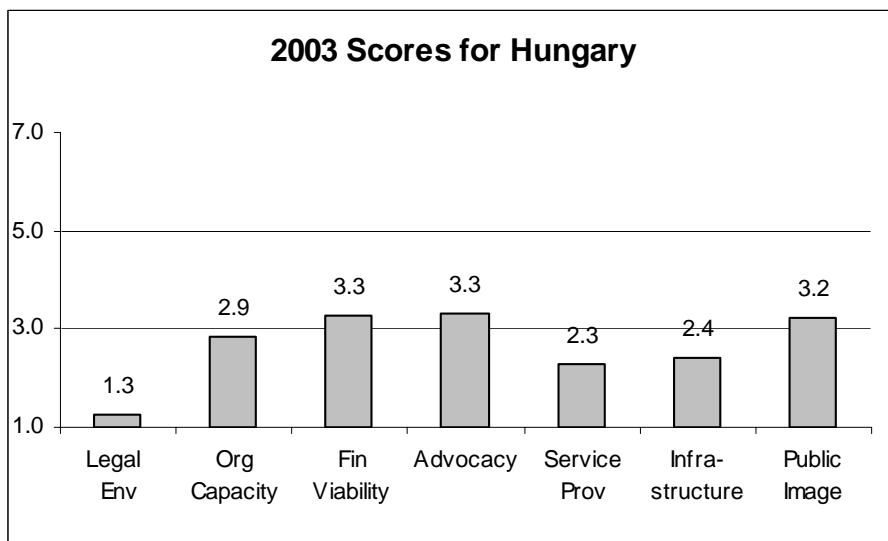


# HUNGARY



**Capital:**  
Budapest

**Polity:**  
Parliamentary  
democracy

**Population:**  
10,100,000

**GDP per capita  
(PPP):** \$12,416

## NGO SUSTAINABILITY: 2.7

2003 witnessed the NGO sector's gravest crisis since its inception. Shrinking budgets, liquidity problems, even bankruptcies across the sector were a clear indication of both lack of resources and lack of financial viability among the more active segment of NGOs. While there were undoubtedly a few success stories, the vast majority of NGOs, and especially the smallest, community-based ones barely survived the year.

NGO SUSTAINABILITY	
2003	2.7
2002	2.6
2001	2.6
2000	2.3
1999	2.0
1998	1.6

In the last full pre-accession year to the EU, voter turnout in Hungary was lowest among candidate countries. This showed deficiencies in the country as it prepares to join the EU. In the last year of targeted

NGO support from the EU, much of the pre-accession funds were not used.

The most enthusiastic player of the year in the field of NGO development was the Hungarian Government. A governmental strategy on the NGO sector was adopted; a Law on the National Civil Fund (NCF) was passed and is being implemented. Stimulated by the government, a sector-wide discussion on national representation of NGOs has started and grew into an evolving process. These initiatives revealed that political influence and dividedness is still an issue to be addressed in Hungary.

Besides the governmental NCF, a major private initiative, the Trust for Civil Society in Central and Eastern Europe (Trust for CEE), was also launched in Hungary. However, neither of these programs became operational in 2003.

Sustainability and independence at the organizational and sectoral level, mobiliza-

tion of local resources, and keeping up with the changed environment in the EU remain the greatest challenges.

**LEGAL ENVIRONMENT: 1.3**

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The legal environment of NGOs in Hungary is considered to be supportive in general. As of June 2003 a new law on the National Civil Fund Program came into effect. The law establishes the National Civil Fund, an instrument designed to help provide institutional support to

LEGAL ENVIRONMENT	
2003	1.3
2002	1.4
2001	1.7
2000	1.0
1999	1.0
1998	1.0

Hungarian NGOs. To finance the Fund, the Hungarian government will provide matching funds based on the amount of actual taxpayer designations under the 1 percent tax designation law each year. The One Percent Law permits Hungarian taxpayer to designate 1 percent of his or her tax liability to a qualified NGO of their choice each year. Under the Civil Fund Law, the government will match the amount of actual tax designations each year, and will in no case contribute less than the 0.5 percent of personal income taxes collected. Thus, the more money that taxpayers designate, the more money will be contributed by the government to the Fund.

At least 60 percent of the Fund's resources each year will have to be dedicated to providing institutional support to NGOs in Hungary. The remaining funds may be directed towards the support of various programs related to the development of the NGO sector, including sector-wide events, research, education, or publications.

The highest governing body of the Fund will be a Council, consisting of 17 members, of which 12 are selected by NGOs. The law prescribes a mechanism of delegation called "the civil nomination mechanism". Implementation regulations detail the procedure for achieving a balanced representation among the Council members according to geographic and professional areas in which civil society organizations in Hungary operate. Actual grant decisions will be made by regionally delegated Colleges. Elections to the Council and Colleges will take place in the first months of 2004.<sup>1</sup>

Although the initiative to create such a body as well as the size of the expected budget of the fund are to be commended, there are some issues regarding its positive impact on the long run. Here we would like to only summarize some of the of the pro- and con arguments:

- Is the strategy of the fund really effective? Wide spread financial support in a sector that is already highly dependent on government funding may strengthen NGOs or may lead to more dependence.
- Is state funded operational support an investment in social good or a waste of public money? Much will depend on the criteria and methods of providing it.
- Is majority governance by NGOs of a state fund a good thing? Be-

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<sup>1</sup> Text on the National Civil Fund provided by ICNL.

## 2003 NGO Sustainability Index

cause NGO representatives will be elected, it may mean, as intended, de-politicized decision-making. On the other hand, especially since conflict-of-interest regulations are not stringent enough, it may be seen as an accountability gap.

Another significant step in the NGO related legal framework in 2003 was the introduction of draft of the Volunteer Law. The law is expected to be approved in the first half of 2004. The impact of this law is clearly positive as it creates transparent and more supportive legal framework for volunteers and organizations working with volunteers. Issues that were not or not favorably regulated before such as taxation, health insurance, and benefits for volunteers. are clarified in the draft.

On the more problematic side, in 2003 the Hungarian Parliament adopted a new law on Party Foundations. This entitles foundations established by political parties to a certain percentage of budgetary support. As the new law was not discussed publicly, and the accountability regulations are quite weak, there is a general fear that this will negatively impact the public image of the sector.

In 2003 the Government of Hungary appointed a Minister of Equal Opportunities with the aim to harmonize strategies of different ministries dealing with disadvantaged groups. The governmental Department of Civil Relations will be housed by the office of this Minister as of 2004 which is seen as a loss of relevance of the department since it was earlier housed by the Prime Minister's Office.

### ORGANIZATIONAL CAPACITY: 2.9

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Divergence among the organizations at different levels of development within the NGO sector has increased. There are few well-resourced organizations, with a stable funding base. These are mostly the ones that are included in the state budget by name such as the Red Cross or the National Federation of Pensioners, or have been endowed by state property. On the other extreme, there are small NGOs of

ORGANIZATIONAL CAPACITY	
2003	2.9
2002	2.7
2001	2.8
2000	3.0
1999	2.0
1998	2.0

which many are essentially vanishing. According to data from 2001, 83 percent of NGOs with a budget under \$700 are in decay, short of resources, or stagnating. This is true also for 62

percent of NGOs above a budget of \$700, 32 percent of which are stagnating. This reflects a tragic situation whereby those grassroot NGOs that are closest to the needs in the communities are the ones not surviving the initial boom of NGO activity.

Most of the active mid-size NGOs are dependent on one type of source, usually state grants, but also other types, e.g. 84 percent of the income of human rights organizations comes from international private donors (unfortunately, many times also a single donor). The existence of these organizations is determined by the implementation of projects financed by their main donors. For most state supported NGOs this resulted in an increased exposure to political whims; for human rights groups it resulted in a disastrous

situation as their western donors closed their operations in Hungary.

In terms of geographical distribution NGOs in Budapest receive 75 percent of total state support, and regional differences also continued to grow.

Two initiatives aiming to increase resources for capacity building were started in 2003: the National Civil Fund – financial support for covering institutional costs; and the Trust for Civil Society in Central and Eastern Europe – the last major funding initiative of independent donors in the region. Both were in the phase of planning and preparation and didn't bring major changes on the sectoral level this year. Major activities within the Trust for CEE program are expected to be started early 2004, the NCF is expected to be operational the second quarter of 2004 at the earliest.

Also on the more positive side, in 2003 there was an increase of advanced level

training opportunities, e.g. EU project management trainings or governance and leadership trainings (including specialized ones for women, Roma or youth).

In terms of career opportunities within the sector the situation has become significantly more difficult. There was an increase in the wages of public servants, which used to be comparable to nonprofit wages. NGOs providing services in the same professions (teachers, nurses, caretakers) are now disadvantaged compared to the public sector in terms of salary level offered. In general the sector still does not offer a viable career opportunity to young people. There are some positive examples of ex-business people joining NGOs as they are seeking for jobs with bigger emphasis on societal or environmental impact but these are rather occasional.

**FINANCIAL VIABILITY: 3.3**

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The trends from the recent years in terms of financial and income structure have continued. (The latest figures are from the

FINANCIAL VIABILITY	
2003	3.3
2002	3.0
2001	2.8
2000	3.0
1999	2.5
1998	2.0

last published report of the Central Statistical Office, collecting data from the year 2001). The continuation of trends is based on other non-representative surveys conducted in 2002-2003). The shift is towards increased

state support - the ratio of central state and local government support increased by 36 percent each in 2001. There was a 7

percent decrease in the level of private support for the sector, mainly from foreign private donors. NGO financial figures by type of NGO show that the foundations mainly operating foundations rather than grant making ones) ended the year 2001 with an overall deficit of 10 percent. They have started to consume their accumulated capital funds.

The trend of concentration of financing in a small number of NGOs also continues. Nearly 10 percent of the organizations realize more than 90 percent of the total income of the sector. Based on the last statistics there was 30 percent increase in the income of Public Benefit Companies (PBC) and over 40 percent increase in

## 2003 NGO Sustainability Index

case of nonprofit institutions comparing to the last year. (These are usually quasi NGOs providing government services.) At the same time, as a result of further significant decrease of private foreign support and private support in general, there were some subgroups of NGOs that were close to bankruptcy and some have actually suspended operations.

The fact that in 2003 there were more organizations facing serious liquidity problems is a critical warning sign within the sector concerning financial viability. It shows how fragile these decade-old organizations really are. In addition, as both the central governmental and EU funds are based on a post-financing or partially post-financing mechanisms, financial management of projects will be one of the greatest challenges even for many otherwise highly professional NGOs.

Also contributing to the lack of resources for the sector in 2003 that there were major delays in launching the last rounds of pre-accession grants on the national level. There are EU programs (such as ACCESS) which were delayed by more than one year (in 2003 the budget for 2002 was distributed). True enough, other pre-

accession funds – directed not for the nonprofit sector - are often in a much worse delay.

On a more positive note, some new philanthropic initiatives took place in 2003. The capital of new private foundation endowed in the field of art rivals with the state public foundation supporting arts and culture. Media also picks up more charity collections (e.g. in reality shows). However, there is no concept or system behind raising and distributing these funds. Some foundations (e.g. the United Way) aim to professionalize philanthropic giving. In general, the lack of indigenous foundations is still an issue.

Finally, the increase of One Percent recipients continued in the last year as there were 21,700 organizations receiving this kind of support. The Hungarian Tax Authority also recorded a slight increase in the total amount designated for NGOs (total 27.7 million USD). On the other hand this income represents only 0.8 percent of the total financing of the sector.

### ADVOCACY: 3.3

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While the previous years didn't bring major changes in terms of advocacy, in 2003 there were unprecedented developments

ADVOCACY	
2003	3.3
2002	3.5
2001	3.5
2000	3.0
1999	1.5
1998	1.0

in this field. The public debate of the draft on the law on the National Civil Fund (NCF) early in the year triggered public discussion on NGO representation in the highest decision mak-

ing body. The governmental initiative to form an interest representation body which should act as "the" partner of the state on behalf of NGOs, was challenged and delayed by a big part of organizations actively engaged in the discussion. (The original idea of the government was that such an organization could become the body running the NCF.) The debate will continue further in 2004 but now there is less pressure from the side of the state and the sector has more time to identify

an optimal structure and way of operation. A National Civil Representation is actually being organized as a separate initiative but the green movement – with other NGOs - advocates for a consensual, slower approach.

In the meantime, NCF decision making bodies will be elected through a special electoral procedure already announced for late January 2004. This procedure is considered to be very democratic but is unfortunately potentially flawed. For example, the delegate who receives the most votes from those present will win, which means that there is a possibility of someone getting elected by, say 10 percent of those present, if there are several candidates and all others receive less than 10 percent of votes. Also, there is no professional requirement regarding those who could be elected (“delegated”), which means that someone who has until now been the manager of a local sports club and has no wider understanding of the sector may in theory be elected into the national governing Council.

Despite such problems, the process of adopting the NCF itself was a good learning experience for key NGOs who were involved in lobbying and developing the law. Other legislative initiatives (e.g. the law on equal opportunity, on anti-discrimination, on legal aid) also en-

hanced the ability of NGOs to participate in the decision-making process. Besides legislation, there were some advocacy topics initiated by civil organizations that were covered more broadly in the media, such as a movement against animal torture or a campaign against domestic violence.

The EU referendum past in Hungary but it produced a low turnout of only 46 percent. The lack of ability to mobilize citizens for such a significant decision was a failure for NGOs, government, and the opposition.

However, with the EU accession approaching, new aspects of advocacy work have also been introduced. These include, e.g. the preparation for advocacy within the EU structures (e.g. participation of Hungarian NGOs in the ECOSOC), or the formation of HAND (Hungarian Association of NGOs for Development) as a tool to influence the future foreign aid policy of the Hungarian government.

There has also been increased advocacy activity at the local level, with local governments and the so-called “smaller regions”. At this level, citizens are increasingly recognizing the need to join forces across sectors and advocate for funding and development opportunities.

### **SERVICE PROVISION: 2.3**

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Regarding service provision, one cross-cutting theme in Hungarian politics affected NGOs this past year, i.e. the war on corruption. Corruption is a major issue in Hungary across all sectors and the government made a strong commitment to transparency and accountability in the use of public funds. Therefore, they passed a law on the use of public funds that prescribes more stringent rules for any or-

ganization, including NGOs that receive state funding. This and the increased number of post-financing funds for various services are creating problems for service providing NGOs.

At the same time, normative support (per capita support for state services) and much of the ministry support is still politicized and provided based on personal

preferences of government officials. There are no legal or customary guidelines regarding contracting with NGOs and the liabilities contracts place on NGOs vary tremendously. Hopefully with the new regulations on accountable use of public funds this will slowly

SERVICE PROVISION	
2003	2.3
2002	2.3
2001	2.3
2000	2.0
1999	2.5

change.

change.

An interesting phenomena is the increase of state founded PBCs (as mentioned above) in the year when there was a 10-15

percent across-the-board layoff in the governmental sphere. It seems as though some ministries and government agencies tried to “rescue” their employees by ensuring them employment in these quasi-NGOs.

With the increased funds available for EU project implementation, many service providing NGOs are clearly positioning themselves in this segment. Indeed, the accession will open up new opportunities for investment, such as the introduction of quality assurance systems or technological development.

## INFRASTRUCTURE: 2.4

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There hasn't been much development in the infrastructure of civil society organizations in the past year. The general trend, however, seems to be a positive one.

Perhaps the most visible area of development has been the Internet. Websites providing various services for NGOs (besides the main portal, nonprofit.hu) proliferated and seem to be working well. Internet also

INFRASTRUCTURE	
2003	2.4
2002	2.5
2001	2.5
2000	2.0
1999	2.5

served as the main communication platform during the discussion of the NCF and civil representation.

Further, there was an increase in small companies catering to NGO needs mainly in the areas of communication (related to the 1percent campaigns), legal-fiscal advice and fundraising. Their level of professionalism varies but they indicate that there is a potential market there. Large PR companies are also more and more inter-

ested in collaborating with NGOs on 1 percent campaigns.

Government support for civil infrastructure continued. National Civil Houses grants were awarded by government again in 2003. Although the size of their budget received from the state has remained almost the same in the last three years, they reported increased pressure from the state side to expand their services from this budget.

Bad news for 2003 included the cutback of the nonprofit department at the Central Statistical Office. While the budget and therefore the scope of the statistical research of this sector has already been curtailed in 2001, as of this year they have almost eliminated all activity.

The Telocottage network has recently been financed through different state and foreign sources. In many cases Telecottages lost their status as a significant place for the local community. It seems that they were not able to give proper an-

swers to the major financial or strategic questions about the network. A few really good ones still operate and fulfill their community functions. As for the rest, other

initiatives such as Civil Houses and other local NGOs are picking up services formerly offered by Telecottages.

**PUBLIC IMAGE: 3.2**

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Media presence of NGO related issues in 2003 was higher than before. This was due in part to the NCF and in part to controversial issues addressed by NGOs, such as drug use or prostitution. Discussions started in mainstream political news media (especially the press) on the role and importance of NGOs. At the same time there were scandals that made the foundation image worse again in this

PUBLIC IMAGE	
2003	3.2
2002	3.0
2001	2.8
2000	2.0
1999	2.0
1998	2.0

year. E.g. there were a series of foundation operated social homes for elderly that went bankrupt and the inhabitants were left alone without care for weeks until

in the end the local government resolved the situation (usually by selling the home and moving the old people out of the institution).

Some of the bankrupt NGOs, for example the only Roma radio (Radio C) made it to the cover of newspapers by making exaggerated pleas to the government for funding. The image of a bankrupt NGO

(however admirable and important their mission is) loudly demanding, and getting, government support may not be the best message from the point of view of an independent civil society.

The One Percent still has a positive influence in terms of acquainting the general public with activities of a range of NGOs. (It is only slightly worrisome to see the impact of the Child Cancer Foundation scandal on its 2003 results: publicity increased designations despite the fact that the conduct of the foundation had been problematic.) As of this year, all NGOs that received such support have to publish a report in the press, which is expected to cost more but increase accountability.

As to the number of state-established PBCs is continuing, there are again more voices and debates testifying the political influence on the sector. There is an increased number of scandals in the media regarding those organizations. Newly established party foundations described in the legal chapter also represent a potential problem.