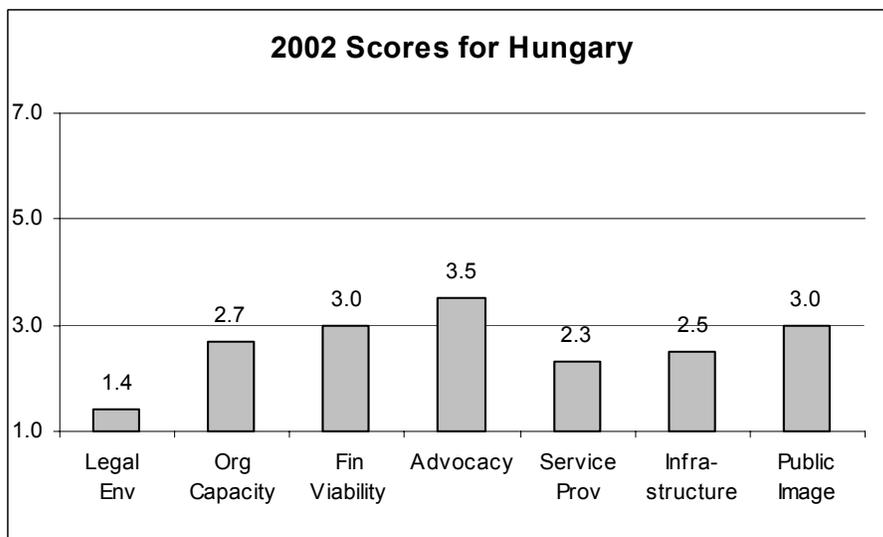


HUNGARY



Capital:
Budapest

Polity:
Parliamentary
democracy

Population:
10,075,034

**GDP per capita
(PPP):** \$12,000

NGO SUSTAINABILITY: 2.6

The Hungarian nonprofit sector continued

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

to consolidate in terms of its size and composition during 2002. While there has been a slight reduction in the overall number of organizations, the

sector as a whole has increased its revenues and the number of individuals it employs, indicating a higher level of development.

However, the transition also reflects a growing overlap between state and civil society organizations. Quasi-NGOs that are founded by the state or local government, including public foundations and public benefit companies, represent a growing proportion of the sector. At the same time, there is a significant increase

in state funding, which remains at the mercy of political will.

The parliamentary elections in 2002 resulted in the victory of the socialist party by a very small margin and an extremely divided society, to which the nonprofit sector was no exception. Attempts by political parties and the political elite to gain support and legitimacy from civil society endangered the public image and credibility of the sector.

The new government, however, elaborated and implemented a comprehensive strategy towards the development of the NGO sector, which states the importance of ensuring the long-term sustainability and independent and depoliticized financing of the sector. They are also aiming to accomplish a review of the legal framework affecting NGOs and intend to sign an

agreement, or “contract” with the NGO sector.

The development of local resources, including indigenous grant-making and private individual and corporate philanthropy, remains a major challenge for the sector. In order to successfully accomplish this, NGOs need to improve their fundraising and communication skills.

The EU accession process is also a challenge for the sector. The level of public participation in the process is very low, and NGOs are not very involved in the distribution of EU funds. Information channels are ineffective; thus, the Hungarian public and NGOs are not well-informed on EU issues.

LEGAL ENVIRONMENT: 1.4

The legal environment in which nonprofit organizations operate in Hungary remains generally positive. On January 1, 2002, new regulations came into effect that

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

erased outdated provisions hindering the transparency and effectiveness of NGOs. For example, the new law now prevents an individual from serving as both the chief executive

and chair of the governing body of an organization, which was previously the case in the majority of NGOs, and introduces the concept of terms for board members. In addition, beginning January 2003, a new system of default registration for NGOs comes into place, under which an organization is considered to be registered within 60 days if the court does not act within this period of time, thereby solving the problem of delays caused by overburdened courts.

Although several laws are still problematic, the new government has clearly shown its intent to revise and improve the legal framework. Among the most important issues to be addressed in the next legislative period are: reviewing the foundation law to clarify the role and structure of foundations; differentiating between smaller and larger organizations in their administrative obligations to ease the burden on smaller NGOs; ensuring greater transparency of state-founded nonprofit organizations; rationalizing state funding mechanisms; increasing tax incentives for private giving; and, removing the legal barriers to promoting voluntarism.

The application of law also requires improvement. For example, the courts are still inefficient in granting registration or public benefit status to non-profit organizations and the practice of tax and other authorities remains arbitrary and varied across the country.

ORGANIZATIONAL CAPACITY: 2.7

While the Hungarian NGO sector has reached a plateau in terms of numbers, it continues to face several challenges to increasing its capacity and effectiveness. Many NGOs do not have a clearly defined

mission, and are therefore active in a number of very different professional areas. Additionally, despite the fact that there are a large number of NGOs in the country, grassroots NGOs are not visibly

ORGANIZATIONAL CAPACITY

2002	2.7
2001	2.8
2000	3.0
1999	2.0
1998	2.0

present in many smaller communities. Finally, in many cases, NGOs are registered in legal forms that are not appropriate for their activities or

operation.

While there are significant differences in capacity amongst nonprofit organizations, more and more groups are recognizing that they lack essential skills in strategic planning and management, human resource development, financial management and communication.

A small number of organizations have a steady flow of income from either the state or the European Union. Many organizations, however, are dependent on state support and feel increasingly exposed to political whims. Encouragingly, there is a small and increasing number of well-

performing and accountable NGOs that are starting to develop a diversified and sustainable resource base.

Research conducted in the past year by the Civil Society Development Foundation Hungary and BoardSource revealed several deficiencies in NGO governance practices. Many NGOs do not understand the roles and responsibilities of boards, or even the need for such bodies. In fact, according to the study, the operations of three-fourths of NGOs do not comply with international governance standards. The most common deficiencies were related to conflicts of interest, transparency and accountability.

An interesting development over 2002 is the growing demand among NGOs for professional fundraisers. However, although there are college level courses on NGO management, there is no targeted training for fundraising professionals.

FINANCIAL VIABILITY: 3.0

While the income of the Hungarian NGO sector continues to grow, distribution of this income is highly uneven. Approximately 10% of organizations receive 90% of the sector's total income. Only 16% of

FINANCIAL VIABILITY

2002	3.0
2001	2.8
2000	3.0
1999	2.5
1998	2.0

Hungarian NGOs have an annual income of more than 5,000,000 HUF (approximately \$20,000). State-founded public foundations and public benefit companies receive 36% of the

total income, although they constitute only 4% of the NGOs.

The source of income is also changing, with a shift towards increased state support. All forms of government support have

increased, while the share of private and corporate giving, as well as earned income and membership fees, has decreased. In addition, the government recently announced the creation of the Civil Fund, a new fund for NGOs that will begin operation by the beginning of 2004.

A 2001 law allowed for the distribution of state property, primarily buildings and other estates, among NGOs. However, distribution was not transparent, and decisions were made primarily on a political basis.

Hungarian tax law allows citizens to designate 1% of their income tax to an NGO. The number and amount of 1% designations has slowly increased over the last few years, with 1.3 million Hungarian citi-

zens taking advantage of this option. However, more than half of tax-payers have never designated 1% of their income tax to NGOs.

Though Hungary has been enjoying dynamic and steady economic growth that creates favorable conditions for the development of indigenous philanthropy, this potential has not yet been tapped. There are only a few truly local private foundations, and examples of private support from individuals and corporations remain isolated success stories.

Foreign donors, primarily American private foundations, that have provided major development assistance over the last decade are leaving Hungary, or are in the process of doing so. Though foreign support has not exceeded 10% of the sector's income in recent years, it has been focused on crucial democracy development issues and many NGOs working in the areas of advocacy, legal defense and sectoral support have been fully financed by foreign donors. EU support will not bridge this gap, as these funds are focused primarily on economic development issues.

ADVOCACY: 3.5

Advocacy is a hot topic within the Hungarian NGO sector. In addition to developing a new NGO strategy, the new government has announced that it would like to see a national NGO Advocacy Body that would

ADVOCACY	
2002	3.5
2001	3.5
2000	3.0
1999	1.5
1998	1.0

be its major partner in implementing this strategy over the next four years. This Advocacy Body would also participate in the development of NGO legislation, delegate

members to the controlling body of the Civil Fund and develop an NGO Code of Ethics. This has triggered widespread debate in the NGO sector. On the one hand, this governmental policy is detrimental as NGOs are under governmental pressure to

form a non-organic advocacy body with questionable legitimacy. On the other hand, such a body may have a positive effect on the process of self-organizing within the sector.

Overall, NGOs continue to prove their effectiveness at making their positions known to decision-makers and in working for change in certain areas. In some sub-sectors, for example youth, there are powerful federations, but most of these are still highly centralized and therefore ineffective. In general, there are no effective structures or mechanisms to channel NGOs' interest to government and policy-makers.

SERVICE PROVISION: 2.3

The legal environment in Hungary allows nonprofits to provide a wide range of services. The 1997 Nonprofit Law provides

SERVICE PROVISION	
2002	2.3
2001	2.3
2000	2.0
1999	2.5

public benefit status for those undertaking contractual services, and the local and central governments provide support on a per capita basis for most social sector services.

This has become somewhat problematic, however, as funding is dependent on the preferences of political decision-makers as opposed to the real needs to provide quality services.

Local governments are still wary of giving funding to NGOs to provide services that they are legally mandated to provide. They often see NGOs either as unqualified or as competitors. Availability of resources is also a problem, and funding from the cen-

tral government to provide such services is declining. In addition, contracts signed between municipal governments and NGOs are often thrown out following elections.

Approximately 25% of NGOs provide some sort of services, even if they suffer from poor management and lack of resources. Those that regularly provide such services often come to resemble state institutions due to the bureaucratic requirements of state contracting. However, there are various types of unique, alternative and tailored services that are provided only by NGOs, such as therapeutic horseback riding for disabled children. There are important and promising initiatives to set standards of quality and ethics in the provision of services, and to involve users in the design and implementation of services.

INFRASTRUCTURE: 2.5

The Hungarian NGO sector has reached a level of maturity where a pool of professionals and institutions exists to provide

INFRASTRUCTURE	
2002	2.5
2001	2.5
2000	2.0
1999	2.5

consultative services to the sector. Such expertise is generally available regionally and nationally, although at varying levels of

sophistication. However, it is rare for a smaller NGO to be able to afford to pay for such services. The information service of

the Nonprofit Information and Education Center (NIOK) has lately become a widely-used tool for debates, announcements, and news within the Hungarian NGO sector.

The government-established nationwide network of "Civic Houses" – NGO support centers in larger towns – has been able to survive the change in government and reduced funding. The telecottages network, on the other hand, has come to a halt in its development and faces serious challenges in both funding and legitimacy.

PUBLIC IMAGE: 3.0

In their effort to take advantage of the opportunities presented by the 1% law, NGOs have become more active in informing the public about their activities. Though there are new scandals every year about the misuse of 1% designations, the number and amount of these designations increased in 2002.

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

The 1% law has another positive impact as well: NGOs receiving funds in this way must announce their incomes in the press, and – though it is not clear in the

law how to do this – more and more NGOs announce it in national newspapers. Many newspapers offer space for such announcements at discounted prices.

In contrast to these positive effects of the 1% law, the increased political involvement of a large number of NGOs during and after the 2002 elections seriously hurt the public image of the sector. Such episodes demonstrate the problem of NGOs being used for political purposes and contribute to the public’s perception that NGOs are essentially satellites of political parties.