

INTERREG SIV

O.T4.1

Strategy for Capacities in Scale and Scope
Hungary

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Content

1. OBJECTIVES OF THE STRATEGY ACCORDING TO THE APPLICATION FORM	2
2. STRATEGIC FRAMEWORKS.....	2
2.1. Employment situation in Hungary	2
2.1.1. Main economic and labour market trends	2
2.1.2. Unemployment situation and data	6
2.1.3. Facts and data on long-term unemployment.....	8
2.1.4. Interventions to mitigate employment consequences of the COVID-19 pandemic	9
2.2. Status quo of social impact investments in Hungary	11
2.2.1. Private donations in Hungary	11
2.2.2. Overview of social impact investment in Hungary	12
2.2.3. Examples for social impact investors in Hungary	13
2.2.4. Social impact investment focusing on (long-term) unemployment in Hungary.....	15
2.3. Description of the social impact fund developed to finance social impact vouchers in Hungary	16
2.4. Challenges for scaling the social impact fund in Hungary	17
2.4.1. Economic challenges of scaling.....	17
2.4.2. Labour market challenges of scaling.....	18
2.4.3. Challenges based on the status of impact investments.....	19
2.4.4. Legal challenges	19
3. COUNTRY-SPECIFIC OBJECTIVES.....	20
4. ACTIONS.....	20



1. Objectives of the Strategy according to the Application Form

This output will be a strategy for further uptake of the social impact fund by other stakeholders and an increased size of the existing fund, reducing long-term unemployment.

Accordingly, the strategy aims at describing the plans for scaling the social impact fund developed with the contribution of the partner organizations within the frameworks of the Social Impact Vouchers project regarding the number of contributors to the financial fund and the amount of the financial contribution paid into the fund.

2. Strategic frameworks

2.1. Employment situation in Hungary

2.1.1. Main economic and labour market trends

The Hungarian economy including the labour market have been impacted by three major and global trends since the start of the project in 2019. These are:

- The COVID-19 Pandemic
- The war in Ukraine since February 2022
- Shortage of raw materials and related inflation

As for the effects of the COVID-19 pandemic, it caused the most serious economic and social crisis in the last decades globally and in Hungary as well. Without the pandemic, the country could have generated approximately HUF 5,000 billion more income in 2020. The GDP contracted by 14.5% in the 2nd quarter of 2020. According to the official data, the GDP of Hungary decreased only by 4.1% in the fourth quarter of 2020 compared to the same period of the previous year. Compared to the previous (third) quarter, the performance of the economy even increased by 1.1%. In 2020, the overall GDP volume was 4.5% lower than the previous year. With the figure of 4.5%, Hungary is in the middle range of the European countries. In European comparison, Spain suffered the biggest decline (10.8%). According to the data of the Central Statistical Office (KSH), in the fourth quarter of 2020, the industry and information and communication branches of the national economy contributed the most to the increase compared to the previous quarter. (Miniszterelnökség 2021:10)

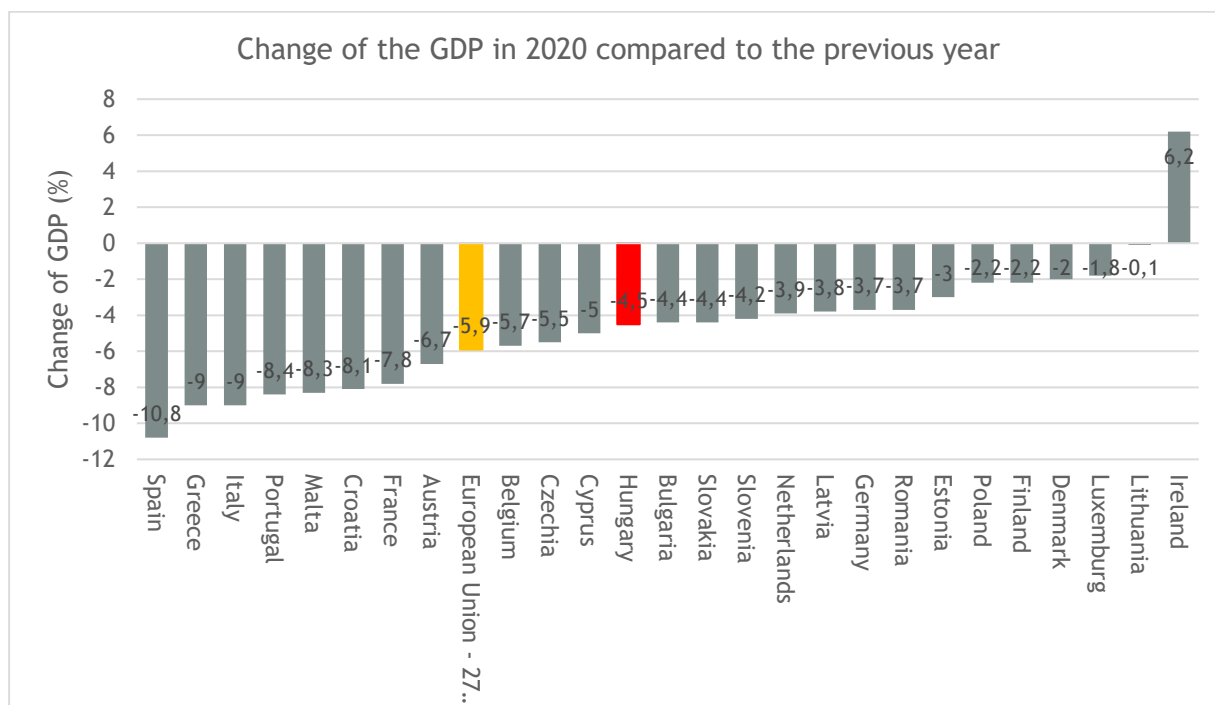


Figure 1 - Change of the GDP in 2020 compared to the previous year (Source: Eurostat)

According to recent researches, the decline in sales as a result of the drop in demand is considered as the most harmful consequence of the crisis.

Based on the latest survey of the Institute for Economic and Enterprise Research, 47% of responding businesses had lower sales in 2020 than in the previous year, 17 percent had no change, and 36 percent had even increased sales compared to 2019.

The average income level at the beginning of the second wave of the epidemic of the group of companies involved in the Hungarian National Bank's survey of September 2020 was 71 percent of the level a year earlier.

According to the data, the sales revenues decreased compared to 2019 in the case of 57.21% of the 315,000 SMEs belonging to the VAT scope. However, the average decrease was only 3 percent, and the sales revenue of most sub-sectors was only slightly lower than in 2019. Some 30,000 SMEs may belong to sectors with more than 20 percent sales decline compared to the previous year. The vast majority of these belong to the accommodation and hospitality sectors.

According to the data of the Institute for Economic and Enterprise Research, the largest decrease in sales revenue occurred in the case of the smallest businesses. Among micro-enterprises employing less than 10 people 54% decline had occurred, while a 57% decrease in sales revenues had been experienced by companies with a turnover of less than HUF 50 million. (Evolúció et al. 2021:10-11)

40-54 percent of the companies had liquidity problems due to the epidemic, the drop in demand and loss of sales.



55% of those companies which experienced liquidity problems bridged the decrease in sales mainly by using their own reserves. Involvement of additional external financing was primarily needed in the catering and accommodation services and the textile industry, which had been affected by the downturn the most significantly. (Evolúció et al. 2021:21)

In addition to the use of internal reserves and the involvement of external capital, companies most often applied the following crisis management measures:

- Reduction of other costs that cannot be classified elsewhere (55 %),
- Slowing down and postponing investments (35 %),
- Introduction of new products and services (33 percent),
- Reducing dependence on suppliers (30 %),
- Preparation of long-term plans and modification of the strategy (30 %).

The main crisis management strategies and measures differed significantly by sector.

Companies belonging to the hospitality-accommodation sector were forced to adapt the most thus they deployed all possible means. At the other end of the scale were the IT and consulting sectors which have not applied extraordinary measures other than the introduction of the home office. (Evolúció et al. 2021:25)

Beside the own crisis mitigation measures of companies, the state also initiated significant actions which helped a lot to manage the consequences of the COVID-19 pandemic. The Government pumped or left in the economy a total of nearly HUF 8,000 billion of additional funds by the end of May 2021 within the framework of the Economic Protection Action Plan, that played a major role in preserving the viability of businesses. The largest part of this were subsidized credit, capital and guarantee programs in the amount of HUF 3,615 billion. Another major component of the program was the loan moratorium in the value of HUF 3,100 billion. In addition to these, wage support programs, investment incentives and tax incentives valuing more than HUF 1,000 billion have helped businesses manage the crisis and grow. (Evolúció et al. 2021:11)

Due to the targeted and intense crisis mitigation, the adaptation has started quickly in spite of the serious damage caused by the pandemic in the performance of the Hungarian economy.

In 2021, the gross domestic product was 2.0 percent higher in the first quarter than in the previous one, and only 2.1 percent lower than in the same quarter of the previous year. (Evolúció et al. 2021:10)

Throughout the whole 2021 year the performance of the Hungarian economy resulted in a general 7.1% increase in the GDP compared with the previous year, while the EU average was only 5.4%.

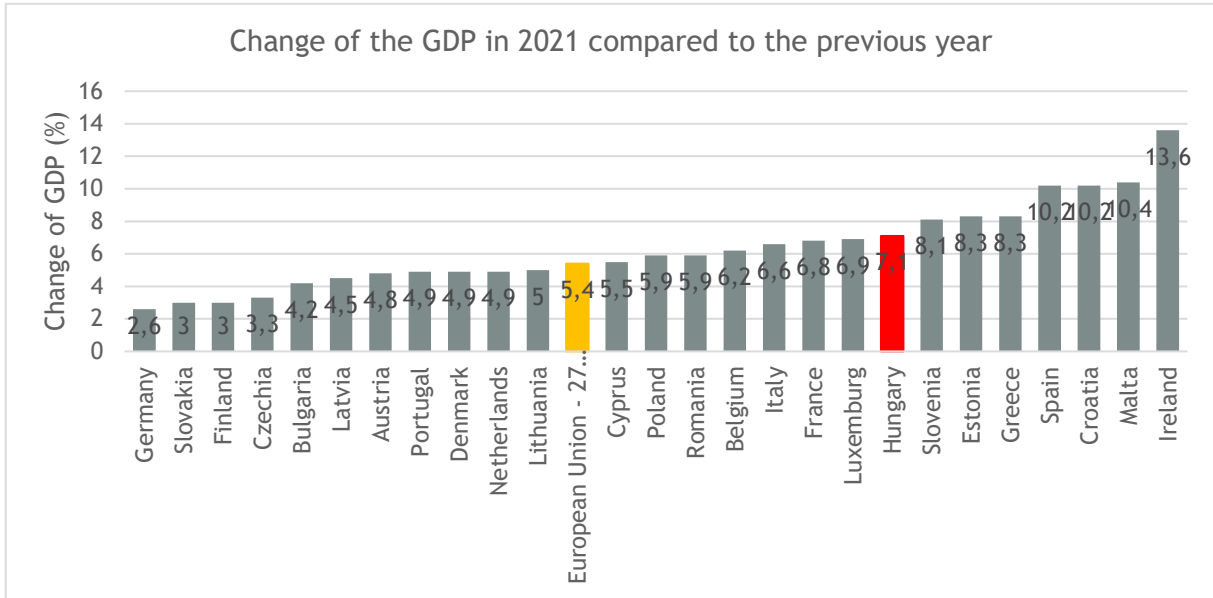


Figure 2 - Change of the GDP in 2020 compared to the previous year (Source: Eurostat)

This trend has broken at the beginning of 2022, when Russia started the war against Ukraine. Already in April 2022 most companies (92%) encountered factors hindering their business activity. Compared to the previous 6 months there was a significant increase in the proportion of firms citing high raw material and energy prices (from 26% to 43%), altered exchange rates (from 13% to 25%) and supply chain disruptions (from 14% to 23%). Material shortage also remained a significant problem (23%) and the proportion of respondents citing higher labour costs as a hindering factor also increased (22%). (IEER 2022:5)

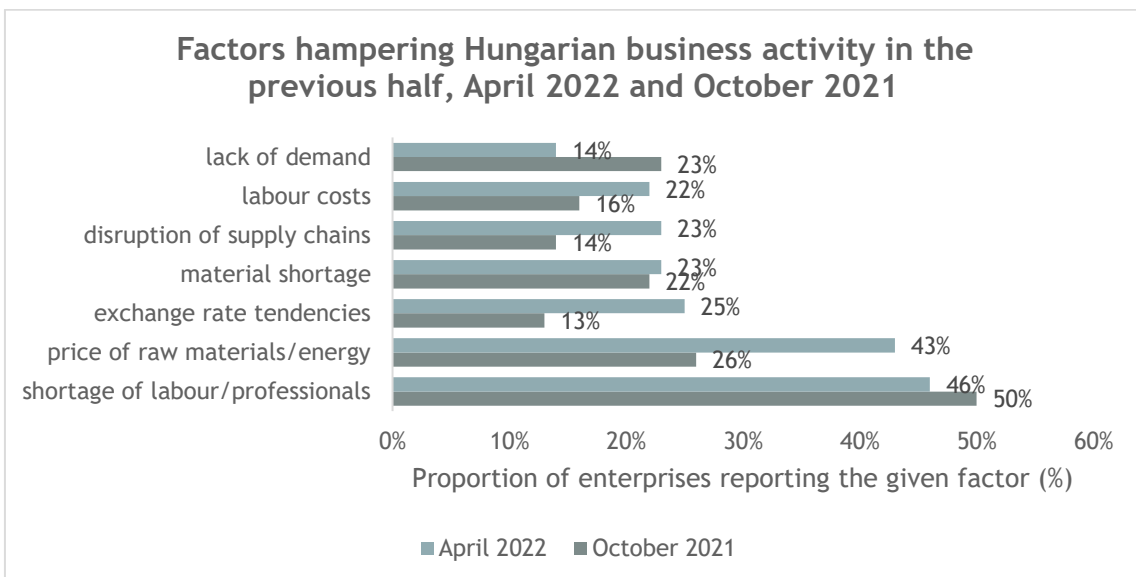


Figure 3 - Factors hampering Hungarian business activity in the previous half, April 2022 and October 2021 (Source: IEER 2022)



The above factors resulted in a fast growing inflation which hit records month-by-month in Hungary in the past semester. In April 2022 the highest inflation has been measured in the expense groups of foods (15,6%), consumer durables (11,1%) and other products, especially fuels (10%) compared to the prices one year before. This shows that the war in Ukraine has a significant hindering effect on the Hungarian economy that will increase in the next semester according to experts' expectations.

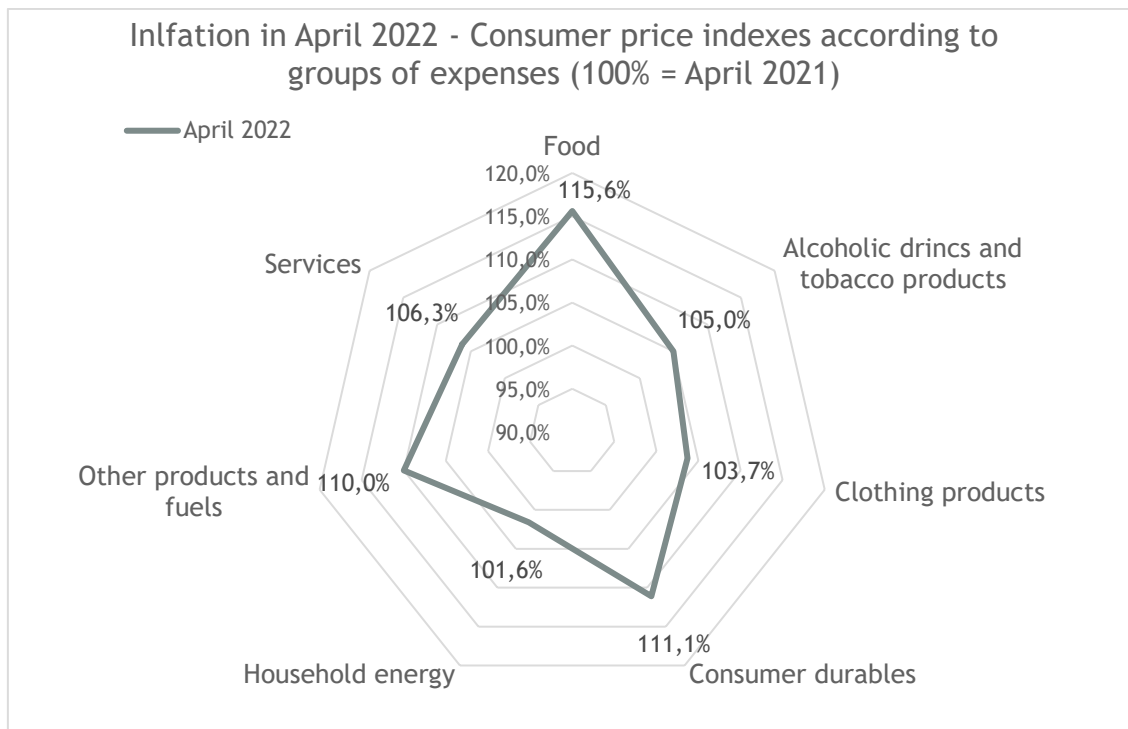


Figure 4 - Inflation in April 2022. (Source: KSH 2022a)

2.1.2. Unemployment situation and data

In 2020, due to the spring restrictions, employment decreased on an annual basis by 102.6 thousand people in the second quarter. Due to the revival of domestic tourism and the restart of industrial production in the summer months, the level of employment was able to approach the level of the previous year. In the autumn months, employment lagged behind its 2019 level to a greater extent again, however the number of people employed in the primary labor market was still able to increase on an annual basis, reaching an average 4,500,000 monthly number of employed persons in the active population of 15-74 years. (Miniszterelnökség 2021:12)

Due to the effects of the pandemic, the average employment rate in the 15-74 years old population reached its lowest values in March-May 2020 (71%) and December-February (71,8%) on a 3-months moving average basis, following the epidemic waves. (KSH 2022b)

Since February 2020 the number of employed people and the employment rate is constantly increasing in the 16-64 years old active population, reaching a 74,0% employment rate by March 2022.

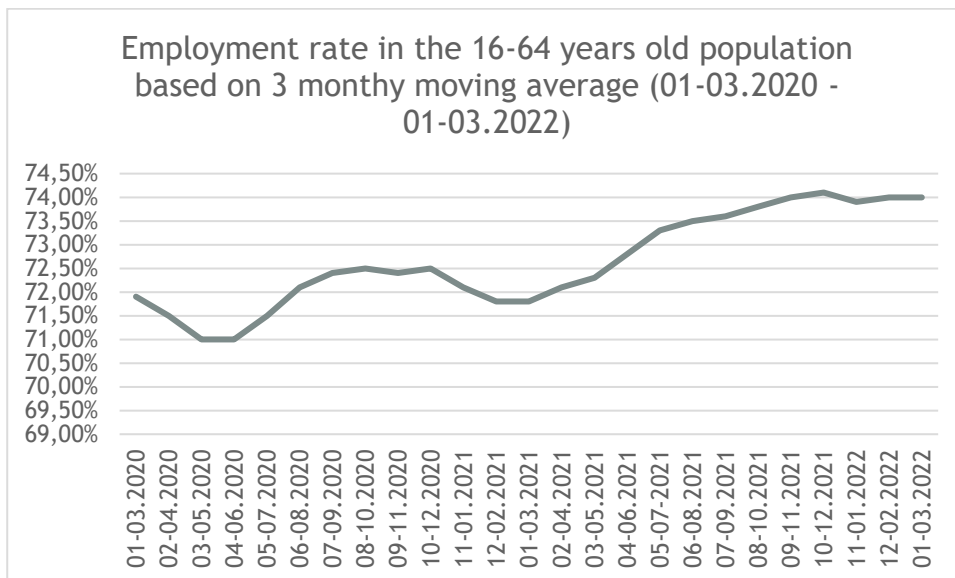


Figure 5 - Employment rate in the 16-64 years old population (Source: KSH 2022b)

In January-March 2022, the number of employed persons in the 14-74 years old population was 4 million 674 thousand, 107 thousand (2,3%) more than a year earlier. While the number of workers in the domestic primary labor market increased by 103,000 (2.3%) as well as the number of Hungarian household members working abroad by 87,400 (14.2%), the number of public employees employed in the frameworks of the public employment scheme decreased by 10,000 (-11,5%)(KSH 2022b)

Regarding unemployment, as a result of the epidemic situation, the number of jobseekers rose suddenly and significantly by June 2020 to 376.4 thousand people. (Miniszterelnökség 2021:13)

In line with the epidemic waves and employment rates, the unemployment rate in the 16-64 age group peaked between 05-07.2020 and 01-03.2021, with values of 4.7% and 4.5%, based on a 3-month moving average.

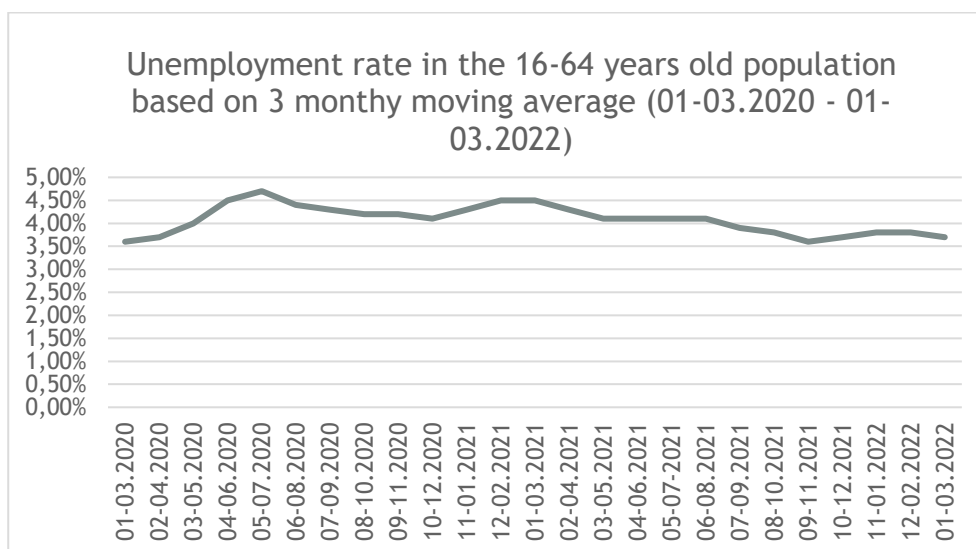


Figure 6 - Unemployment rate in the 16-64 years old population (Source: KSH 2022c)



As can be seen in the figure, the unemployment rate continuously decreased after the 2nd wave of the pandemic. In January-March 2022, the number of unemployed persons in the 14-74 years old population further decreased by 34,000, which resulted in 0.8 percentage points decrease in the unemployment rate as well.

2.1.3. Facts and data on long-term unemployment

The financial crisis in 2008-2010 boosed long-term unemployment in Hungary. Not only the number of unemployed people raised rapidly, but the time spent searching for a job also increased significantly as a result of the last financial crisis. Due to these trends the long-term unemployment rate rose to its 5.3% peak by 2010. After that, it decreased continuously, and in 2019 it fell to 1.1%, the lowest level measured in the last two decades, which did not change in 2020 either.

As a result of the restrictions introduced due to the COVID-19 epidemic, the proportion of short-term job seekers increased, as those who lost their jobs in the spring months and in autumn of 2020 appeared on the labor market as job seekers. As a result, the proportion of long-term unemployed decreased during the year. In 2020, 26% of the unemployed were looking for a job for a year or more ago. which represents a decrease of 5.8 percentage points compared to 2019. (KSH 2021a)

In march 2022 the average duration of the job search was 8.9 months and 34.2% of the unemployed had been looking for a job for at least a year. (KSH 2022c)

According to the data, long-term unemployment is not a major issue on the Hungarian labour market due to labour market interventions, especially the public employment scheme. It affects mainly specific marginalized and disadvantaged groups, which has not changed significantly since the start of the project. The most affected groups are:

- Job seekers over 45 years
- People with secondary qualifications (baccalaurate or vocational school)
- People living in peripheric settlements among segregated circumstances (especially in the Northern Great Plain region)
- Women caring for small children or dependent family members
- People with disabilities and reduced working capacities
- The Roma



In the case of the majority of the long-term unemployed, the above factors often appear simultaneously and prevent breaking out of the trap of long-term unemployment and integration into the primary labor market. Therefore traditional active labour market instruments which provide standardised solutions for mass problems are less suitable to handle complex phenomena like long-term unemployment as it exists in its current form in Hungary. Accordingly, flexible solutions are needed like social impact vouchers are, which may be tailored effectively to the local circumstances or even the individual needs of employers and job seekers. Therefore social impact vouchers may be integrated successfully into the “Emerging Settlements Programme” which is a new initiative in Hungary to provide diagnosis-based, flexible and tailor made solutions for the complex socio-economic problems of the 300 most disadvantaged settlements in the country.

2.1.4. Interventions to mitigate employment consequences of the COVID-19 pandemic

2.1.4.1. Private interventions

In the first 6 months of the epidemic, companies reduced their workforce by an average of 9%. Working from home was introduced by 37% of companies while 32% of them used part-time employment.

Home office has been introduced for office workers at most companies, regardless of sector. The managers were generally satisfied with the performance of working from home, but the general opinion regarding atypical forms of employment was that home office combined with on-site work would be ideal. Companies also agreed that the long-term introduction of work from home, even in a hybrid form, could occur primarily in knowledge-intensive, performance-based positions.

It was also a major task for the companies to strengthen the labor protection of workers and to create safe working conditions even in the midst of the epidemic. On the one hand, this meant costs (tests, disinfectant, enabling social distancing, etc.) and more intensive communication and cooperation with the workers on the other.

In the past 1-2 years, companies have also placed significant emphasis on dealing with psychological consequences caused by the uncertainties of the epidemic.

The significant efforts made by companies to deal with the employment effects of the epidemic testify that in recent years the workforce has emerged as one of the most important values in domestic business thinking. In recent years, the shortage of labor force/professionals has emerged as the most significant factor hindering business operations, so companies tried not to pass the risks caused by the crisis on to their employees, because they have been counting on them when the economy starts up again. (Evolúció et al 2021:31-32)



2.1.4.2. Public policies

Within the framework of the Economy Protection Action Plan, the Government has launched a number of programs aimed at retaining jobs at risk as a result of the pandemic and at creating of new jobs:

- **The job protection wage subsidy** has been aimed at preventing layoffs at businesses struggling as a result of the pandemic and at providing compensation for lost employee income. The subsidy was paid for 3 months (with one month's further employment) in relation to employees whose working time decreased by 15-75 percent on the date or after declaration of the state of emergency. Applications were accepted between 16 April 2020 and 31 August 2020. The subsidy contributed to retaining the jobs of 198 thousand people at 16.6 thousand company sites with an overall amount of HUF 32.8 billion (EU funds).
- **The job creation wage subsidy** was provided for 6 months to businesses to increase their staff between 18 May 2020 and 31 August 2020, subject to three months' further employment. In this period the intervention ensured the job creation of 38.8 thousand people with 44.5 billion HUF (EU funds)
- By replacing the job protection wage subsidy, the **sectoral wage subsidy** provides targeted wage subsidies in sectors affected by restrictive measures and lockdowns aimed at managing the pandemic. The subsidy amounts to 50 percent of wages, but up to 150 percent of the mandatory minimum wage, thus the Government is paying around two-thirds of paid wages together with a waiver of contribution payments. Up to 21 April 2021, 145 thousand employees of 23 thousand employers received HUF 84 billion in subsidies (EU funds) from the available budget.
- The most important measure regarding employment and job retention was the **shortened working time scheme** in Hungary. The new "Kurzarbeit" measure has allowed for a 15-75 percent reduction in working hours in certain sectors.
- To retain jobs, in addition to wage subsidies, the Government also supported businesses and employees with taxation instruments and interest-free credit in sectors affected by restrictions. As of the 1 st of January 2021, the small business tax rate decreased to 11 percent, while the social contribution tax rate was started to be cut from 17.5 percent to 15.5 percent as of 1 July 2020 with the aim of continuing this trend in 2022.



2.2. Status quo of social impact investments in Hungary

2.2.1. Private donations in Hungary

Private donations are regulated by the following legislation in Hungary:

- LXXXI of 1996 Act on corporate tax and dividend tax
- XCII of 2003 law on taxation
- CLXXV of 2011 Act on the right of association, the legal status of public benefit, and the operation and support of civil organizations
- 350/2011. (XII. 30.) Government decree on the management of non-governmental organizations, fundraising and certain issues of public benefit

https://www.nonprofit.hu/tudastar/Adomanyozas_lepesrol_lepesre)

According to the above legislation, the main incentives for private donations are the followings by donor categories:

2.2.1.1. Subjects of corporate tax

The main incentives for organizations being subject of corporate tax are the following tax relief:

- Donation reduces the donor's profit before tax by the value of the donation provided as support for a public benefit activity according to CLXXV of 2011 as follows:
 - by 20 percent in the case of support of a non-profit organization,
 - by an additional 20 percent in the case of a permanent donation contract,

but together no more than the total amount of profit before tax.

<https://ado1szazalek.com/adohirek/adomanyozas/milyen-kedvezmenyben-reszesul-az-adomanyozo-117>)

2.2.1.2. Subjects of personal income tax

Private persons has the opportunity to donate 1% of the personal income tax to be paid on the consolidated tax base to a registered civil society organization, and another 1% to a registered religious community or to a priority budget allocation, which is the National Talent Program in 2022.

https://nav.gov.hu/ado/szja1_1/11-os-rendelkezes-2022-ben)

According to last available the statistical data on the operation of the non-profit sector in Hungary, private donations has developed as follows since the beginning of the SIV project:



	Number of non-profit organisations	Incomes (in million HUF)						Share of private donations
		Donation		Operational income			Together	
		Public	Private	Basic activities	Business activities	Other		
2019	60 890	1 085 931,2	295 028,3	557 359,4	445 224,0	20 183,8	2 403 726,7	12,27%
2020	60 673	1 227 478,5	304 723,5	566 026,8	453 027,1	24 839,0	2 576 094,9	11,83%
Change	-217	141 547	9 695	8 667	7 803	4 655	172 368	-0,44%
Change in %	-0,36%	13,03%	3,29%	1,56%	1,75%	23,06%	7,17%	n.a.

Table 1 - Incomes of the non-profit sector in Hungary (Source: KSH 2021b)

As it can be seen from the table, the number of non-profit organisations slightly decreased (-217 entities, -0,36% change) between 2019 and 2020. In spite of that the absolute value of public support increased (HUF 141 547 million increase, +13,03% change) as well as the value of private donations (HUF 9 695 million increase, +3,29% change) and the total incomes (HUF 172 368 increase, +7,17% change). Due to the more significant increase of total incomes, the share of private donations in the incomes of non-profits slightly decreased (-0,44%) between 2019 and 2020.

No concrete data is available about the purpose of private donations provided to non-profit organizations, therefore the impact of private donations on employment can only be inferred from the role of non-profit organizations dealing with economic development, including employment and labor affairs within the sector. According to the available statistical data 1 248 organizations belonged to this category in 2020. Thus the private donations might have only a moderate impact on the Hungarian labour market through 2.2% of the non-profit organizations in 2020. (KSH 2021c)

2.2.2. Overview of social impact investment in Hungary

So far, little impact investment activity has shown up in Hungary.

Since the appearance of the concept in Hungary, it is mainly linked to financing social innovation, primarily social enterprises and social business activities.

As a first attempt, the Impact Accelerator Programme of Civil Support (predecessor of Scale Impact, see in chapter 1.1.4) had been launched in 2015-2016. During the 6-9 month development program, social enterprises worked together with Impact Accelerator experts and potential investors in order to raise the social impact and financial possibilities of their organizations to a new level by involving investors in financing their projects at the end of the process.

In parallel, the Association of Social Impact Investors (THBE) has been established to organise the first impact investors in Hungary and promote the concept of impact investments in the country.

In 2018 the first impact investment fund management company, Impact Ventures has been established in Hungary. Impact Ventures runs Two social impact funds (Impact Ventures I. and II. private equity funds) with a focus on social innovation. The company already invested in 11 social businesses with a remarkable growth potential.



Beside financial support, Impact Ventures also provides business development support for social enterprises with sustainable, scalable business models to prepare them for the investment and the successful and secure implementation of their projects

In spite of these promising developments, impact investing is still in its infancy not just because of the low (but growing!) number of impact investors, but also due to many social enterprises are not ready for investment. This is because of their uncertain business plans, hardly scalable business models, limited sustainability and lack of business skills - all that limiting their ability to absorb repayable funding including investments. These boundaries are complemented by the inability to measure and demonstrate the social impact achieved that also poses a major obstacle for potential investors.

Furthermore, the size of the investments required by social enterprises currently measures very small, causing investors to question their commercial viability. (Kiss-Mihály 2019:83-85)

2.2.3. Examples for social impact investors in Hungary

As it is presented above, little has changed and developed regarding social impact investment in Hungary since the beginning of the SIV project.

There is still only one private equity fund management organisation investing in social impact in the country. Impact Ventures established two private equity funds with the following characteristics:

1. IMPACT VENTURES I. PRIVATE EQUITY FUND (Impact Ventures n.d.a)

- Fund size: EUR 17 million
- Investment period: 18 Dec 2018 - 18 Dec 2023
- Term of the Fund: 10 years
- Potential investment phase: early, growth
- Investment ticket size: EUR 0.3 - 2 million
- Follow-on investment possible: yes
- Geographical focus: Hungary and EU member and candidate member states

2. IMPACT VENTURES II. PRIVATE EQUITY FUND (Impact Ventures n.d.a)

- Fund size: EUR 4 million
- Investment period: 18 Dec 2018 - 18 Dec 2023
- Term of the Fund: 10 years
- Potential investment phase: seed, early
- Investment ticket size: EUR 100 - 300 thousand
- Follow-on investment possible: yes
- Geographical focus: Hungary and EU member and candidate member states



Although the name includes “private”, the funds for the original investment were provided by the European Investment Fund (EIF) (50 %) and the Hungarian Investment Bank (40 %). Only 10 % came from a private company, which is owned by Hungarian National Bank Foundation (<https://mfbinvest.hu/finanszirozasi-szolgaltatasaink/tokealapok/impact-ventures-magantokealapok/>).

Impact Ventures invested in 11 enterprises since the establishment of the funds in 2018. The following ventures belong to the portfolio of the company.

- WLWYP: Secondary market sale of Lego™ parts
- LIFEED: Digital soft-skill development training for working parents and caregivers
- AXS: Ergonomic evaluation system to prevent the development of work-related musculoskeletal disorders
- Green Fox Academy: programming bootcamp
- The Tailor Network: making affordable suits with local tailors and low-educated, disadvantaged seamstresses
- Hashtag school: Digital platform for students to learn online, and for teachers and schools to create digital curriculum, online education and learning organization
- Grinsect: Insect breeding (black soldier fly), processing for animal feed (insect protein production), development and automation of breeding and processing technology.
- Envision: Providing support for the blind and visually disabled to recognize and understand the visual world to achieve higher levels of independence
- BrainTrip: EEG-based biomarker suitable for early detection and screening of Alzheimer's disease and other dementias
- bonapp.eco: reducing food waste with an online food rescue tool
- Candam Technologies: increasing the recycling rate using an innovative IoT device (REcySmart) to reduce the harmful environmental impact of waste

Unfortunately no public information is available on the ticket size and other relevant financial aspects of these investments.

Besides Impact Ventures there are some “business angels” who invest in startup enterprises with a social mission, but there is no information available about their activities and achievements.

In addition we have to mention here the Association of Impact Investors (THBE) again as the first attempt in Hungary to organise impact investors and support the promotion of the social impact investment approach in the country. The association provides various services like knowledge-sharing and organisation of professional networking events, operation of a live knowledge centre to



support and develop the social impact investment sector and cooperation with the key players of the Hungarian and international impact ecosystem. In spite of the long-term operation and the remarkable achievements of the association, no public information is available on social impact investors involved in the activities of the organisation.

2.2.4. Social impact investment focusing on (long-term) unemployment in Hungary

As in other countries of Central and Eastern Europe mitigation of (long-term) unemployment, labour market developments and innovations are considered as the sole responsibilities of the state in Hungary. Accordingly, the public sector and public funds play a much bigger role on the above fields than private organizations and investments. Therefore the main sources for labour market innovations and employment development are:

- State budget,
- European Structural, Cohesion and Investment Funds,
- Municipal budgets (partly financed from the state budget)
- Sources of the non-profit sector (mainly subsidies received from European funds, normative state subsidies and donations)

As we have presented in former chapters, the role of non-profit organizations in labour market developments is relatively low. Only 2.2% of these organisations have been engaged in economic and employment development activities in 2020 in Hungary. The same goes for social impact investment as there are only a few social impact investors in Hungary and their involvement in labour market investments is rather tangential.

Concluding all:

- Public sources may be relevant in Hungary regarding the scaling of the social impact vouchers programme.
- As for private investments, based on the few social impact investments identified in Hungary (investments of Impact Ventures), the relevant topics for attracting private money could be:
 - Digital training in order to develop the employability of disadvantaged target groups in the IT sector (e.g. LIFEED, Green Fox Academy)
 - Development of working conditions for (disadvantaged) employees (e.g. AXS)
 - Employment of disadvantaged employees in sectors with high added value (e.g. The Tailor Network)



2.3. Description of the social impact fund developed to finance social impact vouchers in Hungary

1. Fund geographic scope:

- National
- Country (if national): Hungary

2. Fund type:

- Grant based

3. Fund is set up in a form of:

Separate sub program of the Catching-up Communities Program, financed from RRF in the framework of Component “C” of the Recovery and Resilience Plan for Hungary

4. Fund is already active?

- No

5. Fund has rules of operations?

- No. Programme is under development, expected launch September 2022

6. Fund has established a body that decides about giving funds to beneficiaries with at least 3 people participating in the decision making

- No. Not relevant

7. Fund has established a supervision body consisted of people that do not participate in the decision making about funding beneficiaries:

- No. Not relevant

8. Fund has clear funding strategy in a form of a strategy document:

- Yes

9. The process of decision making about funding beneficiaries in the fund:



Beneficiaries: employers (SMEs and big companies including multinationals operating in the Emerging Settlements Programme target area or ready to employ disadvantaged employees from the settlements of the programme area.

Decision making body: Hungarian Charity Service of the Order of Malta (HCSOM) responsible for the professional implementation of component “C” “Emerging Settlements” of the Hungarian the RRP.

The HCSOM examines the eligibility criteria, and decides about the applications for vouchers, taking the available funds into consideration.

10. Financial size of the fund at the moment (paid-in contributions):

- Private contribution: EUR 0.0,-
- Public contribution: EUR 0.0,-

11. Funds committed for the fund from private sources:

- EUR 0.0,-

12. Funds committed for the fund from public sources:

- EUR 1,390,000,-

13. Projection of new funds to be fund raised in the next 5 years:

- 2023: EUR 278,000,-
- 2024: EUR 417,000,-
- 2025: EUR 417,000,-
- 2026: EUR 278,000,-
- 2027: EUR __.__, -

14. Amount eligible to be granted to a beneficiary:

- Minimum: EUR 2,800,- (HUF 1,000,000)
- Maximum: EUR 70,000,- (HUF 25,000,000)
- Median expected: EUR 28,000,- (HUF 10,000,000)

15. Expected lifetime of the fund:

- Number of years: 6 years

2.4. Challenges for scaling the social impact fund in Hungary

Based on the above analysis we identified the following challenges for scaling the Hungarian social impact vouchers programme.

2.4.1. Economic challenges of scaling



As we have seen above, main economic challenges that may effect the scaling of the social impact vouchers programme in Hungary are the followings:

- **Crisis mitigation difficulties:** The Recovery and Resilience Facility of the European Union is still not available for the Hungarian Government. Due to the due to protracted negotiations and rule of law issues it is still questionable. The uncertainties regarding the RRF and the potential refusal of the Hungarian RRP by the Commission may negatively affect the availability of the funds planned for labour market improvements, especially the “Emerging Settlements Programme”. This may slow down or even prevent labour market developments including the scaling of the Hungarian social impact vouchers programme.
- **Consequences of the war in Ukraine:** The war in Ukraine causes uncertainties on the markets, shortages in energy and raw materials and significantly limit trading opportunities These effects slow down European economies, including Hungary, restrain investments and reduce the amount of available finance for labour market and employment developments.
- **Consequences of the record inflation:** In relation to the COVID-19 pandemic, the protracted recovery interventions and resilience-building and the Russo-Ukrainian war, record inflation hits Europe including Hungary especially. The inflation results in raising prices and also limit and decrease the public and private finance available for unemployment mitigation, job creation and labour market innovations.

2.4.2. Labour market challenges of scaling

- **Increasing unemployment:** In relation with the effects of the COVID-19 pandemic, the uncertainties regarding Hungary’s access to the RRF, the Russo-Ukrainian war and the record inflation, a recession is expected in Hungary in the next 6 months. This may result in the appearance of the phenomenon of mass unemployment on the Hungarian labour market again. Accordingly, the focus of Hungarian labour market and employment policies may be moved the management of mass unemployment again that requires the re-activation of standardized active labour market instruments instead of supporting flexible and tailor -made, experimental ones.
- **Appearance of Ukrainian refugees on the labour market:** Although Hungary does not belong to the main destinations of Ukrainian refugees, it may change in the short term if the front lines move westwards. This may result in the change in the Hungarian labour market and employment policies focusing on covering labour force shortages of Hungarian employers with Ukrainian employees instead of the available Hungarian



workforce belonging mainly to disadvantaged, marginalized and segregated social groups.

2.4.3. Challenges based on the status of impact investments

- **Less developed social impact investment sector:** As it has been described in chapters 2.2.3 and 2.2.4 the social impact investment sector is still in its infancy. Accordingly, private investments most likely may not be involved in the scaling of the social impact vouchers programme in Hungary in the next few years, especially as the priorities of impact investors rarely include goals for improving the employability and employment of disadvantaged workers

2.4.4. Legal challenges

- **Less attractive legal incentives for private donation:** As we have presented it in chapter 2.2.1, private donations had a share of only 12.27% in the total incomes of the non-profit sector in 2019. This even decreased to 11.83% by 2020. This relatively low share shows that the incentives ensured by Hungarian legal system to private and corporate donors in case of donating public benefit purposes are not enough attractive to boost private donations. Accordingly, the role of private donations in the scaling of the Hungarian social impact vouchers programme most likely will remain less intensive, however the message and the communicational value of these donation is still important and must be exploited.
- **State aid regulations:** Based on the criteria in Article 107(1) of the Treaty on the Functioning of the European Union (EU Treaty), the support planned to be provided within the framework of the scaled employment voucher program is considered state support.
However, the services going to be available in the employment voucher program can be requested as de minimis support according to paragraph (1) the Commission Regulation 1407/2013/EU (December 18, 2013) on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to small grants.
Accordingly, the provisions of Regulation (EU) 1407/2013 must be applied to them: applicants must be informed about this and the program must provide the administrative background for the registration and monitoring of de minimis support requested in the form of employment vouchers. (Commission 2013)
In addition, the use of vouchers at the expense of the individual de minimis support can be discouraging for the target group, as it reduces the more favorable state support available to them for other developments



3. Country-specific Objectives

- Objective 1: Involvement of EUR 139,000 (HUF 54,210,000) private donation in the financing of the employment voucher programme in the target area of the Emerging Settlements Programme by the end of 2025
- Objective 2: Involvement of 10 corporate donors in the financing of the employment voucher programme in the target area of the emerging settlements programme by the end of 2025

4. Actions

4.1. Action 1 - Scaling the amount of money invested in the fund

<p>Activity 1</p>	<p>Fundraising campaign</p> <p>The Emerging Settlements Programme will implement a 4 years long fundraising campaign between 2023 and 2025 in order to involve private donations in the funding of the employment vouchers programme.</p> <p>Charity and church organisations involved in the implementation of the “Emerging Settlements Programme” will be approached and informed about the goals and results of the employment voucher programme element of the “Emerging Settlements Programme”. The stakeholders will be informed about the fundraising goals and they will design a campaign plan for raising EUR 139,000 (HUF 54,210,000)¹ private donations between December 2023 and December 2025 for the programme.</p> <p>According to the plan the charity organisations organise 5 fundraising campaign phases and collect donations via different channels (e.g. donation month for the employment of the most vulnerable in the churches). Counting with an average of EUR 1.02 (HUF 400) individual donation/person, approximately 135,500 donors will have to be addressed and engaged to donate during the 3 years long campaign.</p> <p>Donations will be transferred to the separate bank account of the “Emerging Settlements Programme”.</p> <p>The development of the fundraising campaign and the results of the voucher programme element of the “Emerging Settlements Programme” will be shared with the charity organisations through information events.</p> <p>The campaign will be closed with a closing event and press conference in 2026, when the achievements will be celebrated</p>
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¹ The amount is counted on the basis of the average share of private donations in funding non-profit organisations according to the data presented in chapter 2.2.1



	and the public also will be informed about the results of the campaign and the voucher programme in the frameworks of the “Emerging Settlement Programme” through the press.
Outputs/indicators	EUR 139,000 (HUF 54,210,000) private donations raised
Milestones	<ol style="list-style-type: none"> 1. 31.10.2023 1st Information event for charity organisations involved in the implementation of the “Emerging Settlements Programme” - First results of the voucher programme 2. 1.12.2023 Launching the 1st fundraising campaign - EUR 13,900 (HUF 5,421,000) raised 3. 31.5.2024 2nd Information event for charity organisations involved in the implementation of the “Emerging Settlements Programme” - Results of the voucher programme and the 1st fundraising campaign 4. 1.7.2024 Launching the 2nd fundraising campaign - EUR 13,900 (HUF 5,421,000) raised 5. 31.10.2024 3rd Information event for charity organisations involved in the implementation of the “Emerging Settlements Programme” - Results of the voucher programme and the 2nd fundraising campaign 6. 1.12.2024 Launching the 3rd fundraising campaign - EUR 27,800 (HUF 10,842,000) raised 7. 31.5.2025 4th Information event for charity organisations involved in the implementation of the “Emerging Settlements Programme” - Results of the voucher programme and the 3rd fundraising campaign 8. 1.7.2024 Launching the 4th fundraising campaign - EUR 41,700 (HUF 16,263,000) raised 9. 31.10.2025 5th Information event for charity organisations involved in the implementation of the “Emerging Settlements Programme” - Results of the voucher programme and the 4th fundraising campaign 10. 1.12.2025 Launching the 5th fundraising campaign - EUR 41,700 (HUF 16,263,000) raised 11. 31.5.2026 Closing information event for charity organisations involved in the implementation of the “Emerging Settlements Programme” and for the press. Results of the voucher programme including the fundraising campaigns shared, the results are celebrated.
Key actors/stakeholders	Charity organisations involved in the implementation of the “Emerging Settlements Programme”:



	<ul style="list-style-type: none"> • Don Bosco Salesian Society • Greek Catholic Church - Archdiocese of Hajdúdorog • Faith Church Roma Missionary Network • Society of Jesus (Jesuit Order) • Saint Elisabeth Foundation of Kaposfő • Caritas Hungary • Hungarian Pentecostal Church National Roma Mission • Hungarian Reformed Church Aid • Diocese of Miskolc • Oltalom (Shelter) Charity Association • Hungarian Interchurch Aid • St. Francis Foundation for the Poor • St. Martin's Caritas Foundation • I Will Shine! Association
<p>Estimated costs and funding sources</p>	<p>Event organisation costs: EUR 3,000</p> <ul style="list-style-type: none"> • 1st Information event - EUR 500 • 2nd Information event - EUR 500 • 3rd Information event - EUR 500 • 4th Information event - EUR 500 • 5th Information event - EUR 500 • 6th Closing information event and press conference - EUR 1,500 <p>Banking costs (opening separate bank account, costs of a separate bank account and transfer costs): EUR 2,780</p> <ul style="list-style-type: none"> • 2024 - EUR 280 • 2025 - EUR 840 • 2026 - EUR 1660 <p>Total costs: EUR 5,780 Source: Emerging Settlements Programme and the funds raised during the campaign</p>

4.2. Action 2 - Scaling the scope of investors

<p>Activity 1</p>	<p>Corporate engagement</p> <p>Corporations having their headquarters and/or branches in the “Emerging Settlements Programme” area or recruiting their employees from the target area will be approached by the means of:</p> <ul style="list-style-type: none"> • Information events organized for the charity organisations in the frameworks of Action 1 - Fundraising Campaign • Presentations on HR/CSR conferences and events
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	<ul style="list-style-type: none"> • One-on-one discussions <p>The approached companies will be informed about the goals of the voucher-based employment pillar of the “Emerging Settlements Programme”, the results of the voucher programme and the needs for funding or any other kind of support. We expect that the example of private donations (See Action 1 - fundraising campaign), the results of the voucher programme and the success stories of other enterprises already involved in “Emerging Settlements” will convince at least 10 big companies to engage with the programme and provide financial or other kind of support in the frameworks of their CSR.</p> <p>The engagement of the companies will be declared in the form of donor agreements.</p>
Outputs/indicators	10 companies joining the programme and signing donor or volunteer agreements
Milestones	<ol style="list-style-type: none"> 1. 11.10.2022 - Participation at the HR Fest - presentation of the programme 2. 13.10.2022 - Participation at the Hungarian Impact Day - presentation of the programme 3. 22.11.2022 - Participation at the HR Fest Debrecen - presentation of the programme 4. 31.10.2023 1st Information event 5. 30.4.2024 - 1 donor agreement 6. 31.5.2024 - 2nd information event 7. 30.9.2024 - 2 donor agreements 8. 31.10.2024 - 3rd information event 9. 30.4.2025 - 2 donor agreements 10. 31.5.2025 - 4th information event 11. 30.9.2025 - 2 donor agreements 12. 31.10.2025 - 5th information event 13. 30.4.2026 - 3 donor agreements 14. 31.5.2026 - Closing information event and press conference
Key actors/stakeholders	<ul style="list-style-type: none"> • Trenkwalder HR Solutions • HR Fest • Association of Hungarian Impact Investors (THBE) • OFA National Public Benefit Non-profit Ltd. • Charity organisations involved in the implementation of the “Emerging Settlement Programme”
Estimated costs and funding sources	Information events are organized together for potential donors and charity organisations (see Action 1 Fundraising campaign). No extra costs are expected over the estimated events costs of Action 1 (EUR 3,000)



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