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Contested forms of solidarity: An overview of civil society organisations in Hungary and their impact on policy and the social economy

WITH CONTRIBUTIONS BY DANIEL VINCE

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Center for Policy Studies

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society organisations in Hungary and their impact on
policy and the social economy**

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ABOUT THE PROJECT

This study grew out from the authors' research work within the larger framework of the project *Solidarity in European societies: empowerment, social justice and citizenship* (SOLIDUS) (<http://solidush2020.eu>). SOLIDUS is a research project funded by the European Union under the Horizon 2020 Programme (Grant Agreement n° 649489), running June 2015 through May 2018. The project conceptually and empirically explores current and expected future expressions of European solidarity from an interdisciplinary approach. The paper is based on desktop research carried out in spring 2017.

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1 Introduction

Against the backdrop of the continuous European ‘crises’ that have accompanied the European project through much of the early 21st century, the policy-making and academic attention to alternative modes of economic production has increased. For instance, in the summer of 2017 the European Economy and Social Committee, representing organised interests and civil society, gathered social economy representatives in Brussels and called for the European Commission to include an action plan on how to support the social economy in its 2018 work programme¹ and thereby to contribute to government efforts in European countries to draw in the non-governmental actors, for instance, the ”provision and governance of publicly financed welfare services” (Defourny, Hulgård and Pestoff 2014:5). Around the same time, an international conference on social entrepreneurship drew 350 participants from 41 countries around the world to debate the meaning and implications of the social and solidarity economy and social entrepreneurship from a scholarly perspective.²

Hungary is not unaffected by this international and European policy and practice discourse around the social economy, while its own discourse and public debate around what constitutes a ‘legitimate’ civil society has significant implications for how it can be interpreted in the Hungarian context. At the same time, ‘Europe’ will be affected by how the term and policy around ‘social economy’ catches on in Hungary and other Central and Eastern European member states. However, there is little English-language material available that depicts civil society and the social economy in Hungary within its policy landscape, and that sets it in a longer historical perspective.

The purpose of this paper is therefore primarily to provide such an account, in order to spur academic and policy interest in developments in the – nowadays – not so new member states. We argue that while the development of civil society has been impressive in terms of the growing number and diversity of organisations and their professional endeavours, its influence has remained limited on policy making. At the same time, an increased involvement of civil society organisations in public service provisions has produced a blurring of the boundaries between the civil and the public spheres that, in turn, has induced some fading away of the democratic potentials of the civil society field. Therefore, economic acts based on solidarity and originating from civil society do not automatically form or increase a ‘social economy’ but become as contested by and as intermingled with political developments as other acts of civil society. Following Eschweiler et al. (2017), by ‘the social and solidarity economy’ we refer to “a broad range of citizen-based activities, ranging from fair trade, renewable energies, microfinance and social currencies to third sector organisations providing

¹ European Economic and Social Committee, June 28, 2017. *Press Release: The EESC calls for a long-term action plan for the Social Economy by 2018* available at <http://www.eesc.europa.eu/en/news-media/press-releases/eesc-calls-long-term-action-plan-social-economy-2018> <retrieved September 18, 2017>.

² EMES International Research Group on Social Entrepreneurship. June 22, 2017. *News item: Non-OECD countries participants on 6th EMES Conference* available at <http://emes.net/news/non-oecd-countries-participants-6th-emes-conference/> <retrieved September 18, 2017>.

health care, social services or work integration” (Eschweiler et al 2017, drawing on Defourny 2001).

This study grew out from the authors’ research within the larger framework of the project *Solidarity in European societies: empowerment, social justice and citizenship (SOLIDUS)*³. The project conceptually and empirically explores current and future expressions of European solidarity from an inter-disciplinary approach. The paper is based on desktop research carried out in spring 2017 with relation to how solidarity can be channelled into social innovation and co-creation of public goods, i.e. into the social and solidarity economy, through involvement of the ‘third sector’. The focus is on involvement in the areas of education, employment, housing, and health. Being important and influential areas of civil action for tackling fundamental needs of large social groups all over the place, these were the sites of inquiry for the larger project. As for Hungary, this selection proved useful for additional purposes. While NGOs working in education and health deserve attention for their weight (these entities represented some 20 per cent out of civil society organisations registered in 2015, HCSO 2015), inquiring into the very few NGOs that exist within housing and employment gave us insights into some shortage-ridden areas, as well as into the particular constraints of scarcity and underfinancing in civil actions.

The paper is structured as follows. We start by providing basic information and numbers on civil society in general (section 1.1.) and the social economy, in particular (section 1.2.). We then move to an in-depth analysis of the policy environment of civil society (section 2) in general, and social innovation and social economy, in particular (section 3).

1.1 Size and scope of civil society

The legal groundwork for the operation of civil society organizations upon which current regulations were built was initiated by legislation already in 1987, i.e. before the dramatic changes that swept through Central and Eastern Europe in 1989. This was followed by legislation in 1997 (Török 2005) which has since then been updated several times. Substantial revisions were for instance introduced in 2011⁴ and new modified legislation for civil society organisations receiving financial support from abroad was approved by parliament in spring 2017.⁵ While the policy environment will be elaborated on in Chapter 2, it is important to note here that after an initial phase of great variation in the management form and financing of the emerging organisations, it seemed necessary to introduce clear regulations (Arapovics 2011) by, for instance, defining what is and what is not a ‘civil society organisation’. Thus, according to the

³ Funded by the European Union under the Horizon 2020 Programme (Grant Agreement n° 649489), running June 2015 through May 2018, website <<http://solidush2020.eu>>.

⁴ CLXXV. Law on the Right to Association and the Functioning and Support of the Civil Organisations (2011). Act 75.

⁵ LXXVI. Law on the Transparency of Organisations Supported from Abroad (2017).

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2011 Act, civil society organisations can take three forms: civil companionship (*civil társaság*), association (*egyesület*) or foundation (*alapítvány*). The difference between them concern for instance the aim of the activities conducted by the civil society organisations; foundations should be for some public benefit purpose whereas associations may be started for the benefit of the members only.

At the same time, the overall number of NGOs, however they have been defined, show an increasing trend. For instance, even if the number of foundations has decreased somewhat since 2005, this is partly due to fusions while by taking into account also the membership organisations the data indicate a steady rise (see Table 1). It can be noted that the spatial distribution of civil society organisations has been stable. While Budapest is overrepresented in relation to its population (1.7 out of 10 million inhabitants), this overrepresentation is not dramatic, as can be seen by, for instance, comparing the distributions in 2005 and 2015 in Table 1. Thus, with an equal distribution, Budapest would have 17 per cent of foundations and membership organisations; instead, in 2015 it was home to 27.2 per cent of foundations and 21.1 per cent of membership organisations. That number is, however, slightly lower than ten years earlier. The same trend can be seen for regional administrative seats, whereas the share of foundations and NGOs active in smaller towns has slightly increased. The share of foundations and NGOs in villages is stable. In 2015, more than a quarter (27.8 per cent) were active in rural settings, which due to the fragmented local government system to provide partnership include many settlements holding just a few hundred inhabitants.

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Table 1 Overall number and spatial distribution of nonprofit organisations by type

Community types	Foundations		Membership organisations*		Total	
	number	distribution, %	number	distribution, %	number	share, %
2005						
Capital	6 596	29,6	7 682	22,3	14 278	25,2
County seats	5 053	22,7	7 483	21,7	12 536	22,1
Other towns	6 363	28,6	9 685	28,2	16 048	28,3
Villages	4 243	19,1	9 589	27,8	13 832	24,4
Total	22 255	100,0	34 439	100,0	56 694	100,0
2015						
Capital	5 734	27,2	8 673	21,1	14 407	23,2
County seats	4 649	22,1	8 204	20,0	12 853	20,7
Other towns	6 502	30,9	12 817	31,1	19 319	31,0
Villages	4 159	19,8	11 414	27,8	15 573	25,1
Total	21 044	100,0	41 108	100,0	62 152	100,0

Source: HCSO, 2016A

*In Hungarian *társas nonprofit szervezetek*. In addition to ‘associations’ (*egyesületek*), this can cover other membership organisations such as ‘civil communities’ (*civil társaság*).

The organisations span over broad areas of activities and policy sectors. Table 2 provides the distribution of activity in 2015, as defined by the classification used also for EU-reporting by the Hungarian Central Statistical Office.

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Table 2 Number, distribution and total revenues of nonprofit organisations by fields of activity

	Total		Distribution by overall revenue, %	Revenue per organisation, thousand HUF
	number	share, %		
Culture	8,830	14.2	13.4	23,455
Religion	1,151	1.9	0.4	5,298
Sport	8,865	14.3	11.6	20,202
Recreation and hobby	9,839	15.7	3.9	6,168
Education	8,173	13.2	8.9	16,738
Research	1,377	2.2	5.0	56,411
Health care	2,730	4.4	4.7	26,385
Social services	5,641	9.1	8.4	22,927
Emergency and relief	856	1.4	0.4	7,308
Environment protection	2,112	3.4	5.1	37,153
Community development	3,438	5.5	17.4	78,211
Economic development	1,590	2.6	9.0	87,506
Protection of rights	667	1.1	1.1	25,818
Protection of public safety	2,120	3.4	0.5	3,509
Multipurpose grantmaking, support	210	0.3	0.3	24,186
International relations	763	1.2	0.7	13,333
Professional, economic advocacy	3,432	5.5	8.9	40,127
Politics	358	0.6	0.3	11,605
Total	62,152	100.0	100.0	24,832

Source: HCSO, 2016B

As it is shown in Table 2, civil society organisations are rather concentrated by their activity. Culture, sports and recreation together make up 44 per cent among them. In addition, education represents 13 per cent mostly with the foundations adjacent to schools. All other fields attract just a few organisations, however, sometimes these can provide important additions to public services like the financial data show in the case of organisations engaged in community development. However, it should be noted that most of the organisations are small in terms of financial activity. Most have yearly

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revenues of between 51,000 and 5,000 000 HUF, i.e. approximately 160 – 16,000 Euros (Hungarian Statistical Office, 2016C). Chapter 2 will discuss the opportunities of civil society to receive part of the state’s tax income, and the development of this over time. However, civil society also acts as donors, and over the past ten years the provided amount has increased, as it can be seen in Table 3. The table shows a gradual institutionalisation as well: most of the support targets organisations with increasing magnitude in cash, while financial donations to individuals have been declining and in kind support has been relatively growing among the forms of support.

Table 3 Donations of donor organisations

Form of donation	Allocated funding – amount, million HUF	Equivalence in EUR (with 2017 exchange rate)
2005		
Monetary funding		
For Individuals	33,234	106,296,282
For Organisations	86,531	276,751,702
Total	119,765	383,043,852
Allocated total funding (monetary and in kind)		
For Individuals	36,707	117,399,830
For Organisations	91,028	291,134,436
Total	127,735	408,534,267
2015		
Monetary funding		
For Individuals	26,986	86,309,200
For Organisations	119,599	382,512,935
Total	146,586	468,825,334
Allocated total funding (monetary and in kind)		
For Individuals	39,127	125,139,705
For Organisations	124,974	399,703,773
Total	164,101	524,843,478

Source: HCSO, 2016D (authors’ conversion into EUR)

1.2 Size and scope of the social economy

If solidarity economy is defined in demanding terms of where collaboration between public institutions and the third sector is institutionalized and integrated into the public governance framework (Gaiger 2015), some would question if there is any social economy in Hungary at all. However, the scale and scope of the social and solidarity economy can also be approached from an act- and/or actor-centred perspective. Who is conducting acts that can be seen as being part of the social economy? Such analyses would usually look at the community (civil sector, including households and families) that we have done above, but also at the ‘market’ (the private sector, i.e. private firms), and how they interact with the state. The questions asked within such a framework include: ‘Are firms carrying out social economy acts?’, ‘And if so, how?’ This can be investigated as acts by ‘regular firms’, usually referred to as done upon their sense of ‘corporate social responsibility’. One can also investigate the extent to which there are opportunities to pursue solidarity economy within legal entities set up specifically for this purpose.

In general, in line with the growth in number of civil society organisations, their share or contribution to the Hungarian economy has grown, but as pointed out by Kákai and Sebestény (2012), the heavy and increasing reliance on public funds, as well as important regional variations should be taken into account in the analyses.

As concluded by a 2014 overview of social enterprises commissioned by the European Commission, Hungarian social enterprises typically come from one of the following four categories: NGOs with economic activities, traditional cooperatives with some social functions, social cooperatives, and private companies with social aims (European Commission 2014:10). Private companies can then be set up as regular companies but not run with the sole intention to create profit for gain. Here innovative combinations can be found, such as when a local/organic food distributor sets up a business arm (a firm) together with a non-profit organisation to realise its aims (Eschweiler et al. 2017). However, since there is no specific social enterprise format for firms (European Commission 2014:10), such activities cannot be captured by regular statistics, as will be elaborated on below.

A study by Frey, published in the *Social economy handbook* (2006) conducted an overview of those non-profit organisations that had as explicit aim to stimulate employment and concluded that: “This number is not big, in fact, one would not exaggerate too much if one said these would only be a handful if we would add the self-sustaining ability as well” (own translation from the original Hungarian) (Frey et al. 2006:50). On the other hand, a recent (2015) report on the social economy in the European Union had a broader perspective on what can be included in the social economy and estimated that as much as 5.3 per cent out of the total number of employees worked for the social economy in the years 2006-2010 (for which period the authors had data for Hungary) and this ratio places the country somewhat below the

EU-27 average of 6.53 per cent (Monzon and Chaves Ávila 2015:48). The total number of workers were around 180,000 and was calculated by adding up the employees of cooperatives, mutual societies and all associations and foundations (Monzon and Chaves Ávila 2015:59). It should be noted that the notion of mutual societies in this research refers to mutual insurance companies, whose claims to being social organisations may be dubious. However, the only Hungarian member of the International Cooperation and Mutual Insurance Federation⁶, the Central European Insurance Society (*Közép-európai Kölcsönös Biztosító Egyesület Magyarország – KÖBE*), highlights its non-profit and Hungarian status as pitted against foreign profit-making insurance companies.⁷

In practice this means that, for instance, an administrative employee working for a football club will be counted as belonging to the social economy. Table 2 in Section 1.2 provided a categorisation of non-profit organisations based on main activities. The organisations together make up the core of ‘civil society’ and, following the definition by Monzon and Chaves Ávila in their report to the European Commission, all of these would be included in the social economy. However, a more narrow definition of social economy would concentrate on just a few of these, like the social services, community development and emergency relief. For instance, the table shows that there are 5,600 organisations primarily active within social services, and 3,400 within community development. It should also be noted that the financial stakes are low. The combined income of all social service organisations is about 130,000 million HUF (approximately 4.2 million Euro). It is worth mentioning in this context that the Monzon and Chaves Ávila report acknowledges the enormous challenges in collecting comparable data across European countries, since the notion of social economy is relatively new to national statistical offices and does not follow traditional ways of sorting production in each country. The number should therefore not be understood as one set in stone, but gives a hint about how Hungary stands in relation to other countries (Monzon and Chaves Ávila 2015:21).

Of interest to this study are cooperatives, enabled through the 2006 legislation⁸ referring to them as ‘social association’. (The term gives a hint to how they are existing in Hungary as a hybrid between cooperatives in the economic sense and ‘associations’ in the sense of ‘civil’). While there was previous legislation in the area, the new legal form nonetheless serves as a reference point for debate. According to the law, social cooperatives “have as their aim the creation and provision of work to members in disadvantaged position, and the improvement of social place in other way” (own translation). The law was initially slow in getting uptake. A thorough 2010 evaluation (Petheő et al. 2010) had tremendous difficulties to find, access and solicit responses from social cooperatives. At the time there were 116 social cooperatives in Hungary, and when a random sample of 20 was approached, only a few responded to repeated

⁶ See the website of ICMIF, the International Cooperation and Mutual Insurance Federation at <https://www.icmif.org/member-organisations> <retrieved June 1, 2017>

⁷ See information in English about the Central European Insurance Society at <https://www.kobe.hu/kobewww/aboutus/kobe> <retrieved June 1, 2017>

⁸ Law on Associations. 2006. Act 10, Third chapter, third section.

mail and phone efforts, and several turned out to be defunct. The evaluators therefore had to go significantly beyond the initial sample in order to gather meaningful data, and estimated, based on their successful inquiries, that only about 60 social cooperatives were actually active (Petheő et al. 2010: 110). Among these, activities were diverse but focused on business-to-customer economic models, instead of, for instance, business-to-business relations (Petheő et al. 2010: 118). They shared as primary aim of their activities to create workplaces for marginalised groups. The research also showed that the social cooperatives suffered from being an unknown form and that they had difficulties accessing the material and dialogic support they wanted from the public sector that they saw as their main partner (Petheő et al. 2010: 124-130).

However, since then the social cooperatives seem to have increased in popularity – although publicly available statistics is contradictory. A 2016 study identified 587 social cooperatives in 2015 (Edmiston 2016:71), whereas recent press coverage on the ‘lavishness’ of funds going to social cooperatives cites figures closer to 2,000.⁹

The field of social cooperatives has not only expanded rapidly, it has also seen changes in terms of active actors. It is telling that among the five organisations listed as key umbrella and coordinating organisations for social cooperatives in the employment area in the evaluation in 2010, only two seem to be active today based on updates on websites and references by other organisations. These are, as follows:

- The National Association of Social Cooperatives (Szociális Szövetekezetek Országos Szövetsége, SzöSzöv) is an umbrella organisation to share knowledge of and about social cooperatives, and advocates for their status in various programmes. The association is an important platform but has modest resources. According to the latest account available on their website, their income and expenditure were only 600,000 HUF, less than 2,000 EUR, in 2014.
- The National Foundation of Employment (Országos Foglalkoztatási Közalapítvány, OFA) was instrumental in the early stages of providing advice and know-how on how social cooperatives could contribute in this area, but seems to have lost in relative importance since.

The most likely explanation for the increase in number of social cooperatives is that they have become important vehicles for the distribution of EU funds. Edmiston et al. writes that “social co-operatives are publicly supported through a range of regulatory provisions and funding instruments as a policy tool to create ‘employment opportunities’” (Edmiston et al. 2016:80). While this may be suitable on some levels it also makes the grantees vulnerable to criticism of being ‘grant-hunters’ or being submerged into EU discourses of job-creation rather than spreading democratic principles. This criticism has been raised in reports reviewed by the project team (Frey et al. 2006, Petheő et al. 2010, and Edmiston et al. 2016). For instance, Edmiston et al. argue that the social economy and its public utility is conceived “as a vehicle through

⁹ *Milliárdokat szakítanak a szociális szövetkezetek.* 2016. augusztus 22. <Millions for the social cooperatives>, available on the economic online portal http://www.piacprofit.hu/kkv_cegblog/milliardokat-szakitanak-a-szocialis-szovetkezetek/ <Retrieved May 17, 2017>. The cited source is firm register which only release data against payment.

which to achieve pre-defined policy objectives”, primarily the reintegration of disadvantaged populations into the labour market and tackling unemployment (Edmiston et al. 2016: 75). There has also been at least one instance of serious suspicion of corruption. In 2016 a police investigation was launched against one of the MPs of the ruling party (FIDESZ). According to the investigators, he may have promised social cooperatives access to EU funding on the condition of receiving up to 90 per cent of the funding in return. Charges were pressed by the Chief Prosecutor’s Office in April 2017.¹⁰

While the overall number has increased rapidly, the social cooperatives are typically small in size. According to Edmiston et al., most would have between 7 and 10 members, and mostly very few or no employees (Edmiston et al. 2016: 77). There have also been important developments in the legal framework which impacts who these members are. Changes in 2013 of the 2006 Act X on Cooperatives made it possible for local governments to be members, and additional modifications in 2016 made it mandatory to have local governments as members. This was criticised by the National Association of Social Cooperatives that also sees the new law as unclear on many points.¹¹ As noted by Edmiston et al. in their case study of Hungary, the “introduction of local governments also propagates asymmetrical power relations that distort the cooperative and democratic principles underpinning the effective operation of social cooperatives” (Edmiston et al. 2016:82).

2 The policy environment of civil society organisations in Hungary: a contextualisation based on time and space

2.1 National strategies on working with civil society

In order to draw a meaningful picture about the broader political and policy environment of civil society and its organisations in contemporary Hungary, one briefly has to go back in time to the late 1980s. This period preceding the systemic changes of the 1990s was a phase of vivid and widespread participation of Hungarian society in informal economic, cultural, and social activities that were primarily driven by needs that the socialist economy was unable to fulfil but that also were fed by a widely shared, tacit opposition to the ruling state-socialist state. Even though prior to the enactment of

¹⁰ See articles at the news portals *Index* and *444.hu*: *The corrupt FIDESZ politician wanted to get hundreds of millions of EU support* (title translated from Hungarian) , available in Hungarian at http://index.hu/gazdasag/2016/08/04/szazmillios_unios_tamogatast_akart_lenyulni_a_korrupt_fideszes_kepviselo/ (retrieved May 22, 2017) and *Charges Pressed against Mengyi Roland* (title translated from Hungarian) <https://444.hu/2017/04/25/vadat-emelte-mengyi-voldemort-roland-ellen> <retrieved May 22, 2017>.

¹¹ National Association of Social Cooperatives website news. See <http://www.szoszov.hu/megkuldte-a-nemzetgazdasagi-miniszterium-a-2016-evi-cxlv-torveny-34-ss-1-altal-modositott-2006-evi-x> and <http://www.szoszov.hu/sites/default/files/letoltheto/12732tvmodosas2016okt.pdf> <Retrieved May 22, 2017>

the 1989 Act on the Right for Associating¹² independent associations and organisations could not be freely formed, thousands and thousands of spontaneously organised informal units existed. In a large part, these were called into being to countervail the deficiencies of the prevailing shortage economy: parents united to renovate their children's school that had been chronically underfunded for such purposes; relatives of hospitalised patients organised themselves to improve the conditions in run-down and impoverished hospital wards by organising cooking and delivering meals and also by providing medicines that were inaccessible through the underfinanced system of formal distribution; local cultural centres enjoyed the informally organised help (finances and voluntary work) of engaged residents, etc. Likewise, informal cooperation and voluntary work assisted the functioning of local agricultural cooperatives or smaller firms – all under tight central control in their formal functioning. Beside the immediate contribution in material terms, such a rich and extensive civil participation and self-organisation contributed to the spreading of formerly practically non-existent knowledge and skills: through their experience, people learned the rules of fair and just cooperation, the basics of democratic decision-making, and also the fundamentals of economic management in order to effectively and rationally support the fulfilment of certain collective goals.

The accumulated experience richly paid off after the regime change. By acknowledging the constitutional right for free association and by providing a new legal framework for the foundation and working of civil society organisations, the new regime gave way to turn the earlier semi-illegal, informal associations into proper, formally acknowledged units that enjoy the rights to define their own goals and choose the bases and forms of funding according to the participants' will and that fit into the larger-scale system of a regulated market economy. Popularity is reflected in numbers: as of 1993, there were 35,000 registered non-profit organisations (associations, foundations, and the so-called companionship organisations together); their number grew to 48,000 by 1997 with further continuous growth throughout the decade following the millennium, and reaching a stabilised number, as seen above, around 62,000 by the mid-2010s (Hungarian Central Statistical Office 1997, 2016, Bocz 2009).¹³

However, these figures of dynamic growth in numbers have to be read with certain reservation. While widespread popular will to participate in the newly legalised civil sphere has certainly been *one* of the drivers, economic and political interests also have played a massive role. As we discuss it in more details below, in simultaneity with the legal and financial stabilisation of the NGO-sector, the subsequent governments and a great number of the municipalities have discovered the advantages of 'outsourcing' certain public duties by contracting with nationwide, regional or local NGOs for cooperating in their fulfilment. Furthermore, utilisation of the European Structural and Cohesion Funds that became accessible for the country after the EU-accession in 2004 also gave impetus to the foundation of national and regional NGOs that have been

¹² The denial of individual and collective rights for associating belonged to the very essence of the old socialist system that, up until the last minutes of its existence, exerted over-centralised control above all civil initiatives.

¹³ The quoted numbers refer to the NGOs actively functioning in the respective years. The statistics do not present the overall number of the registered civil organisations. However, the latest detailed account of HCSO reports a gradual yearly decline in numbers, income and employment since the mid-2000s (HCSO 2015)

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working under tight control of the founding authorities but that, due to their simpler managerial structure, helped to make the distribution of targeted welfare and community funding better targeted and more efficient.

These recent developments had ambiguous impacts. While, in a long-term perspective, the flow of funding into the NGO-sector certainly has been on a steady rise¹⁴, the sector paid for this by losing independence and by becoming directly influenced by political interests and the prevailing power relations both at the parliamentary and central governmental level, and at the level of the local government. The shift in the composition of the sector from citizens-founded NGOs toward ones called into being and controlled by the authorities –and to a certain degree, also by for-profit enterprises – for assisting the fulfilment of certain public policy and/or business needs has led to the blurring of the boundaries between the civil and the administrative/economic spheres, and this way opened the gate to corruption and significantly decreased transparency of financing and economising.

Amid these circumstances, it cannot be considered incidental that the subsequent governments and parliaments have ‘forgotten’ to develop a coherent and all-embracing strategy to frame the clear and distinct roles of the NGOs and to adjust the ways and forms of public control above them to their acknowledged independence. Instead, certain functions of the civil society organisations have been enlisted in task-oriented strategic documents on important social issues like poverty reduction, environmental protection, crime prevention or struggles against drug abuse. At the same time, local governments proved more willing to see cooperation with the local NGOs as part of their mid-term plans that they often formulate in strategic documents. The two concurrent trends of melting the civil sphere in public policy on the governmental level and of seeing it as an ingrained part of fulfilling local tasks on the municipal level have led to a high degree of fragmentation and, also to a sharp decrease in transparency and accountability. Amid these conditions it is not a surprise that trust in the civil society organisations has become shaken and especially the work of larger, nationwide foundations has become surrounded with suspicion and disbelief (Világgazdaság 2017).

Nevertheless, the trends are not as bad if one looks at the data on a relatively new form of civil participation, the offering of a part of one’s personal income tax for supporting a freely chosen NGO. Since 1996, tax-paying individuals have the right to designate 1 per cent of their annual income tax to a selected NGO from among those that are entitled to receive such donations. Entitlement is bound to legally and financially proper functioning over five years and an uninterrupted fulfilment of the organisation’s basic tasks during two preceding years. The list of the entitled organisations is published each year by the tax authorities. As the latest data of the National Taxation Authority show for 2015, some 45 per cent of the registered civil society organisations met the requirements, while somewhat more than half of the tax-paying citizens offered their 1 per cent to one of them, and this way raised the funding of the sphere by 83 billion HUF

¹⁴ The long-term trend did not break even in the years of the economic crisis, though for some years, there has been a slight decline followed by a period when the rate of increase has been slower than before. After a recovery in 2014, the current real value of the sector’s yearly overall income represents some 160 per cent of the corresponding value in 1993 (HCSO 2015).

(280 million EUR). These latest data come after a steady increase in the number of individuals making a declaration (see Kuti and Czike 2005 and Kuti 2008 for thorough analyses of the early years with this policy), while, due to the combined effects of the lasting economic crisis and the introduction of a flat-rate personal income tax that caused a drop in the transfers of the richest group of the taxpayers, the overall sums have slightly decreased. Nevertheless, expanding participation indicates widespread interest of the citizenry. Despite the known controversies and frequent criticism about the inefficient functioning of the civil sphere, people consider it important to maintain and support the civil society organisations as the representatives of public interest and as embodiments of independent decision-making in the conditions of ever tighter and centralised governance in contemporary Hungary.

All in all, one can establish that, due to the in-built limitations on its autonomy, the NGO-sector has made but a modest contribution to the institutionalisation of everyday democratic participation while, at the same time, it also has become a significant actor of central and local level public service provisions. Additionally, the recent developments in the sector expanded the government's scope of manoeuvring for expressing direct political influence and thereby taking agency over the selection among 'desirable' and 'less desirable' organisations. The latter tendency seems to be strengthened by a recently enacted law¹⁵ which is a new addition to the 2011 law that governs the functioning of the civil sphere¹⁶. The new modification intends to draw under tight governmental supervision those NGOs that enjoy some significant financial support from abroad. The reasoning of the government represents a new approach in dividing up the sphere: it is stated with a good deal of hostility that NGOs enjoying external financial support might pose high risks for national security, since 'alien agents' might use the support for meeting 'dangerous political goals'. This new approach openly goes against the independence and freedom of the civil sphere and it implies a potential threat also for those organisations that are currently out of the targeted circle.

2.2 Policy incentives of working with civil society in selected policy areas

As indicated above, the first years of the transformation of a centrally organised state-socialist system to a democratic market-based society and economy were characterised by a rather enthusiastic orientation toward civil society and its organisations as the embodiments of freedom, free choice and self-regulation. The programs of the Antall- and Boross governments of the early 1990s emphasised these qualities (Brachinger 2016). However, public policy interest has gradually shifted toward seeing these organisations primarily in their capacity of adding work and finances to the chronically underfinanced public social services, and the gradually introduced administrative and

¹⁵ LXXVI Law on Transparency of Organisations Enjoying Support from Abroad (2017).

¹⁶ CLXXV. Law on the Right to Association and the Functioning and Support of the Civil Organisations (2011).

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financial regulations have reflected such a reordering of the priorities (see the 2011 Law on civil organisations and the additions of 2017). While the classification of the civil society organisations distinguished them by the level of their public benefit and while the related regulations on their finances were purposefully adjusted, the actual social, economic, and cultural functions of the civil sphere never have been outlined in any governmental documents. Rather, such official documents have been drafted for meeting bureaucratic needs by setting up the administrative framework and the forms of coordinated decision-making in civil affairs. As stated above, strategic thinking is more characteristic on the local level. However, the hundreds of local civil society strategies result in a great deal of fragmentation both in the aims of and in the actual forms of cooperation.

Given this framework one faces limitations when talking about national policies and specifically designed policy incentives that target one or another area of the civil sphere. In order to show the ambiguities resulting from the concurrent over- and under-regulation of the civil partners and their sometimes shaky relationship with the public domain, in what follows we draw on examples from the selected areas of education, health, housing, and employment.

Of course, civil associations and foundations exist in all four selected large areas of activity (though, as we discuss below, with highly differential scope and coverage), they were created due to institutional needs and interests in the diverse public service areas. Statistical data provide only aggregate information. As pointed out in Chapter 1, the yearly publications of the HCSO reflect a rather settled and stabilised situation: the distribution by profile shows that some one-third of the registered civil society organisations work in education, followed by 16 per cent in welfare services and a further 15 per cent in the cultural field. Organisations in healthcare represent some 7 per cent of the civil sphere, while employment and housing do not appear in the publications: the latter two areas attract civil activities only in a few exceptional cases (HCSO 2015). The very uneven distribution by profile can be explained by the interplay of several, partly independent, factors: traditions of civil engagement, diverse institutional compositions, and the specific regulations of the given fields.

The high number of NGOs (mainly: foundations) in education reflects extreme fragmentation. Most of these are foundations adjacent to a given school that mainly draw on parental support to contribute to the chronically low financing of the schools from state resources. These foundations can be regarded as institutionalisations of the old forms of support that parents had provided in work and material contributions back already in state-socialist times. The convenience of having an adjacent foundation helps a great variety of goals and interests of these educational institutions. Sometimes it is used for maintenance and development of school infrastructure; in other cases the foundation helps to raise funds for complementing the very low salaries of teachers; yet in other cases new and innovative courses are supported or local grants are provided to talented students; etc. In sum, these NGOs take over certain tasks from the public sector (especially from the local governments and the schools themselves), and this way help to compensate for underfinancing while allowing for some flexibility in the otherwise often over-bureaucratised workings of schools. A smaller part of the educational foundations serves afternoon schooling and ‘catching up’ programmes for the most

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disadvantaged groups of Roma students. The third type consists of financially stronger NGOs that facilitate and finance private and non-public schooling. In recent years, church-based foundations have been set up in significant numbers to help the spreading of faith-based schools which is a declared goal of the current government. As to influence and representation, the latter types of educational foundations have gained importance in shaping the curricular and managerial reforms of the sphere. At the same time, small school-based NGOs are tacitly acknowledged as ways to circumvent the pressing claims for more funds in public education. However, changing policies affecting the schemes where these NGOs can apply for funding have induced their temporary – sometimes even ultimate – suspension during the past years.

Although much lower in number than in the realm of education, forming NGOs in healthcare is likewise driven to a large extent by the long-pursued public and professional interests in compensating for the chronic shortages of state funding in healthcare. Again, in a fragmented way, the majority of healthcare foundations function as adjacent ‘arms’ of local hospitals and independent outpatient services (Bocz–Kmetty 2008). These foundations are often initiated by doctors and healthcare managers who see the only way to buy new, expensive equipment or to modernise the hospital’s laboratories and wards, is by setting up a foundation and opening it to patients’ contributions while also utilising these foundations to apply for grants to domestic and foreign funding schemes. Sometimes these adjacent NGOs serve to provide complementary funding to the severely underpaid medical professionals.

Another important type of NGO in healthcare serves cooperation between professionals and affected patients (sometimes together with relatives) in case of certain diseases. Given the high mortality rates in cancer and cardiovascular diseases, the foundations set up in these areas in collaboration between doctors and patients have gained wide public acknowledgement in providing prevention and counselling. This is reflected in the fact that the few nationwide foundations of this type receive the highest share of the one-per cent designations of earners’ personal income tax. This enables these few strong associations to raise awareness, to train patients, and to contribute to improving the quality of cure and care. However, even these widely-acknowledged and financially stable associations have practically no influence on policy-making in health care. At the same time, most of the organisations with similar profile lack adequate resources and representation: they soon become multifunctional units providing training and counselling but also fulfilling important advocacy roles; however, despite all their efforts, they largely remain restricted to their own small circles of participating patients and their supporting health personnel.

Yet another important type of NGOs is patients’ associations. With a decades-long history, one can say that perhaps these are the most genuinely civil initiatives of the health field: usually they are called into being by a few active patients who offer support to those suffering from the same disease. Support is meant in broad terms and ranges from sharing experiences in discussion groups to developing courses and counselling on issues of everyday life while coping with a certain illness. In most cases the organisers also invite doctors and nurses; the new forms of cooperation between professionals and affected patients is usually welcome by both parties.

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Finally, a fourth type of NGO in health care serves professional goals and largely remains closed to broader civil participation: these recently developed foundations aim to support medical research and certain professionally defined and closely regulated fields of medical experimentation. By utilising the relatively relaxed regulations of the civil sphere, these foundations ease the burden of underfinancing by the state, however, they certainly lack all other characteristics of the civil sphere.

The above indicated lack of civil initiatives in housing and employment requires a glimpse at the peculiar state and regulations of these two areas.

Housing is considered in Hungary in highly privatised terms: it is individual families and housing coops that are the subjects of the various central and local provisions, while these provisions are designed in clear market terms of investment and returns. Social housing is practically non-existent; the case of the poor is tackled by targeted support schemes that are usually managed by the local governments as parts of their welfare programme and are always run on an individual basis. Thus the few civil society organisations working in the housing sphere represent the interests of certain vulnerable groups but they have little space to respond to the housing needs of their constituents (see Svensson, Balogh and Cartwright 2017)¹⁷.

As to employment, the notion of civil society involvement is even less present than in housing. The various programmes and schemes supporting the growth of employment target the SME-sector and allocate funding mainly to medium-size private firms. Naturally, the criteria are adjusted to the profitability of the business: the goal is to invigorate economic growth through creating interest in raising the extent and quality of employment. Additionally, a few long-established civil associations representing the employment needs of people with various disabilities are partners of the government in designing specific regulations for these groups. It is important to note that unemployment does not appear among the profiles of nationwide civil society organisations: instead, a very fragmented system of local associations tries to support the local unemployed by providing training programmes and schemes for learning how to adapt to labour market needs. Recently, the emerging social cooperatives – as new forms of economic units enjoying certain preferential tax-regulations due to their social provisions – have become important new actors in meeting the latter goals.

¹⁷ However, the picture about limited civil interest in housing holds for ‘times of peace’; crisis situations may give rise to intense civil activities. The financial crisis created a number of organisations, mostly formal, but also informal, against the banks and evictions. Many Hungarians got into financial difficulties through having taken loans in foreign currency, and as these loans became more expensive after the financial crisis in 2008, they could not pay it back. People blamed the banks for misleading on terms and being greedy on interest. The resulting anti-bank movement has partially been successful in pressuring the government to do something about the matter, leading to a law that mandated banks to convert all loans back to forints on terms unfavourable to the banks.

2.3 Structural access of civil society to political decision-making

As we have seen so far, the new and older civil actors perform a number of important tasks in Hungary. They contribute to service delivery and thereby assist meeting the needs of a wide variety of people and public institutions; civil society organisations can influence local development and modernisation; and these organisations are also important in accumulating knowledge, skills and know-how and transferring it to the public domain. At the same time, the influence that civil society can exert on political decision-making and the shaping of public policy remains rather weak – and this is largely due to the one-sidedness of the relationship. While the civil actors are deeply embedded into the national policy environment, their functioning is ruled mainly by top-down mediation and regulations. It follows from this hierarchical construct that civil society access to political decision-making is largely dependent on the way government actors shape and determine the policy environment. However, it should be emphasised that civil society has few institutionalised access points to decision-makers in the sense of being codified in the constitution, law or administrative decisions. By institutionalised access points we mean practices observed in both pluralist and corporatist long-term democracies, such as hearings (e.g. US) or consultations as regular and embedded parts of the policy-making process (e.g. in Sweden, see Lundberg 2013). While proposed legislation according to the law should be subject to consultation¹⁸, either with the general public or stakeholder groups, a study of all consultations held between 2011 and 2014 showed that the time period available for this generally was a mere 7 days in the years 2011, 2012 and 2013, that sank further to 4 in 2014 (Alberti et al, 2015: 26).

This does not mean that representatives of civil society are never included in decision-making processes in Hungary. They are regularly taking part in the decision-making process surrounding the use and distribution of EU funds, although research shows that real influence is limited and that procedures are contested (Batory and Cartwright 2011, Demidov 2014). One phenomenon which seems to have become very widespread at the local government level is the use of ‘civil society round-tables’. Despite their name, these ‘round-tables’ are often set up with the purpose of regular usage as consultative bodies to the local governments, and can be found across the country. The civil actors have more a ‘courtesy role’ than real influence though, even if just witnessing the decision-making process, their presence may create some platform for informal ‘lobbying’.

The same type of bodies has also been institutionalised at national level in some sectors, although that seems of more limited scope and success. An example of the type of question and the type of problems that can be encountered is the ‘Anti-segregation round-table’, set up by the Hungarian government in 2013 following a request from the

¹⁸ CXXX Law on the participation of the community in the preparation of laws (2010)

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United Nations. After initial cooperation, a number of civil society organisations left the round-table in protest against the government's policy decisions, including the human rights organisation *Hungarian Helsinki Committee*, part of the international Helsinki movement.¹⁹ An independent expert who left the round-table explained her decision to leave on her public Facebook page:

"I, who always emphasised that I find it so important to build our work into the state system, I give up this path <to this>. I often came to this point, mainly, because I felt that we so much don't speak one language, that we see things so differently, but I always waited, hoped that something would change, and that to some extent I can keep things in measures, push the brakes ...<...> But I think what disturbed me the most was that we had to work out strategies to deal with certain consequences that were actually coming out of this very system. <...> I will try in some other way. Because as such it doesn't work." (Nóra Ritók²⁰, our translation)

These and similar events of conflict point to the complexity of cooperation between the national policy-makers and the most articulate civil society organisations that have the reputation, the necessary visions, skills and voice to stand up and claim involvement in policy-making. The conflict is partly about power and influence but partly also about clashes in needs. The civil actors usually argue for acknowledgement and support in order to affirm the representation of their target group and meet the needs of their clients; the government usually strives to ease the pressure on the public sphere by redefining part of it as 'civil'. As soon the civil actors are ready to accept the redefinition, the government finds it justified to tighten its ruling. At this point, a political compromise would be needed, but it is rarely achieved. The end result is usually a break in the consultations and a frustrated withdrawal driven by feelings of betrayal on the part of the civil partners.

Another option open to the civil society organisations is to refrain from attempts to cooperate with the representatives of the public sector. This minimises the possibility of conflicts, however, claims on representation and influence are also deliberately given up. The outcome is often the marginalisation of the civil society organisation. One of the most controversial and destabilising effects of such a deliberate withdrawal is losing access to information about funding opportunities and, gradually, losing access also to the resources themselves.

In the next section we show how these complexities and controversies are played out in the distribution of financial support to civil society organisations.

¹⁹ Articles about this were published in *Civilhetes*, a magazine produced for civil society, see <http://civilhetes.net/tiltakozasul-kilepett-a-kormany-altal-letrehozott-kerekasztalbol-az-utolso-civil-szakember-l-ritok-nora-is> <Retrieved May 23, 2017> A local coverage example can be found on the local government page of Gilvanfa <http://gilvanfa.hu/2017/04/21/keresztuzben-az-antiszegregacios-kerekasztal-2017-04-21/> <Retrieved May 23, 2017> .

²⁰ See her public Facebook page at: <https://www.facebook.com/lritoknora/posts/229836934015221> <Retrieved May 23, 2017>).

2.4 Financial support structures and incentives

Due partly to the relative scarcity of alternative channels of support but justified also by the extensive involvement of the civil society organisations in providing a wide range of public and social services, the two main actors of financing the NGOs are the government and the municipalities that distribute funding through the central state budget and the yearly revenue of the local authorities, respectively. Funds for the civil society sector consist of two large segments: the redistribution of a part of the yearly collected tax-revenue and, since Hungary's accession to the European Union in 2004, a part of the European Structural and Cohesion Funds determined year after year by the parliament in the framework of the laws on budget and spending. Over time, the latter resource has become more significant both in magnitude and the gradual extension of the scope of the schemes that NGOs can apply to. At the same time, decision-making about the roles and the revenues of the various schemes and programmes has remained in the government's hands and this way dependence on central allocation has even strengthened. Frequent modifications to the rules of access and the fluctuation of the magnitude of funding cause some instability in the workings of the NGOs: when severely underfunded, many of them need to temporarily suspend their operations which results in the oscillation of their ability to provide services. Such symptoms of irregular functioning primarily hit the smaller NGOs with sometimes dramatic consequences for service delivery in the poorest communities.

Parallel to the growth and diversification of the NGOs both by size and activities, the regulations on support and the financial obligations of the various clusters of organisations have been refined. The most important step was the introduction of the concept of 'public benefit organisation' in 1997. According to the rules, an NGO can apply for acquiring this status if it has been engaged at least for two years in one or more activities that can be acknowledged by the court as 'publicly beneficial'. The long list of the activities is largely in concordance with the content that the notion of 'public and social services' covers. Public benefit organisations enjoy tax reductions, relaxed rules in engaging in profit-generating economic activities and extra support with regard to employment. At the same time, both private and business donors offering support to this type of NGOs can deduct the contribution from their tax-fund. As long as their profile makes it possible, NGOs apply for this preferential status: at present, close to half of the civil society organisations are designated as such. The organisations are under strict control of the court: ceasing or suspension of their 'publicly beneficial' activities implies the withdrawal of the status.

Although the 'publicly beneficial' status involves extra advantages, the whole of the NGO sphere enjoys some privileges. Civil society organisations are exempt from paying a wide range of business-related taxes; their contribution to employment is acknowledged by special (lowered) rates in taxation and social security contribution; they enjoy exemptions and/or reductions in paying VAT after the sales of their services and products; and they can expect tax-return in cases when income of the preceding

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year was used for extending their primary registered activities. As already mentioned, a special form of financing the civil society organisations is provided through the so-called 1 per cent rule that was introduced in 1996. The regulation has met growing popularity: currently some 45 per cent of the tax-payers choose to designate 1 per cent of their yearly personal income tax. Most of the offers are made for schools and cultural centres, but welfare services and NGOs in healthcare also appear among the popular choices. The transferred 1 per cent significantly raises the revenue of the civil sphere: some three per cent of their funding comes from this source. It is perhaps even more important that citizens can directly influence the potential development of the sector. The priorities that the individual offers highlight can be considered reliable information about country-wide developmental needs, and can be perceived as popular 'votes' that extend democratic participation in public affairs. Public authorities - the central government and the municipalities - can acknowledge this focus in their planning and actions.

While the above described forms of financing are in accordance with the customary regulations that Western societies apply, the state of public procurement is rather underdeveloped. NGOs rarely get support from the municipalities in the form of endowments. Instead of classic procurement concluding in take-over of properties for replacing the municipality's certain service provisions, more frequent forms are leasing or renting for a definite period of time that the parties set up as part of their contract. The motives behind the prevalence of these transient forms are complex: due to decades of neglect, local infrastructure is still in poor shape in many of the localities, thus, the new actors are often unwilling to make use of them. The intermingling of the public and civil sides in running a range of local social services makes it rational to keep the venues as municipal properties; in addition, frequent fluctuation in the financing and the ability of service provision of these NGOs (especially the smaller ones) makes it risky for the local authorities to transfer ownership of public facilities. The civil society organisations are also often reluctant to take over property due to the financial obligations that they are unsure to be able to meet. At the same time, the strict rules of capitalising on property adds a further aspect to the limitations on organisational and financial autonomy of the civil sphere. In addition to the financing of their activities, the overwhelming majority of NGOs is dependent on the will of the central and local governments as expressed in frequently changing regulations and recently emerged restrictions.

In sum, the financial and infrastructural sides of daily operations of the civil society organisations are characterised by multifaceted uncertainties that mainly follow from the constraints of the sphere's relationship with the central and local administrations. These uncertainties and instabilities could be overcome by more regularity in the transfer of funds (both domestic and foreign) and by giving greater scope to normalised indices of measuring as much the organisational needs as the outcomes. However, the establishment of such norms currently meets insurmountable difficulties. As it was pointed out earlier, the uncertainties that characterise the SME-sector and, to a certain extent, also the larger enterprises exert direct impact on the civil society organisations through the oscillations in direct and indirect financing. Additionally, the suspicious attitude of the public authorities toward the civil sphere has led to questioning also the

justified spending of a substantial number of NGOs. Thus, the mere existence of civil society organisations depends on two large aspects/forces out of their control: the state of the economy, and the ideological-political orientation of the government and other important political actors.

3 The policy environment of the social economy and social innovation

The preceding chapters have shown that there are some economic and political opportunities for civil society organisations to have policy impact, but that these opportunities are limited in scope, and have become increasingly so, especially on central level. Social impact can of course be reached without cooperation with the government at its different levels, but lack of dialogue or low-quality dialogue, hinders policy learning, policy transfer and policy up-scaling. Thus, impact usually becomes local also in the sense of being restricted to those directly affected.

The question of whether the social economy and actors therein are recognised by policy makers does not readily assume a sequence of events in which the social economy and its actors first emerge, and then ‘receive’ recognition. To this question, one could argue that policy-makers were late in formally recognising the value of the social economy, since for instance the special legal form ‘social cooperative’ was only created through legislation in 2006. In that way policy-makers recognised ongoing activities dating back at least a decade, and decided to provide a space for that.

On the other hand, one can make an equally strong argument that recognition by policy-makers is in the case of Hungary something that partly precedes the creation of institutionalised forms of social economy actors (especially social cooperatives). Because of the willingness of the Hungarian policy-makers to adhere to European discourses of the value of the social economy, an institutionalised legal form for this has been pushed as one of the preferred modes to disburse EU funds. This has led to the creation of a fairly large number of social cooperatives, many of which are shown as inactive when researchers have tried to approach them to assess their scope and activities. As discussed above, the research projects cited in this report all faced problems of actually finding associations that are listed, eliciting response either via mail or phone, and identifying ongoing activities in cases when contact was made. That is not to say that there are not many social cooperatives carrying out serious and substantial work in their areas. However, the sector, as the overall civil society sector, is vulnerable to competing narratives and competing interpretations of their practical value: the instrumental perspective of the social economy for the sake of job creation versus the social economy as a democratising force and promoter of labour done with other purpose than monetary gain. Therefore, social economy acts and actors do receive recognition expressed in policy strategies and enacted policies, but the focus on supporting the creation of social economy actors (e.g. cooperatives) rather than on acts, mean that the time sequence between social economy acts and recognition is not one-way and linear, but rather two-way or circular. The importance of social economy actors

is recognised in official discourse within a certain narrative before it has achieved much that can be actually measured, but the support does lead to some action that fits more or less well with established civil society practices.

The idea of ‘social innovation’ occupies a marginal position in Hungarian policy thinking and the concept is practically missing from the regulatory arsenal of public policies (Edmiston 2015). It is mainly applied in external relations: in their accounts about the various activities and regulations for reporting to the European Commission, the Hungarian authorities engage in a translational work by fitting domestic developments into the terminology that is applied by the European Union. The conceptual uncertainties and confusions arise mainly from the above described intermingling of the public and the civil spheres in the delivery of a wide range of social and public services that is then further complicated by the mixing in finances and decision-making. This situation explains why ‘social innovations’ – and especially the ‘social economy’ as their field of operation – embrace a wide range of public social services (regardless of the organisational and financial forms of their manoeuvring), but also denote the civil society organisations that are active service providers in socially sensitive domains, and, additionally, incorporates the activities undertaken as social responsibilities by enterprises and other for-profit institutions. This means that one faces great difficulties when describing the state of social innovation in Hungary: on the one hand, it hardly exists, on the other hand, it represents a vivid and dedicated sphere of actors and activities.

The most fruitful approach for sorting out the agents, activities, and policies that embody social innovation is to look at the regulatory field by considering those administrative and financial measures that help the work of economic and non-economic organisations in meeting certain social needs. By definition, a large number of civil society organisations in the areas of education, welfare, culture, and health represent a degree of social innovation. This is acknowledged by the tax-regulations applied to them that define lower margins and reduced rates of contribution by reference to their specific areas of action. Social innovation as added value is acknowledged by registering some half of these organisations as units producing public benefit – a category that is, as said above, awarded by the court and that involves further reductions of the organisation’s financial obligations. At the same time, the status is not awarded forever: the yearly reports of the organisation are the bases of reinforcement or suspension. This is meant as an incentive and serves also the dynamism of the sphere.

A further domain of social innovations involves those enterprises that aim to find viable compromises between market adaptation and the pure motive of maximising their profit, on the one hand, and the fulfilment of certain social or welfare goals, on the other: they contract people with disabilities, or engage in employing a pre-defined number of Roma applicants, or agree to take on a large share of the work towards reducing of local unemployment, or contribute to community development in the settlement where they function, etc. These enterprises (usually of small or medium size) get governmental and local support from one of the schemes under the European Strategic Funds and enjoy relaxed taxation requirements. Similar in their mission are the Social Responsibility Plans of the larger domestic and foreign enterprises that express entrepreneurial engagement in meeting a wide range of educational and welfare goals.

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Although these enterprises do not enjoy tax-reduction or -exemption, sensitivity as expressed in addressing certain burning social issues (poverty, unemployment and discrimination) in their Social Responsibility Plan contributes to their prestige and usually pays also in improved positions in negotiations with the government or the professional bodies in authority. A novelty and true innovation is represented by the social cooperatives. This new form on the margin of economy and welfare was introduced in 1996 with some important additions to the law on general cooperatives. Following the rising interests, legislation in 2006 set the framework and the ways of functioning of the social cooperative as a type of self-regulatory organisations to meet the welfare needs in given – mostly rural – communities. Important special tax-regulations guarantee their particular economic status, while production and competitive participation on the market have been assisted by special governmental grants. Although due to the lack of regular data collection, it is hard to know the exact number of the active social cooperatives, experts agree that their number is around 100 to which one has to add those ‘classic’ cooperatives that, beside production and trading, accomplish important social and welfare goals. While the economic contribution of these social and ‘socially imbued’ cooperatives is modest, their exemplar and teaching functions are important. They represent a new form of non-hierarchical decision-making that is based on equal rights and equal power of the participants and that convincingly demonstrates an efficient new way of tackling important social problems (poverty, ethnic discrimination, drug use, etc.) with full devotion and, at the same time, to the benefit of the larger community.

Similar learning and teaching functions are important constituents of social innovation in its broader contexts as well. Although the lack of clear conceptualisation and properly outlined strategic plans makes it difficult to truly assess the spreading of innovative practices and materialised innovations, the idea has gradually entered into the public sphere, and it has become a customary aspect of formalising cooperation between the public and civil service providers ranging from education to healthcare and to welfare. As to the public attitude, the perception of civil society actors has altered, and earlier suspicion toward all institutions outside of the governmental sphere has been shed. As it is demonstrated by the yearly increase of the number of NGOs and a growing intensity of professionalisation from the mid-1990s onwards, civil society organisations have become an embedded new segment of Hungarian society and economy (HCSO 2015). Such a development enabled true cooperation with an increased sensitivity toward a wide range of social problems that had been brought to the table by independent civil actors. The positive turn of public attitudes toward civil society organisations has led to the development of a more supportive legal, administrative, and financial framework that began to incentivise the enlargement of the sphere. In this sense the innovative ideas have imbued also the domain of national and local governance that have incorporated into their policies the ever more customary partnership with the civil sphere. However, this welcome partnership also has a dangerous implication: by shifting tasks to the NGOs, low financing and a certain degree of neglect have become tacitly accepted and, in the name of efficient cooperation, the public authorities nowadays often feel ‘liberated’ from investing into the development of social services. This latter issue calls attention to the necessity of clearly identifying the boundaries between the public and the civil spheres and points

toward the need for developing a coherent policy of social innovation with particular emphasis on the separation of governmental and civil tasks and duties in the respective areas.

Based on the review of the literature and studies of the social economy in Hungary referred to above, and in conjunction with previous sections and chapters in this working paper, we conclude that a claim that there is an ‘emerging social and solidarity movement’ in Hungary could be substantiated, but it would be with the following notes:

Firstly, ‘emergence’ must be situated in relation to layers of practices embedded in different historical times. In order to understand the current landscape, it is important to understand that practices of economic behaviour based on reciprocity and redistribution, i.e. the foundation for the social and solidarity economy, have a long history in Hungary, and can be found in both planning and market economic systems. That said, more recent history also matters. The discourse around the ‘social economy’ and the role of ‘social enterprises’ in ‘revitalising the economy’ in international forums, including the European Union, over the past two and a half decades, has given impetus to the creation of specific legislation and policy frameworks.

Secondly, the aim of the legislation and the policy frameworks has been to make social economy type activities stemming from civil society visible, regulated and targets of specific support. We assess that overall the creation of the ‘social cooperative’ legal form has had positive effects in all these three respects characterising the social economy (visibility, oversight, funding) and has led to an increase in terms of size and scope of activity. There are, however, unintended and/or negative effects as well: a) the focus on the form rather than on the content risks overlooking the systemic changes that would be required by a transition to large-scale social and solidarity economy; b) the creation and support of a specific form has led to a focus on the instrumentality of the solidarity economy as a creator of job rather than as an enabler of other values, such as democratic principles; c) attention paid to the form sometimes creates sentiments of entitlement from the state (or the EU), and expectations on funding that is rarely fully fulfilled; d) as the rest of civil society, social cooperatives and other actors in the social economy are vulnerable to the effects of politicisation, or perceived politicisation²¹, of civil society.

Future research on the various acts and actors that may be lumped together as a ‘social and solidarity movement’ would need to take these dimensions into account as well, if a holistic picture is to be provided.

²¹ Politicisation here refers to closeness to party politics rather than advocacy for certain agendas (Kövér 2016).

4 Conclusion

This paper provided an overview of the ambiguities that are surrounding civil society in Hungary with the aim to assess the potential of the civil society impact to spur the growth of a solidarity-based social economy through its own activities and policy influence.

The discussion took departure from showing that civil society as manifested through the creation and activities of non-governmental organisations is an important constituent of the Hungarian public domain, but it has not become an integral part of the institutionalisation of everyday democratic participation. This is especially true for the national government level, whereas more progress has been made by local governments in terms of setting up and implementing strategic approaches to and with civil society actors.

The strength of civil society lies primarily in the increasing number of its organisations and the breadth of activities, whereas lack of resources, blurred lines between public and private, and the manifold aspects of polarisation point to its vulnerability. The paper attempted to highlight that both strengths and vulnerabilities of the Hungarian civil society infrastructure can be traced back to developments during the socialist era as well as to economic and political influences from within and outside of the country during the transition years and afterwards. The discussion revealed that influence of the European Union has intensified since Hungary's accession in 2004, and that EU-level policies and directives often provided blueprints for regulations and also effective practical help concerning the functioning of the domestic civil actors and the cooperating public institutions as well.

At the same time, a process of politicisation or perceived politicisation has taken place alongside emerging normative debates on the value of civil society (Kövér 2016). The notion that a 'vibrant' and 'independent' civil society is closely intertwined with positive long-term democratic development has been a dominating norm in the Eastern European Union countries since the democratic transition in the early 1990s. In the words of Guess and Abrams, they were "viewed as an indispensable component of a healthy, functioning, modern democracy" (2005:1), and scholarly and practitioner efforts went into categorising how and what could be done to promote them (Harsányi 1998, Reisinger 2010). Celebration of the civil sphere is fuelled also by earlier experience: under state-socialism, forming associations and conducting informal actions for fulfilling needs that the formal domains of production were unable to meet counted as 'oppositional' activities and could imply punishments of all kinds. Liberation from such a pressure and the formal acceptance of the civil sphere brought about widely shared feelings of freedom and self-determination. However, in Hungary, as elsewhere in Central and Eastern Europe, the story of the last 25 years is complicated. The concept 'civil society' has become widely known, to the point that people who are engaged in various public good associations often refer to themselves as '*civilek*', with connotations of benevolence, altruism and creation of public goods. At the same time, 'civil society' has been criticised for running the errands of foreign powers or being political agents in disguise. The latter has been expressed by Prime Minister Viktor

Orbán, for instance in an outline of his party's ideology in a well-known speech held in Tusnádfürdő in Romania in 2014.²² Therefore, while the numbers of civil society organisations may have looked impressive, it was clear to anyone observing or interacting with these that the figures hid some structural features that would undermine its long-term democratic consolidation.

First, it is important to know that many so-called civil society organisations were closely linked to public institutions. In small settlements, they often would be set up by those who were already politically active (such as the mayor or local government council members). In cities and towns associations and foundations would be established with the purpose of supporting a single public institution, such as a school or a hospital, often de facto run by people employed by these institutions or heading them, and the main function would be to create alternative ways of making up for shortfall of public financing. Therefore, it is questionable whether a sharp line of demarcation can be drawn between these supposedly 'civil' institutions and 'public' institutions.

Secondly, many civil society organisations involved in producing various types of public benefits came to develop allegiances with one side of what was in the 2000s a rapidly polarising Hungarian political landscape. Therefore, they came to be seen by some not as independent from the 'state', but as associated either with the 'government' (whichever party was in power), or with the 'opposition'. Depending on where one stands, certain NGOs would fit in what has recently been called GONGOS (Government-sponsored Non-Governmental organisations²³), though this is not specific to only civil society. Research by Vedres and Stark shows that the governance of business companies also has been heavily structured along political lines (Stark and Vedres 2012).

In addition, financial sustainability has been a constant challenge. International funds became scarcer in the 2000s, and for many civil society organisations the national or EU funds were insufficient to replace that shortfall. However, we would argue that it is the two factors listed above that were most important in the failure to create a governance system where civil society actors would be trusted partners in policy-making while retaining their intellectual, financial and organisational autonomy. Some mechanisms for consultations were put in place, but instead of consolidating these have been hollowed out to the point of open conflict between the government and parts of civil

²² A translation of the speech is available in English: "Ideally a civil politician, as opposed to professional, is an individual who is organizing from the bottom up, financially independent, and the nature of his work is voluntary. If we look at civil organisations in Hungary, the ones in the public eye, debates concerning the Norwegian Fund have brought this to the surface, then what I will see is that we have to deal with paid political activists here. And these political activists are, moreover, political activists paid by foreigners." <http://budapestbeacon.com/public-policy/full-text-of-viktor-orbans-speech-at-baile-tusnad-tusnadfurdo-of-26-july-2014/10592> // A video of the speech with English subtitles is available at <https://www.youtube.com/watch?v=mHxg3Aoir6w> <retrieved May 17, 2017>.

²³ See Moises Naim. 2009. What Is a GONGO? How government-sponsored groups masquerade as civil society. *Foreign Policy*. October 13, 2009. Available at <http://foreignpolicy.com/2009/10/13/what-is-a-gongo/> The applicability of the term for the Hungarian case was recently pointed out by Eva Balogh, analyst of Hungarian affairs at the blog *Hungarian Spectrum*, see post at <http://hungarianspectrum.org/2017/05/13/fideszs-very-own-ngos-stuffed-with-public-money/>

society, leading to public protests and demonstrations in spring 2017.²⁴ We want to emphasise that this is indeed about ‘part of’ civil society. There is no united ‘civil society resistance’ against the ‘state’ or ‘unitary civil society’, due to the intersection between the civil and the public, and the varying political affiliations elaborated above.

At the same time, development of the Hungarian civil sector is still slow in terms of incorporating the concepts and measures of the European-level discourse, policies and actions. Due to this, the notion of the ‘social economy’, that has increasingly become a leading concept of the democratic discourse in the West, is primarily seen by those in power as a foreign import and is associated with activities carried out exclusively by non-governmental organisations in separation from institutions of the public sphere. In addition, varied forms of cooperation can be observed in the name of ‘social partnership’. As such, these are characterised by enabling and constraining factors similar in nature to the entirety of the civil sphere. As compared, the term ‘solidarity economy’ is less known as a set of productive activities that can be part of co-designing public services and providing them through joint actions of civil and local governmental entities. However, one can assume that with spreading knowledge and practices it will grow in size and importance. The increasing number of ‘regular’ cooperatives and firms taking up important social and solidaristic goals and activities seems to point in this direction.

A closer look at the roles and functions of the civil society actors in the selected areas of education, employment, housing and health exemplified the range of actions and public/civil cooperation formats while underscoring the ambiguities. Of course, civil associations and foundations exist in all four spheres, but their creation followed rather spontaneous developments motivated mainly by institutional needs and interests in the diverse public service areas. As we saw, the civil initiatives usually emerged in a search for expanding service delivery and, often more importantly, to provide solutions for reducing the constraints that their public institution partner faces. However, regardless of their specific professional profile, the foundations and associations in question tend to lose independence and easily come into a subordinated position.

Repeated threats to independence and dangers to become subordinated to tightened administrative control dangers of a subordinate status call for a few more general comments about the difficulties and uncertainties of the civil sphere.

As widely noted in the recent political science literature on the democratic potentials of social and political participation, the state of civil society is a sensitive measure of the qualities of democracy in a country (for an overview, see Warren 2012). Civil organisations are, of course, just part of the broader landscape, nevertheless their status, recognition and embeddedness into the realm of the complexity of power, representation and influence seem to be good indicators of the prevalence of democratic

²⁴ Pablo Gorondi, Tens of thousands protest Hungary's education, NGO policies. *Associated Press* Apr 12, 2017. See <http://abcnews.go.com/International/wireStory/hungary-thousands-protest-govts-education-ngo-policies-46755250> (retrieved April 24, 2017).

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conditions in society and they carry the potential of showing the strength and weaknesses of these relations.

Taken from this perspective, the above outlined controversies and constraints indicate a rather weak embeddedness, relatively high reputation and trust, and constant fluctuation in the status of the civil society organisations. At a closer look, the most problematic aspect of their operation is a low degree of incorporation in both the institutional environment and in politics and policy-making. This implies that, provided it is politically reasoned by those in power, the mere existence of an organisation can be questioned and, in extreme conditions, the organisation as such can even disappear. But embeddedness would also require some stability in the conditions these organisations need to function, and in their *modus operandi*. Again, as we saw in the above discussion, the prevailing state of affairs point toward weaknesses also in these regards.

On the one hand, these deficiencies reflect the relatively short history of civil society with even shorter history of its organisations in Hungary. After all, stabilisation of the sphere and its secured embeddedness into the democratic polity need years and decades of social experimentation, accumulation of knowledge and the expansion of functional networks and social capital. On the other hand, the 30-year-long history of the domain of civil society organisations shows that the majority of Hungarian NGOs have functioned with institutional and financial dependence on the public authorities, and that such a state of affairs seriously hindered their engagement in the genuinely civil activities of advocacy and community organising. The 2010 reorientation of the country's political arrangement toward an 'illiberal democracy' has accentuated these alarming tendencies: it has implied openly turning away from the involvement of the civil actors in politics and policy-making. Some worsening indicators of declining numbers, severe lack of funding and a fraying framework of incorporating NGOs into certain local and national-level arrangements of power-sharing point toward a sharp turn-around in Hungary's civil society developments. Despite the advantages a powerful civil sphere would have, current political trends undermine its potentials.

It would be an exaggeration to state that the current government is entirely hostile toward the civil sphere. Rather, its intention is to keep the civil society organisations under strict political, financial and administrative control: still propping them up but restricting their independence at every turn. Maybe such positioning is perceived by the ruling power as the launching of a 'new variation of democracy'. However, our analysis shows that the intended restrictions included in the initial master-plan do not automatically stop at a pre-designed level. Instead, decline has a tendency to accelerate. So the current trends do not seem to signal the build-up of a new variant of democratic entities, but point toward a demise of the entire sphere. Given the deeply rooted weaknesses of Hungarian civil society and the uncertainties characterising its status and influence, the current rejection of the values and safeguards of liberal democracy might easily produce distortions in the sector that later interventions may find impossible to cure, reconstruct, and ultimately restore.

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