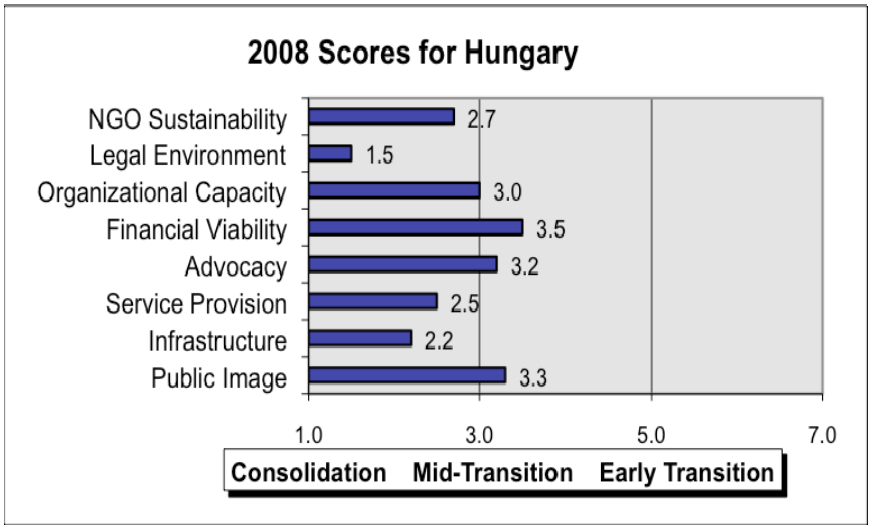
HUNGARY



Capital: Budapest

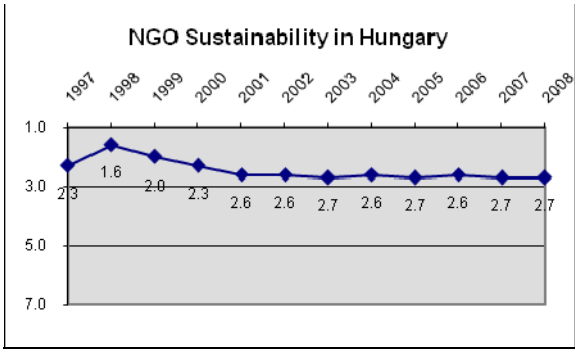
Polity:
Parliamentary Democracy

Population:
9,905,596 (July 2009 est.)

GDP per capita (PPP):
$19,800 (2008 est.)

NGO SUSTAINABILITY: 2.7

The number of NGOs has continued to rise in Hungary. According to the Hungarian Central Statistical Office (CSO), 30,071 associations, 20,819 foundations, and 7,352 other organizations such as public foundations and public benefit companies function in the country.[1] The number of associations is increasing twice as rapidly as the number of foundations.



The global financial crisis has severely affected Hungary. After several years of financial difficulties, NGOs face the crisis in a weakened condition. Income from all sources is expected to decrease. Many key NGOs are near bankruptcy. Accountability and transparency are decreasing, and innovation is stifled. It is difficult for NGO campaigns to mobilize people because of the general apathy caused by the financial and political crisis. The sector's inability to improve capacity-building programs in previous years will also greatly influence its future.

Government-initiated policy reforms related to the media, the Civil Code, and development assistance have been delayed. The Act on the National Civic Fund (NCF) has been revised, although the revisions do not address the fund's basic conceptual flaws. Due to the financial crisis, the government has been increasing bureaucratic requirements in order to create ways to reject funding for NGO projects and reduce the budget. While this is not a new issue, the financial crisis has worsened the situation. Government requirements placed on NGOs are sometimes harsher than the average EU requirements. On the positive side, NGOs have started to stand up to rising political extremist movements, although so far with little success. Some well-known, green civic activists launched a new political party, the Politics Can Be Different Party.

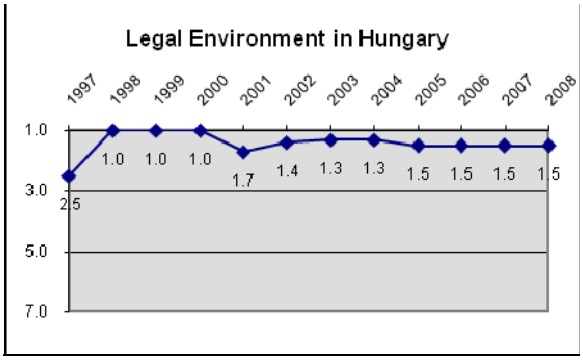
[1] Data from 2006, published in 2008 (CSO statistics are published with a two-year delay).

LEGAL ENVIRONMENT: 1.5

The operation of NGOs has become overregulated, and initiatives to reduce this burden have not progressed or been strong enough to have a real impact. Implementation of the government decree on the civil society strategy that was passed in 2007 has been slower than expected. A key measure of the decree that the government introduced in 2008 was a centralized website of registration documents where anyone can search for basic data on NGOs included in the national register. This is a considerable step, but NGOs want a more detailed database that provides greater accountability and transparency. The website is not maintained on a regular basis, and rather than offering an up-to-date, official database of NGOs, offers a snapshot of organizations that were registered at the time the site was created. Moreover, the administrative burden remains the same for NGOs when they need to submit proof of their registration data to government donors and other authorities.

The 2003 Act on the National Civil Fund still awaits significant changes. The NCF board members have been criticized for being biased in their decision making. For example, on several occasions NCF board members awarded more money to organizations with which they were affiliated than to other organizations. Last year, the government adopted the Act on Transparency of Public Funding, which contains principles and provisions that contradict the NCF Act, namely that those persons applying for government funding cannot be involved in the selection process for the awarding of the funds.

Nevertheless, the Act on Transparency of Public Funding includes an exception for the NCF.[2] Currently, the design of the NCF is such that NGOs elect representatives who will make decisions on funding, including for their own organizations. The majority of the NGO sector and the government expect that the basic structure of the NCF will be revised; however, the nature of the changes has yet to be decided. The board of the NCF will change in 2009.



In 2008, amendments to the Act on the NCF imposed stricter regulations for conflicts of interest. The public should now have access to all winning proposals. Nevertheless, the law lacks major changes that would help the NCF improve its efficiency. In addition to changing its fundamental design as mentioned above, the NCF needs to improve its strategic planning, set guidelines and benchmarks for funding proposals, and introduce merit-based support, instead of the current policy that supports NGOs based on their budget size regardless of what they have achieved.

Regulations in the Civil Code concerning foundations are expected to change in 2009, and the most important regulations concerning associations will also be included in the draft (originally the draft contained only provisions on foundations). The private benefit foundation as a new organizational form is expected to be introduced, while the joint-stock foundation, which would aim to accomplish its public benefit purpose on a for-profit basis, is no longer being considered.

[2] The NCF has eleven boards which make decisions in the regions and according to professional interest areas. The compromise solution in the Act on Transparency of Public Funding regarding the NCF was that if a member or other affiliated person sits on the board where the NGO application is filed, then another board will take it and decide on the application.

The tax authority introduced newly restrictive measures regarding the 1 percent law. For example, NGOs reported that they were not allowed to cover marketing costs from the income of the 1 percent donations. A subcontractor of a state donor published professional guidelines for public benefit reports of NGOs. The publication offered an extremely narrow interpretation of the law; nevertheless, organizations receiving funding from this donor (a significant portion of Hungarian NGOs) are required to abide by the new regulations. These and other measures point to the shrinking of NGOs' legal space.

In December 2008, the Budapest Municipal Court dissolved the nonprofit status of the paramilitary Hungarian Guard, which was registered as a cultural association, because the Guard violated the Law on Associations by promoting activities against the Roma population and was not acting in line with its court-approved funding statute. This sent a clear message on what NGOs can and cannot do regarding human rights. Despite the court's ruling, the Hungarian Guard continues to operate as an unregistered association.

ORGANIZATIONAL CAPACITY: 3.0

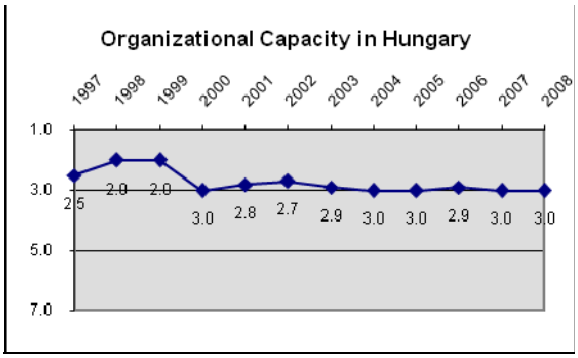
The number of organizations that apply strategic management is increasing, but they are still the minority. In general, even large organizations do not apply this practice. Compared to previous years, there were more calls for applications that support capacity building, primarily from the NCF and the Norwegian NGO Fund. However, the demand for funds surpassed the funding available. For example, 25 out of 352 proposals were supported by the capacity-building component of the Norwegian NGO Fund with over €1 million in funding. The fund is administered by intermediary NGOs and is less bureaucratic than state funds.

The third cycle of NCF funding starts in 2009. The board elections are not likely to bring new decision makers who would be willing to adopt a strategy-based capacity-building program instead of normative financing (support provided based on the size of the NGO's budget).[3]

NGOs are becoming increasingly interested in participating in international development. For example, during the first round of EuropeAid projects, the bulk of the proposals from Central and Eastern European NGOs came from Hungary. Hungarian NGOs are applying for more grants, and they are reaching the second round of proposals.

According to the latest CSO report on nonprofit organizations published in 2008, in 2006, half of all NGOs had property at their disposal; two-thirds of these NGOs used this property for free. Six percent of all NGOs had their own offices, while nine percent rented office space. The previous real estate survey was conducted in 2003, and the percentages were roughly the same.

NGOs were somewhat better equipped with IT services: 69 percent had computers and 60 percent had Internet access. The year 2008 saw the introduction of some newly designed interactive websites, indicating that NGOs have started to take advantage of mobilization and fundraising opportunities provided by the Internet.



[3] The majority of NCF decision makers are civic activists who are elected for three-year terms by NGOs that register themselves as electorates.

The CEE Trust sent proposals back to close to sixty NGOs who applied for funding, which shocked the sector. Hungarian NGOs have typically viewed the CEE Trust as a stable source of funding. The CEE Trust also gives institutional grants, and the lack of funding greatly affects the organizational capacity of NGOs who count on this funding mechanism.

FINANCIAL VIABILITY: 3.5

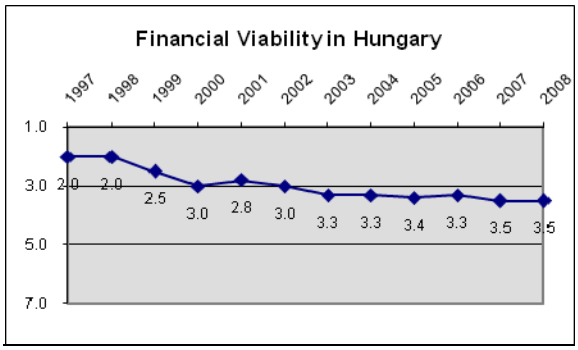
According to the most recent statistical data, the total income of NGOs in 2006 was $1.8 billion. Compared to 2005, the income of foundations rose 5.6 percent, while the income of associations rose 2.6 percent. Inflation was 4.9 percent. The economic strength of NGOs outside the capital has increased while that of capital-based NGOs has weakened.

Although many believe that the majority of NGOs are inactive, 92 percent conducted financial transactions in 2006. Revenues remain very concentrated, however. NGOs, including public benefit companies founded by state and local governments (GONGOs), with at least 50 million forints ($250,000) of annual revenue made up 4 percent of all organizations and received 81 percent of the total revenue of the sector.

"Classic" NGOs (associations, foundations) received 35 percent of state funding, while 60 percent was given to public foundations and GONGOs. When the state acts as a contractor, 80 percent of paid services are purchased from GONGOs. However, the "classic" civil society sector receives the majority of corporate and individual donations − 81 percent and 91 percent, respectively.

The year 2008 saw the shattering of the strongest segment of NGOs, which had the most capacity to apply for EU Structural Funds. Based on data from support organizations and expert accounts, the majority of strong NGOs have taken loans to advance funding for Structural Funds contracts. Often they took second mortgages on their property, and sometimes board and staff members even took out personal loans.

In 2008, the amount generated from the 1 percent of income taxes reached 9 billion forints ($48 million), in real value a growth of 6.9 percent. Associations and foundations obtained



60.9 percent of the amount and received donations from 45.6 percent of potential donors. The number of donors increased by 11.9 percent compared to 2007. According to Tax Office data, in 2007, associations managed to successfully increase the number of donors and the amount donated; nonetheless, foundations received 3.6 times more money than associations. A greater number of organizations took a share of the 1 percent donations, but organizations that received the most income from this source are the same as in previous years − NGOs working on issues of child protection, cancer patient support and animal protection.

EU projects have been launched at a slower pace than expected. So far, EU programs have committed 300 billion forints ($15 million), and as of December 31, 2008, the EU had already distributed 220 million forints ($976,260). A total of 1300 billion forints ($5.7 billion) of funding is planned through 2013. The main priority of the government is to boost the economy; hence, calls for applications favor business organizations rather than NGO capacity building and human resource development projects. Business organizations receive funding much more quickly, in a few months, whereas the application and funding process for NGOs can last much longer.

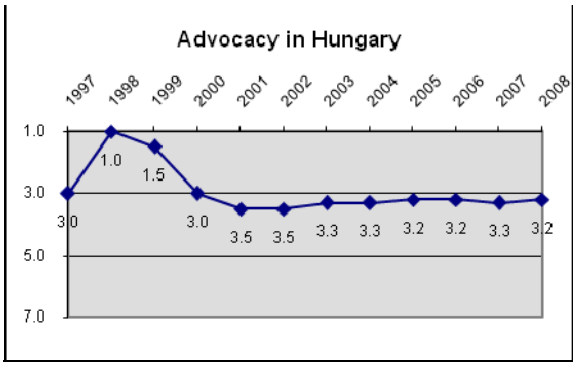
Since 1993, calls for proposals have been a significant source of funding for NGOs and have favorably influenced their financial management capabilities. However, administrative requirements are still a heavy burden on organizations.

The first round of the €6 million NGO Fund of the European Economic Area (EEA)/Norwegian Financing Mechanism took place this year. NGOs can use the funds in four different fields: environmental protection and sustainability, NGO capacity building and social cohesion, health care and child protection, and cultural heritage protection. In the first round, 96 out of 953 proposals received a total of €3.9 million in support.

A major issue with financial viability is the lack of independent grantmaking foundations, which could provide seed money for new NGOs, bridge funding for NGOs grappling with cash-flow problems due to late payment by the state, and institutional support to advocacy and watchdog organizations. Although the Hungarian NGO sector is considered to be well funded, the structure and nature of funding does not support the development of independent, issue-based NGOs.

ADVOCACY: 3.2

In an effort to introduce Western European public policy processes in Hungary, the government organized expert roundtables on a range of issues; however, experts from the NGO sector were rarely present, possibly due to the lack of quality think tanks.
Despite the effort to hold roundtables, the government rarely takes the resulting recommendations into consideration, which demonstrates that the public policy process is still underdeveloped.



The EU Operational Program for Social Renewal, TÁMOP, issued a call for proposals called "Capacity Development in Organizations of Interest Representation." Organizations representing economic interests and trade unions have won more of these proposals than associations. Still, these funds are used to support the development of interest representation associations in Hungary.

The Ministry of Foreign Affairs developed the draft Act on Official Development Assistance in 2008. In an unusual move, the ministry invited the Hungarian Association of NGOs in Development to participate from the beginning of the drafting process and to comment on the concept of the law as well as the initial draft. Ninety-five percent of the association's suggestions were incorporated into the draft law, which other ministries are currently discussing.

Based on the lnformation Liberty and Lawyer Network, the Hungarian Civil Liberties Union and its partners began offering free legal consultations in six regions in the fall of 2008. The aim of this initiative is to make the decision making and management of regional local authorities transparent and easily accessible to the local media, NGOs and citizens. As a result, advocacy groups have increased access to data that can form the basis for lobbying or advocacy campaigns.

As a new instrument to fight corruption, the Hungarian chapter of Transparency International prepared a concept of a "whistle-blowing act" at the request of the Ministry of Justice. The concept presents international examples, examines the national legal environment, and makes recommendations for regulatory policy.

Some organizations have managed to conduct successful campaigns. For example, Kézenfogva

Alapítvány (Hand in Hand Foundation), an NGO that works on disability issues, conducted a national survey that resulted in a positive government response. The Kek Pont Foundation, an organization that uses "guerrilla marketing," launched a successful awareness-raising campaign and online tool called the Droglátó (Drug-Viewer), which aimed to dispel myths about drug problems. Green NGOs are increasingly suing the government as well as companies.

Although individual NGOs have some success in advocacy efforts, the sector as a whole continues to be weak in representing its interests. For example, in a year when government payment delays and the financial crisis brought many leading NGOs to the edge of bankruptcy, there has been no initiative to negotiate with the government to provide some kind of aid, such as the bridge loans provided to small- and medium-sized enterprises. The advocacy capacity of SMEs is stronger than that of NGOs. NGOs lack the funds to conduct a serious campaign and are more focused on the survival of their individual organizations than the survival of the whole sector.

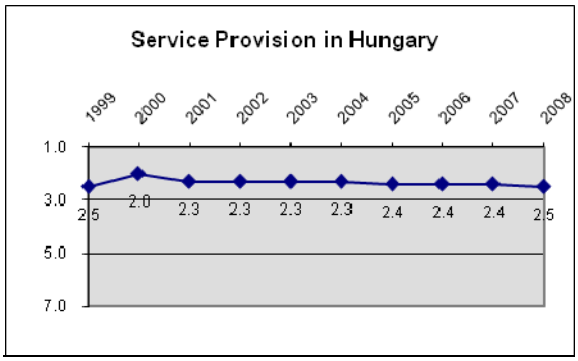
SERVICE PROVISION: 2.5

Two-thirds of NGOs' total income was earned through services provided in six fields of activity: culture, education, social development, regional development, economic development, and professional and umbrella organizations that represent businesses. In the last few years, the amount of health care services has increased significantly. Environmental protection NGOs have started developing their service provision capacities as well. Half of per capita funding for service provision was allocated to educational organizations and one-third to social organizations.

In 2008, per capita support was redefined in the laws and regulations. This caused delays in payment of per capita support, which contributed to the financial difficulties of NGOs. Furthermore, according to Kézenfogva Alapítvány (Hand in Hand Foundation), per capita funding and the charges for service provision cover only about half of the expenses of NGOs running institutional services for the disabled. At the same time, church-affiliated social service providers receive enough to cover all their expenses.

The income from mission-related activities nominally decreased in 2006, and many nonprofit schools, nurseries and social institutions seeking favorable financial conditions were closed or taken over by churches. This trend seems to have continued in 2008. In fact, it seems that NGOs are being driven out of the field of maintaining social service institutions.

Instead of needs-based service development, many organizations, especially those with social and educational activities, still choose to limit the variety of services based on their financing possibilities.



The National Audit Office conducted a compliance audit among nonprofit public educational organizations and found irregularities in 45 percent of the cases. In several cases, significant expenses were unjustified. Only 2 percent of vocational training conducted by nonprofit organizations was aimed at occupations in demand.

Five major NGOs raised their quality of services and launched process control or performance management in order to meet the European Foundation for Quality Management (EFQM)

entry level, "Committed to Excellence." There is a growing need for the introduction of an accountability standard which would help fundraising.

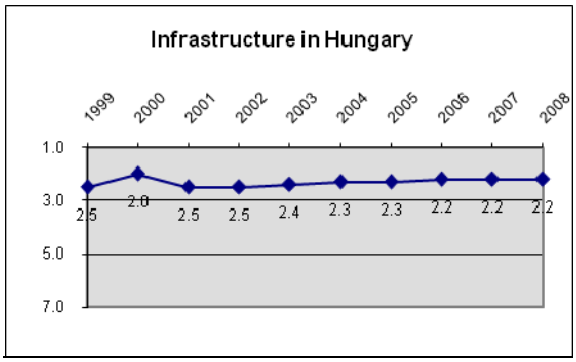
The Internet Distribution Foundation is starting a social Internet service project to provide Internet to the most underprivileged regions.

INFRASTRUCTURE: 2.2

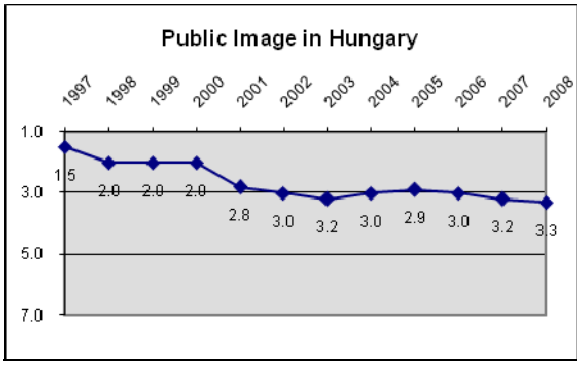
The government has set up a civic information website, but it does not contain as much detailed information as originally planned. Despite NGOs' requests, no linkage has been built between the Nonprofit Information and Education Center (NIOK) voluntary database and the governmental database. Such a linkage would improve the efficacy of both databases.

As part of the E-Civil program, a three-year program that started in 2007, Civil Centre Service Center network (CISZOK)-based Community Technology Centers were created with the coordination and support of NIOK and Microsoft, offering computer training for NGOs. The Civiltech program allows NGOs to purchase software at a discount.

With the delay of EU programs, the two main resources to fund training and capacity development are the Norwegian NGO Fund and the National Civil Fund. Next year, TÁMOP will begin to promote capacity development as well.



PUBLIC IMAGE: 3.3



Several negative events shaped the public image of the NGO sector, while plenty of success stories remained unnoticed.

In 2008, the extreme right movement became even stronger. Skinheads and the Hungarian Guard disrupted the Gay Pride Day demonstration, and anti-Roma demonstrations were held. NGOs reacted against the growing negative tendency, but had limited impact. In contrast to the extreme right's continuous presence in the media, a demonstration organized by the so-called Tarka Magyar (Medley Hungary) movement stimulated little response. Instead of an expected crowd of 100,000, only 5,000 participated in the demonstration. Unfortunately, it was impossible to organize a politics-free event because the media emphasized the presence of the prime minister at the demonstration.

Last year's scandal, the Zuchlag case regarding tendering procedures, ended up in court.[4] As more details were uncovered about the scandal, it became evident that in many cases decision makers and monitoring authorities knowingly

[4] The Zuchlag case involved a network of eleven NGOs that misused grant funds to support political objectives. Please refer to the 2007 Index for additional information.

committed omissions. Although the case primarily concerns political figures, it implicates NGOs and negatively affects the public image of the sector.

Due to the animal protection campaign of 4 Mancs Alapítvány (4 Paws Foundation) and its numerous media appearances, Western European supermarket chains blacklisted Hungarian companies that make products out of force-fed animals. The companies involved, the workers who became unemployed, as well as the farmers dominated the media with their complaints, and a campaign was launched to discredit the foundation.

Another scandal publicized by the media involved fundraising by Érző Szív Alapítvány (Feeling Heart Foundation). The foundation raised money for an ill child, but only gave 20 percent of the amount to the family, claiming that the rest was needed to cover expenses. This case demonstrates that NGO self-regulation is still lacking.

Child Cancer Foundation, which does not meet international standards of transparency, continues to collect the largest amounts of the 1 percent donations despite repeated media questioning about the use of the funds. People seem to have lost interest in following such issues and merely respond to the posters of children asking for help.

More businesses and NGOs have been cooperating in corporate social responsibility (CSR) partnerships. There were more CSR-related media appearances in 2008 than in previous years. However, NGOs fear that the economic crisis will affect the good practice of intersectoral cooperation, and next year's CSR budgets are already being cut.