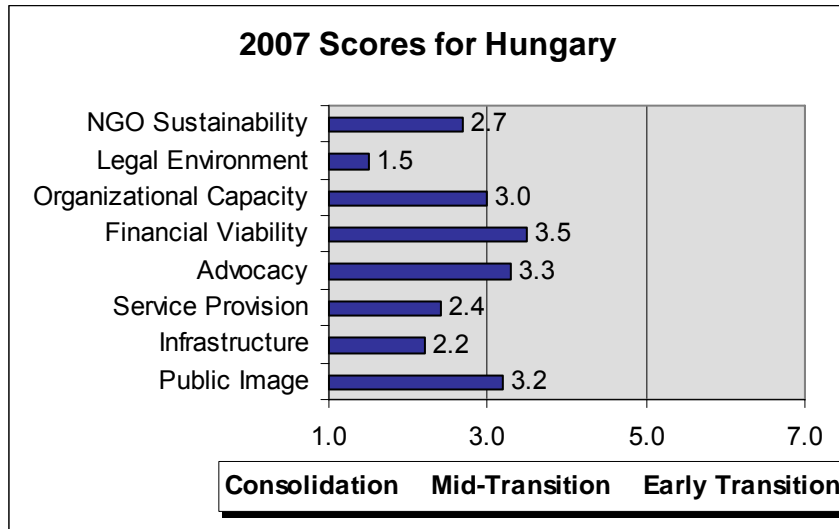


HUNGARY



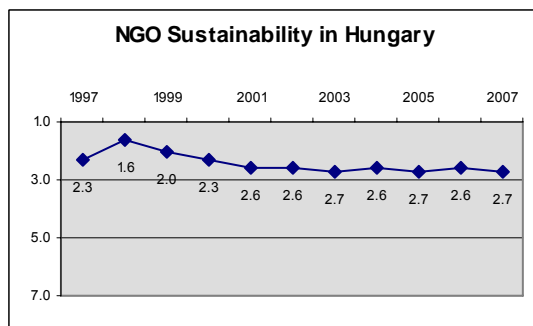
Capital: Budapest

Polity:
Parliamentary Democracy

Population:
9,930,915 (July 2008 est.)

GDP per capita (PPP):
\$19,500 (2007 est.)

NGO SUSTAINABILITY: 2.7



2007 was another difficult year for the Hungarian nonprofit sector, which consists of 50,890 foundations and associations and 7,352 public benefit companies, public foundations and trade unions. Although several initiatives were launched, negative trends from previous years continued. NGOs are still very weak financially, and few are sustainable in the long-term. New EU calls for proposals are late, and the tax benefit for support to NGOs was cut again. The political crisis of 2006 continued in

2007, which weakened the advocacy capacity of NGOs, the weakest dimension of NGO sustainability. The government, not NGOs, initiated the most important developments during the year, including the official database of NGOs and the regulation of NGO conflict-of-interest issues.

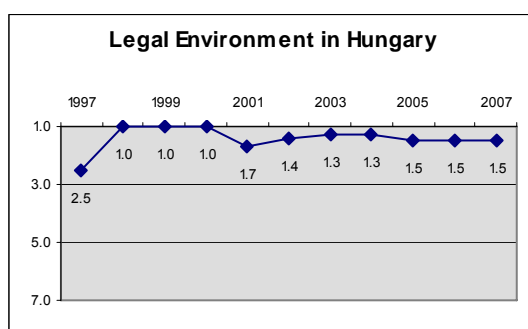
On a more positive note, however, in 2007, NGOs and the government recognized some long-term problems faced by the NGO sector, including conflicts of interests within grantmaking bodies and decisions on state funding for NGOs. NGOs and the government have begun discussing solutions, which will require much effort from both parties to elaborate appropriate policies in the upcoming years. Other positive developments were the increased use of fundraising techniques by NGOs, the revision of the one percent law, and the increased corporate interest in implementing corporate social responsibility (CSR) programs.

LEGAL ENVIRONMENT: 1.5

There were numerous new legal initiatives in 2007, the majority of which are likely to have a positive effect on the NGO sector.

The government passed a decree with tasks and deadlines to implement its civil society strategy, the final version of which, however, incorporates only some elements of the draft strategy

presented to NGOs earlier. According to the decree, all ministries will have to compile a bi-annual civic action plan to develop contacts with the NGO sector. A civic information website will be set up with, among other things, an official database of NGOs and the possibility to conduct official procedures online. The government will examine the possibility of joining the European Convention on the Recognition of the Legal Personality of International Non-Governmental Organizations. For greater transparency, the government will review regulations concerning advisory bodies assisting the government's work. A review will be conducted of the activities of organizations and networks supported by ministries and providing services to NGOs, in order to eliminate redundancy in the system. The Central Statistical Office will continue its annual research on the NGO sector, although it has not yet been decided whether it will be carried out in a comprehensive fashion (which has been immensely helpful in the past) or as a sample-based survey yielding more limited findings. A major shortcoming of the decree is that it does not include the revision of the 1997 Law on Public Benefit Status, even though most of the criteria established in this law are only being met on a formal basis.



The government has drafted a modification of the Act on the National Civil Fund (NCF). This modification aims to improve the efficiency of the support system and contains stricter regulations for conflicts of interest. However, it does not respond to criticism from the State

Audit Offices and some NGOs lobbying for a more strategic approach to NGO development.

At the same time, the One Percent Law¹ has been modified. Two minor parties in the parliament questioned the need for a National Civil Fund and submitted proposals to create their own Three Percent Laws; both proposals failed. The Liberals proposed a competition between NGOs and churches for the funds generated from three percent of income taxes, while the Christian Democrats would split the amount equally between the two types of organizations.

The new law involves some practical changes concerning taxpayers' statements about the allocation of the one percent and the reporting procedures NGO receiving such donations must follow. The one percent statement will now be part of the tax declaration form, although, taxpayers will also have the option of remaining anonymous by placing it in a separate envelope. There will be only one deadline for submitting statements, which should help NGOs run cheaper and more focused campaigns. In addition, NGOs will have to make a clear distinction between their program and overhead costs in their one percent related press releases. The new law continues to include state organizations such as libraries as potential recipients. State organizations currently receive an insignificant share of the one percent donations, but there is a potential danger to NGOs if this increases. Due to poor advocacy by NGOs, the list of eligible state organizations is now even longer than before.

Following a financing scandal involving the Socialist party, the Prime Minister published a seven-point action plan to regulate political party financing and conflicts of interest by politicians. Two issues closely concern the NGO sector: the plan states that party-financing regulations apply to the youth organizations of political parties as well, and that NGOs involved

¹ The one percent law has allowed individual taxpayers to allocate one percent of their previous year's personal income tax to an eligible NGO or state organizations since 1997. Another one percent can be allocated for churches.

in party politics will no longer be eligible for any public funding. A newly enacted law based on this seven-point action plan sets forth even stricter criteria: in the case of publicly funded grants, NGOs with representatives involved in the grantmaking procedures, preparatory phases of decision making, or formulating calls for proposals are neither eligible to participate in calls for proposals nor to receive public money. This legislation also initiates the replacement of the complete civic decision making community, including the NCF and experts working at ministries and public foundations. In the long run, the new regulation will decrease corruption. NGOs generally welcome such a change as currently one-third of the NCF's annual grants are awarded to nonprofit organizations associated with civic decision makers. However, by requiring the replacement of about 90 percent of the members of all NCF bodies, NGOs fear that this might threaten the stable functioning of these bodies and increase the possibility of government influence.

Until recently, the issue of conflict of interest has been dealt with laxly at all levels. Now, due to strong political pressure, the government is hastily (and without prior consultation with the nonprofit sector) trying to demonstrate its readiness to fight corruption by disciplining NGOs. These changes were not initiated by NGOs. Best practices widely accepted by NGOs would make more sense than new regulations.

ORGANIZATIONAL CAPACITY: 3.0

The capacity of the Hungarian NGO sector is stagnant, which is a setback for all NGOs. Capacity building funds have decreased, and the NGOs previously supported and developed by western donors are often the hardest hit by the difficulties surrounding EU funding, including the consistent and significant delay of payments.

So far, the new Company Code² has not clarified the position of public benefit companies founded by the central or local governments. As quasi-NGOs, public benefit companies are widely criticized for their lack of efficiency and accountability. They are being transformed and eradicated at a slow pace, as confirmed by the fact that many are still listed in the 2008 State Budget. Another indicator of this chaotic situation is the fact that new types of nonprofit ventures (nonprofit ltd. and joint-stock companies) were at first to be statistically classified as “business ventures.”

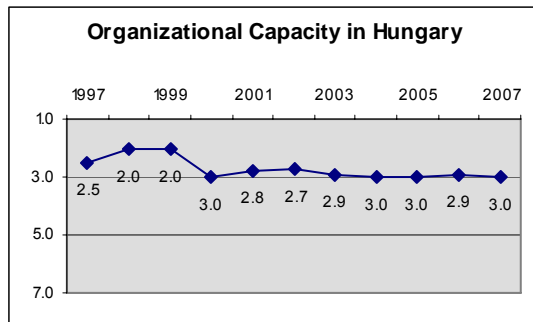
As part of the long overdue reform of the Civil Code, there are two new potential organizational forms: the private benefit foundation, which is already well-known and popular in Western Europe, and the joint-stock foundation, which aims to accomplish its public benefit purpose on a for-profit basis. This latter form raises some concerns, as it will supposedly enjoy public benefit status while paying dividends to its members, despite the fact that a public benefit organization is not supposed to distribute its profits, but rather use them to further its public aims.

The draft law on contracting out of state services was taken off of Parliament's agenda, thereby negatively affecting service provision. This law would have introduced a tendering process that creating equal opportunities among service providers from all sectors (similar to the British “best value” model).

The NCF has recognized a hidden problem in its operations since 2004. In monitoring some of the key documents submitted by applicants for funding, it found that the majority failed to comply with legal requirements. However, in order to comply completely, these applicants would have to use the majority of their

²The Company Code regulates private and public benefits companies. Public benefit companies are nonprofit organizations established to ensure the on-going provision of public services. They essentially operate as businesses but are not allowed to distribute profits.

organizational capacity to this end. Moreover, the existing rules do not encourage greater accountability and transparency. Thus, reforms are needed to reduce the number of regulations while increasing their quality.



One-third of nonprofit employees are employed by classic NGOs, and because of the high tax burden on employers, it is extremely difficult for NGOs to hire more employees. Only 8.5 percent of foundations and 11.3 percent of associations have at least one full-time employee, and a mere one percent (26,000 people) of all employees work for these organizations. A government program that encouraged NGOs to employ former civil

FINANCIAL VIABILITY: 3.5

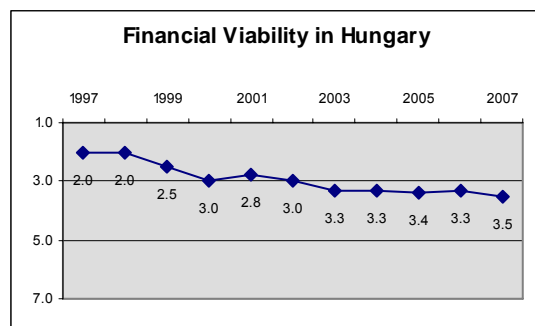
According to the latest survey by the Central Statistical Office (CSO), the total income of NGOs such as foundations and associations in 2006 was \$1.774 billion, while the income of other nonprofit organizations, such as public benefit companies, public organizations and trade unions – with a leading role by state-owned public benefit companies – was \$2.501 billion. The survey confirmed that NGOs founded by the state or local governments received the majority of income, while income generated by civic organizations amounts to only 42 percent. Between 2000 and 2005, the real value of the income of NGOs increased by eight percent, that of associations by 18 percent, while that of public benefit companies (mostly founded by the state or local governments) grew by 85 percent. State support is the exclusive source of the growth in the case of foundations. The real value of all other sources (private support, program and economic activities) has

dropped. The vast majority of NGOs get their income from one or two dominant sources, with only a few organizations drawing their income from diversified sources. More and more NGOs rely on bridge loans to retain their liquidity, and the government is planning to set up a bank for the nonprofit sector.

The tax benefit for support to NGOs was further reduced: now only taxpayers with annual income of less than \$19,500 are eligible. This further narrows the fundraising capacity of NGOs, although in 2006 only 30 percent of support entailed tax reduction.

The foreign support that accounts for eight percent of the total income of NGOs went to only four percent of the organizations. A new analysis showed that between 2004 and 2006, ten percent of the support from EU Structural Funds was allocated to NGOs (\$380 million),

28 percent to the business sector, and 58 percent to the state sector. Similar to enterprises (although with significantly smaller capital), NGOs also have to implement their projects on a reimbursement basis; moreover, payments are regularly late. Calls for proposals in the National Development Plan for 2007-2013 for NGOs are also late because the government is concentrating on areas that have a visible short-term effect on the national economy.



The states of the non-EU-member European Economic Area³, with Norway in the leading role, created a fund to support new member states. This means an annual €27 million of funding for Hungary over a five year period, but the first round included mostly state organizations or local municipalities, and few civic grantees. The calls for the second and third rounds are currently out, attracting widespread NGO interest.

NGOs are increasingly using fundraising tools more professionally. One reason is that state and EU financing radically dropped between 2006 and 2007. However, current fundraising methods will take a couple of years to yield visible results. As shown by the survey conducted by the Hungarian Donor Forum, an increasing number of companies are developing

ADVOCACY: 3.3

Political upheaval has decreased the advocacy potential of the civic sector, which is not very strong in the best of times. Most of the initiatives concerning the NGO sector during the year came from state organizations. The state

philanthropy strategies of their own, which means more funding sources for the NGO sector. The 2nd Hungarian Fundraising Conference attracted great attention again, with participants reporting a wide range of sophisticated fundraising techniques.

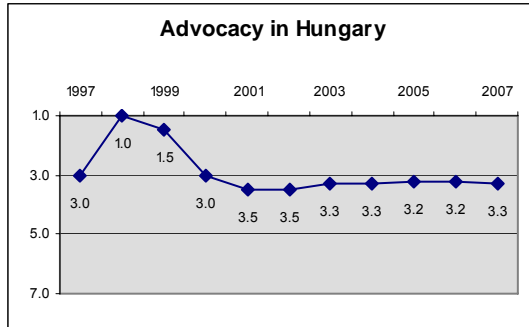
The amount generated from the one percent of income taxes has increased again, reaching \$45.7 million, largely due to the fact that regulations concerning employers have become stricter, widening the circle of potential donors.

The NCF still has a budget ceiling. Thus, in 2006, 9,200 applicants were given a total of \$36 million. The NCF is converting to normative financing – in 2006, 80 percent of those applying for support to finance their overhead costs got funded, strengthening paternalistic attitudes. Because of the limited budget, more organizations get progressively less money. A positive outcome is that widespread frustration concerning the functioning of the NCF might make it possible to rethink its basic principles.

In summary, NGOs faced a funding vacuum in 2007. Foreign funding drastically decreased. The second National Development Plan and the Norwegian Financing Mechanism did not benefit NGOs in 2007 because of delays in preparation and the lack of a strategic approach. In the case of the first National Development Plan, the last significant call for applications that was accessible to NGOs was announced in 2006, with projects ending in 2007. The next round of calls is expected to be initiated in April or May 2008. There will be a separate NGO Fund within the Norwegian Financial Mechanism operating from early 2008. However, these changes have not been able to help the increasing number of NGOs experiencing liquidity crises in 2007.

expects civic advocacy to be at a high level of professionalism. Official advocacy forums, such as media boards or economic and social forums, have become increasingly hollow, and civic actors are unable to bring about their reform.

³ Iceland, Lichtenstein and Norway



The Law on the Freedom of Electronic Information, which in theory obliges ministries to publish all drafts and process recommendations online, has had little practical effect; as data collected by the Association for Analysis of the Nonprofit Sector (NOSZA) reveals, only 40 percent of all government proposals were subject to consultation. Most of the time, ministries chose expedited procedures that enabled them to avoid the obligation for consultation. However, NGOs still have more possibilities to provide input into the legislative process than before. With the leadership of three major NGOs (Nonprofit Information and Training Center, Hungarian Nature Protection Federation and Reflex Association), a set of recommendations for consultation was published called “Procedural Norms of Social Consultation,” or TEEN according to the Hungarian abbreviation.

Another factor that lessens the chances of NGO advocacy is that, in the heated political climate, every issue has political coloring, and advocacy efforts usually get some support from one party or another. As a result, it is impossible to carry on a rational discussion of public policy issues. Besides, civil society is unable to disclaim the organizations of the extreme right that appear at demonstrations. Consequently, governments find it easier to ignore professional arguments.

SERVICE PROVISION: 2.4

Numerous services have been developed through EU programs, most of them with employment objectives, but their sustainability is highly questionable. This high-value source was available only to an estimated 300 organizations, putting smaller NGOs unable or unwilling to

In accordance with the 2004 amendment of the Law on Regional Development, Civic Coordination Forums may be set up alongside each Regional Development Council; however, these forums are unable to set shared objectives because it takes more time and capacity for a genuine bottom-up development approach. They face a great dilemma in how to legitimately represent their very diverse values on a common platform; moreover, the boundaries of their geographical, economic and social identities often differ from those of the forums created on an administrative basis.

Green organizations are winning more lawsuits because construction permits are frequently issued without regard to certain regulations. It is, however, a disconcerting new phenomenon that investors now often sue the leaders of environmental organizations for libel.

The Civil Society Development Foundation (CSDF) and the European Center for Not-for-Profit Law have created a program entitled “We have a say” to help NGOs develop large-scale advocacy projects in the field of human rights, using new approaches and methods, such as the mobilization of stakeholders, that have hitherto been unknown or little used by Hungarian organizations.

As part of its European AIDWATCH process, the HAND Association analyzed the spending pattern of Hungary’s international development funds. In the analysis, HAND criticizes the transparency and efficiency of the expenditure of these funds and the measurement (or, rather, the lack thereof) of the outcomes of the programs. This study received great publicity.

meet EU criteria at a disadvantage. The assessment of applications, contracting, and transfer of funding were all consistently belated, causing grantees to accumulate great debts towards their contractors and putting them in an unacceptable position, especially if contractors

were small enterprises with little capital. The anomalies in funding proved to be a significant hindrance in terms of the quality of services provided. The NGOs in question often tried to overcome the obstacles posed by the bureaucratic requirements, delays, and belated payments by simplifying their methodology, for example, speeding up procedures and homogenizing flexible frameworks originally designed to meet individual needs. This simplified methodology often obligated NGOs to meet administrative requirements rather than provide quality and impact-oriented services. The outcomes of these programs are likely to fall short of expectations. The above delays by state agents in contracting and transferring funds – resulting in a permanent liquidity crisis for NGOs – indicates that authorities do not consider NGOs as equal partners, and tend to apply ‘manual control’ in administering programs.

The sector is facing an increasing number of copyright issues. Many organizations have developed a pool of marketable know-how that can be used to generate further income, but state funding agencies are making a point of getting ahold of the entire copyright, even if they are only involved in funding a smaller project. Based on an assessment of law forms specialized on copyright issues, the number of such cases is dramatically increasing.

INFRASTRUCTURE: 2.2

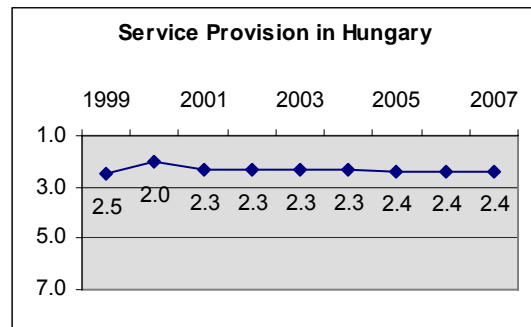
As part of the realization of the strategy adopted in 2006, the government decided to set up a civic information website with a list of all calls for proposals for central funds, legislative drafts, funding granted from the state budget, and information on service-providing networks.

The website, which will be accessible from mid-2008, will also contain all relevant information on NGOs. It is, however, questionable if the website will be set up by the rapidly approaching deadline and, if so, how useful it will prove.

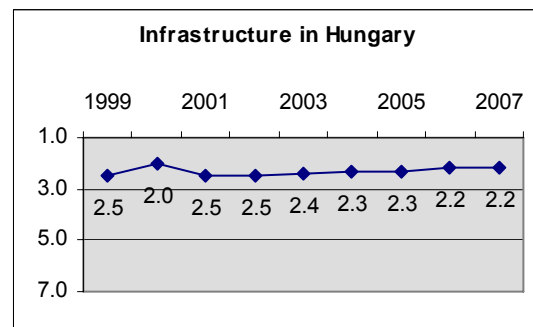
There is an increasing number of high quality websites and newsletters providing information to NGOs. However, Internet service providers do not have packages aimed specifically at

As previously mentioned, Parliament will not be introducing the law that would have equalized opportunities amongst service providers. Consequently, NGO service providers are discriminated against in comparison to state or church-owned service providers. The unclear legal environment is often an obstacle to outsourcing.

A number of quality management systems are now available for NGOs. Apart from the ‘classical’ ISO 9000, CSDF has issued the MINTA (in Hungarian, MINTA means Example) system aimed specifically at NGOs, which is an adaptation of the British PQASSO (Practical Quality Assurance System for Small Organizations); fifteen NGOs are now using MINTA. The nonprofit adaptation of the entry level of EFQM (European Foundation for Quality Management) is now also available, to be extended nationwide next year.



NGOs, thus they can only subscribe at business rates. Grantmakers are not prepared for online administration, which is, however, often mandatory.



State service providing networks regularly provide free trainings on topics such as social economy. However, the topics of the free trainings would often attract a paying audience as well. Thus, these trainings distort the market, making the situation difficult for organizations that invested in these fields in the hope of future profits.

Some NGO training providers now offer premium service packages for more developed organizations, such as strategic counseling and coaching. These are more expensive but are better suited to the specific needs of these organizations and are often more efficient than average services.

The now accredited European Fundraising Manager Training, organized by the CSDF Foundation, is a major step towards the

professionalization of fundraising. The first training course has already been completed. NGOs face a shortage of reliable, high quality potential suppliers, for example, in fundraising. The lack of competition keeps prices high.

Corporate social responsibility remains a popular topic, and it is now more apparent which companies are serious about this issue. More and more companies are getting involved in CSR activities, but this has not generated more income for NGOs. The KPMG Marketplace is a good example – it is a forum for NGOs and business ventures to develop joint activities.

The NCF has finally offered funding for complex organizational development, even if only allocating a small part of its budget for this purpose.

PUBLIC IMAGE: 3.2

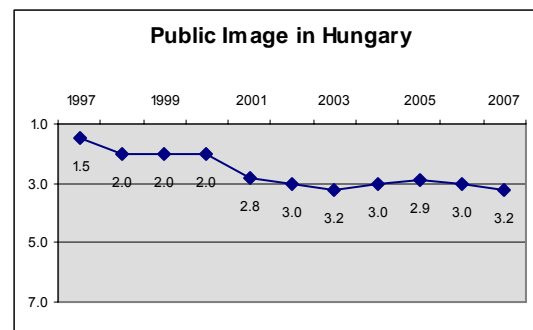
A scandal involving illegal party financing through the funding of NGOs, the so-called Zuschlag case, had a negative effect on the public image of the sector, reinforcing the concern already voiced by the media that the civil sector is over politicized. The scandal involved a network of 11 NGOs led by a Socialist politician that spent 50 to 100 million HUF grant money – mainly intended for youth NGOs – on political objectives between 2000 and 2005. Even though the network’s activity raised suspicion as early as 2001, it carried on functioning for years, proving how over-politicized the grants system is and how difficult it is to account for public money spent this way. The planned legislative measures suggested in

the wake of this scandal include stricter regulations for NGOs than political parties, even though the latter obviously use much more money in much less transparent ways, sending a bad message to the public.

The civil sector is still very much divided into segments leaning to the left or right in the eyes of the public. Unfortunately, this image has been reinforced by the financing scandals. However, this has shed light on the fact that the NGO sector is much worse known by those interested

in its activity than had been formerly thought. The positive side is that public service activities carried out by NGOs are getting better known.

The political extreme right has created numerous NGOs of its own, such as the militant Hungarian Guard that uses imagery strongly reminiscent of that of the Hungarian fascists during World War II. They are officially registered as a cultural association, but their claim is now being subjected to investigation by the public prosecutor.



There are no NGO advocacy groups that could appear in the media to counterbalance these negative effects with positive messages concerning the role of NGOs in society.

NGOs make media appearances more and more frequently. Hardly a day goes by without at least one NGO featured in the evening news programs, with special prominence given to green and animal protection organizations. Human rights NGOs are also garnering an increasing amount of publicity, mainly on issues surrounding the current political situation, such as police violence. However, this publicity is not necessarily progressive. For example, in the case of the public debate on the regulation of home birthing, media gave voice only to medical associations that oppose the legalization of this practice.

The alleged multi-billion forint tax fraud case against the Együtt Egy-másért Foundation stigmatized NGOs involved in delivering international aid. The above-mentioned foundation, led by a former national security officer, was assumed to have violated tax and

customs rules. The radical Magyar Gárda events did not generate large-scale coordinated reactions from other NGOs. In fact, the NGO sector was unable to respond systematically to any of the challenges appearing after major media and political scandals. The Zuschlag case did not result in a discussion by NGOs to decrease the potential effect of such cases; on the contrary, NGOs heavily resisted the initiative of the Prime Minister's office to increase transparency and specify conflict of interest situations – without accepting the reason for such a radical change. Actually, except for a few well-positioned NGOs on the media market, the sector lacks a common voice on general issues, such as the constitution, the economic situation of the country, issues of competitiveness, accountability gaps (of the state, business, NGO sectors), influence of political decision making, international issues, health care reform, etc.