross countries.
  - Drawing conclusions regarding the acceptance, rejection or modification of the hypotheses.
  - Finalizing the publication by summer 2018.
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Thank you for your attention!

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