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## Social Cooperatives in Hungary as Pillars of the Solidarity Economy

Katalin Lipták<sup>1,\*</sup>

<sup>1,\*</sup> Associate Professor, University of Miskolc, Hungary

### Abstract

Social enterprises are seen as the building blocks of the solidarity economy. In the 19th century, the solidarity economy was called into being by the many problems of the modern capitalist market economy, high unemployment, the rise of poverty, and a series of environmental problems. The focus of the solidarity economy is to address some existing social problems and not to make a profit, and therefore many see the role of the solidarity economy as trying to reintegrate the economy into society, also called the third sector. The solidarity economy is often seen as an alternative to capitalist development, a possible new model for development. The most typical type of cooperative, as opposed to traditional cooperatives, is the new type of cooperative of the solidarity economy, the social cooperative. In this paper, the social cooperatives in Hungary will be described and the results of interviews will be presented and conducted using field research methodology. Out of 3155 settlements in Hungary, 1100 are small villages, i.e., they have a population of less than 500 inhabitants. During the field research settlements were visited that fall into this category. In Hungary's underdeveloped regions, social cooperatives play a key role in both job creation and community development. As a result, social cooperatives play an important role on the periphery.

**Keywords:** solidarity economy, social enterprises, employment, rural development

### 1. Introduction

In the socialist economy of the Central and Eastern European countries from the end of the Second World War until the 1980s, open unemployment was unknown, employment rates were high, and all workers felt job security. A reverse imbalance prevailed. The socialist economy produced chronic shortages, and one of the manifestations of this was chronic labour shortages. After the change of regime, job insecurity disappeared and employment rates fell sharply, with the emergence of open unemployment. In the so-called transition economies from a centrally controlled planned to a free market economy, several processes

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typically took place after the change of regime: (1) economic liberalisation took place, (2) market conditions became the primary regulating factor (Polányi, 1976).

In its original form, the solidarity economy was brought into being in the 19th century by the "social blindness" and the increase in poverty of the modern capitalist market economy (Moulaert & Ailenei, 2005; Csoba, 2010). As a result of globalisation, unemployment, environmental pollution, food security, climate change, urbanisation, poverty, migration, and the increasing role of information technology are now unavoidable problems anywhere in the world and are also unmanageable within the framework of traditional capitalist economic structures (Allard et al., 2008).

## 2. Literature review – solidarity economy and social cooperatives

The solidarity and social economy seek to break down the primacy of profit-making and reintegrate the economy into society (Salamon & Anheier, 1997). Although there is still much debate about the meaning of these concepts, the solidarity economy, which has a deeper meaning, involves a sense of social responsibility and a focus on the community interest, and the valorisation of non-material things (Laville, 2010). Its core values are solidarity, equity, and dialogue (Birkhölzer, 2000). The tri-polar economy at the heart of the concept presupposes the existence and functioning of a market economy operating autonomously based on material interests and the balancing of supply and demand, alongside a non-market economy run by the welfare state and its institutions, and a non-monetary economy based on the principle of reciprocity (Evers & Laville, 2004). The solidarity economy is also often seen as an alternative to capitalist development, a possible new development model (Neamten, 2002). This may be related to the fact that, while in the developing countries of South America or Asia, this terminology is more commonly used, in Europe, the concept of the social economy is more widespread. Social economy refers to social enterprises operating within the framework of a market economy but on a non-profit basis (Monzón & Chaves, 2008).

The solidarity economy is an economic and social model that puts people-centred and social values first, rather than profit maximisation. It is based on principles of social justice, inclusion, sustainability, and community cooperation (Nyssens, 2006). The solidarity economy focuses on tackling a range of challenges such as poverty, social inequality, support for disadvantaged groups and environmental sustainability. In the solidarity economy, businesses and institutions are often community-owned and community-managed. Governance decisions are organised on democratic principles. The solidarity economy emphasises social and environmental objectives. In addition to business, it places importance on addressing social problems and sustainable management. Particular attention is paid to.

Social enterprises are the most important pillar of the solidarity economy (Defourny & Nyssens, 2012) and have become increasingly common in Hungary in recent decades. In Hungary, representatives of the civil sector often use the term social enterprise instead of

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social entrepreneurship, as they emphasise the role of environmental sustainability and community development. Vágvölgyi (2012) defines community enterprise as an organisational model that aims to strengthen local society through the combined development and enrichment of social and natural capital. The use of the term community enterprise often draws attention to the democratic nature of the organisation. Mészáros (2013) also emphasises the democratic nature of the enterprise organisation, while using the term social cooperatives and preferring to talk about community-based local development.

In Hungary, social cooperatives were created by Act X of 2006. In terms of the definition of the social purpose and the target group covered by the activities of social cooperatives, the Act is permissive by international standards. Although the legislator has made the creation of jobs for disadvantaged people a priority area, it has left the scope of activities open by adding a subordinate clause (promoting their social situation in other ways). Neither the Civil Code, which regulates the general characteristics of cooperatives, nor the law on cooperatives, which contains specific rules, has clarified the concept of disadvantaged persons. For several years, social cooperatives in Hungary operated under an inadequate legal framework until Act CXXV of 2012 (the new Act on Social Cooperatives). The new law allowed social cooperatives to have, in addition to their natural person members, members of municipalities or public benefit organisations performing charitable activities as defined by law, who are not actively involved in the activities. The law defines a social cooperative as an enterprise established by at least three members to achieve community, social or environmental objectives. In December 2016, an amendment to the law was adopted requiring social cooperatives to have at least one member of this type in addition to their natural person members. This amendment could lead to a reduction in the autonomy of organisations and an increase in the influence of the state and municipalities, with many social cooperatives not becoming local grassroots organisations but being initiated by state actors. In Hungarian practice, municipalities tend to outsource the operation of public employment to social cooperatives.

The main objective of social cooperatives is to improve the social and economic situation of their members, with a special focus on disadvantaged and vulnerable groups. Social cooperatives are enterprises set up and managed jointly by their members. Their basic aim is to achieve economic and social objectives for the benefit of their members' communities. Social cooperatives are a form of solidarity economy and often play a key role in community development and the promotion of social justice. Members of social cooperatives are both owners and co-owners. All members have equal voting rights in governance. Social cooperatives set goals that benefit members and the community, such as job creation.

### **3. Poor organisational capacity of people living on the periphery**

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Creativity is a process that "births", creates, and unfolds itself, carrying both its origin and its purpose within itself. Creativity can be a personal or group characteristic, but for creative groups to be formed, individuals must be creative too. Creativity is a process that groups may master even more easily than individuals, but its absence can kill individual ideas. Innovation cannot come only from individuals (or groups of individuals) who think of themselves as creative.

Creativity, although it is in every individual, we know that the environment either supports its development or stifles it. In a culture obsessed with efficiency, daydreaming is often dismissed as laziness or indiscipline, far from being seen as a sign of productivity, yet today it is increasingly emphasised that this is far from being the case. The purpose of rules is to provide a predictable and stable world for the community and to control our behaviour towards each other. On the periphery, there is less creative agency. Completion of primary education often ends learning completely, but it is not enough to 'learn' a trade at a young age to be a good professional, and a potential worker. You have to keep learning throughout your life to become a professionally recognised person. The global economic and financial crises, and the constant changes in societies, also require us not only to be good at one thing, but also to be able to take on other areas of life. Today, learning is not a state but a process, and a lifelong process. At every stage of our lives, we learn in different ways, because it is not only what we learn at school that counts as learning, but also everything else, including what we learn informally, even if it is not directly. Although various programmes have tried to achieve this in recent years, these are only project phases and not supportive processes.

Today, one of the most important characteristics of adapting to the needs of society is activism, according to which it is not necessarily the individual who has to come up with the ideas, but the institution goes to the user, the individual. One aspect of this phenomenon is when services can be accessed electronically from home. The other side is when services are presented in new contexts, making the content offered more convenient, more adapted to the situation, more complex because of the integration and complementarity of the services and, finally, more exciting and interesting. This shows that in peripheral areas there is less organisation and less creativity; of course, there are exceptions and there are successful social enterprises in rural areas, but they are mainly concentrated in metropolitan areas.

As a result of the regime change, the Central and Eastern European region has followed a particular development path. The only way out for these countries, and especially for the more disadvantaged regions, is to achieve sustainable employment and to move more towards a solidarity-based economy. As we have already seen, the capitalist system and profit and market orientation can no longer provide sufficient solutions to the existing labour market and social problems (G. Fekete, 2017). The increase in the number of people excluded from the labour market and the number of people on the margins of the labour market justifies the need for a social economy. Still, at the same time, the creativity and the organisational capacity of local communities and their willingness to innovate in society are low in

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peripheral areas. The frequency of social entrepreneurship is lower than in the centre (G. Fekete et al, 2018).

## **4. Results of the field research - Presentation of the Alsómocsolád Village Farmer Social Cooperative**

Field research has been carried out in several Hungarian social enterprises and the best-known examples have been described. The Village Farmer Social Cooperative was founded by 7 individuals in 2008. Grassroots initiative is less typical of the Alsómocsolád Village Farmer Social Cooperative, rather it is a top-down municipal initiative, 'socialised' and embraced by the individuals who joined the cooperative. The mission of the Social Cooperative is to explore and implement alternative income-generating and supplementary activities, to reduce the unemployment rate in the municipality, to improve equal opportunities, to promote social reintegration, to boost community life and to strengthen the sense of identity and cooperation of the people living in the municipality. The mission is based on community goals and mutuality rather than on commercial profit-making. The main objective is to create jobs and generate income, which is to be achieved primarily through the conservation of biodiversity and the exploitation of natural resources. The focus is on agricultural activities, which are carried out on land owned by the municipality and on livestock rearing in the members' backyard farms. Closely linked to these objectives are continuous capacity building, access to education and training, information, and skills development. Implementation is based on community development methods, including occasional conflict management. Building economic democracy and ensuring equal opportunities are also key objectives.

In Alsómocsolád - although a small village - there are 7 registered and 5 informal non-governmental organisations, so it can be said that the municipality and the settlement are doing quite well in the field of community development. In terms of job creation, the situation is not bad either, as large companies settled in Alsómocsolád in the past (Pick Szeged Ltd.), and are flourishing or not, depending on whether the sector in question, agriculture, food industry, and construction, is in the ascendant or descending stage. The local government also wants to move independently of them in the field of economic development and business development, sometimes successfully, sometimes very successfully, and sometimes disastrously. The municipality has also set up a Tranzit Employment Non-profit Ltd. Although it had a bad sector, the construction industry, which almost destroyed the whole enterprise, managed to recover. The first step was to buy the municipal grain store, which was renovated and used to store locally produced grain and to set up a buying and selling cooperative. They also started a distillery: the municipality bought a run-down distillery, renovated it, created a market for the brandy and, when the distillery was prosperous, rented it out to an entrepreneur - it has been in business ever since. A similar

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thing happened with the local shop and pub, which was bought out by the municipality's company, renovated and then handed over to the workers and the business. They run a forest school with accommodation for 40 people, but also have a conference centre with apartments and a tented house.

The main problem is to reduce unemployment and replace public employment. The focus is on economic development, which requires the development and implementation of an appropriate strategy and the provision of allocated resources. The municipality has a micro-regional economic development strategy in place, i.e., a strategy for the development of the economy in the municipality, drawn up in cooperation with the surrounding municipalities. This social cooperative represents a completely new aspect of community job creation. On the one hand, it means community development, on the other hand, it means job creation, economic development, and enterprise development.

A residential care home for the elderly with 42 beds has been applied for and set up, a quarter of the users of which are residents of Alsómocsolád and are very popular. The cooperative provides laundry, cleaning, and maintenance services to institutions in the area as an intermediary service and of course to the municipality's institutions during subsidised periods. When there is no subsidy, it is replaced by public employment programmes.

The municipality provides a significant amount of non-repayable subsidy for a house renovation, 50% of which is accounted for in rigac (rigac is a local money). The municipality retains the implementation of this element of the programme, with the cooperative playing a coordinating role. The third element of the programme is an agricultural element, plant and livestock relocation. Few have used plant relocation. They do not keep animals, so there is the possibility of animal shedding. The municipality has reclaimed a 17-hectare area, where they produce fodder to be mixed in and given to the people. They put out two young animals, which they have to fatten/rear over some time (5 months), of which they keep one in return for their work and give the other to the cooperative, which sells it. At present, the cooperative typically carries out animal rehoming, which is a voluntary activity that fits in with its mission. The example of Alsómocsolád is a well-functioning social cooperative with residents and members who are willing to do something for the community.

## 5. Conclusion

Both social cooperatives and the solidarity economy contribute to promoting social and economic justice, reducing inequalities and promoting community development (Birkhölzer, 2000; Laville, 2010; Defourny & Nyssens, 2012). In Hungary, too, these alternative economic models are receiving increasing attention to build a sustainable and inclusive future.

As social and territorial disparities increase, the strongest social economy initiatives are not necessarily found in the most disadvantaged groups and regions, and the conditions for social innovation are stronger in the more developed regions. At the same time, more and

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more social ideas are being transformed into social innovation, which can take the form of social entrepreneurship in the right framework. In Hungary, there are still relatively few well-functioning social enterprises, there are some good initiatives and some very well-known, 'established' successes, but these are largely concentrated in the centre regions. In peripheral areas, where there is an increased need for social enterprises, something is missing. Usually, the idea, the initiative, and the entrepreneurial spirit are not there, but often the market is lacking or there are financing difficulties. The emergence of the social economy sector in Hungary is progressing slowly but in the right direction. The reason for this slowness is the legacy of the post-socialist past: mistrust, the persistence of paternalism and the devaluation of the idea of social solidarity. It is considered very positive that the social and economic model of the European Union is reflected in domestic government policies, and it is also important to have legislation that is appropriate to national characteristics.

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