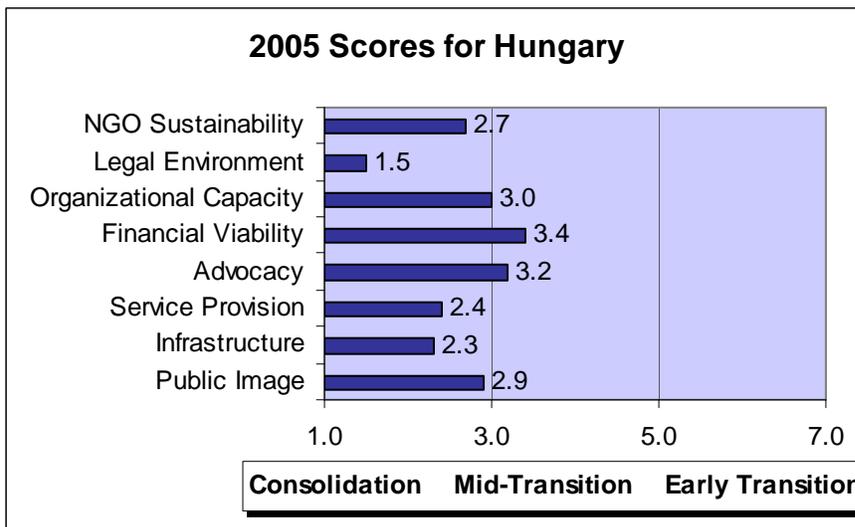


Hungary



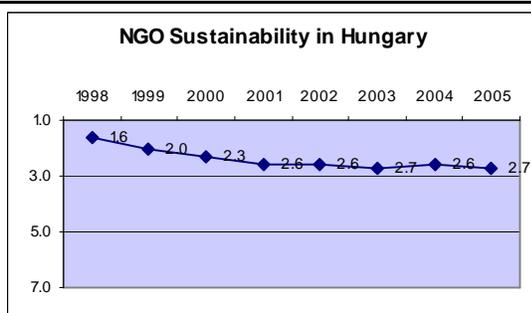
Capital: Budapest

Polity: Parliamentary democracy

Population: 9,981,000

GDP per capita (PPP): \$16,100

NGO SUSTAINABILITY: 2.7



Over the past year, the NGO sector has experienced both positive and negative developments. It was a disappointing year in terms of financial viability. The E.U. Structural Funds became available to NGOs, and it was the second year that the National Civil Fund (NCF) was available to support NGO operational costs. Neither the E.U. Structural Funds nor the NCF has fulfilled expectations. Contracts for the Structural Funds were seriously delayed and NGOs that were awarded funds in the fall of 2004 did not have access to them until a year later causing serious liquidity

LEGAL ENVIRONMENT: 1.5

In June of 2005, Parliament adopted the Law on Public Interest Volunteering, which will govern volunteers with public benefit organizations,

and capacity issues. The NCF also experienced delays, as well as budget cuts and accusations of self-dealing. In addition, for the first time since the program was developed in 1997, the percentage designations to NGOs decreased.

A test project on the registration process of associations revealed that the court practices in registering NGOs are more of a constraint than would be expected fifteen years after the Law on Associations was adopted. The Law on Volunteering was finally adopted in June of 2005 with mixed expectations about its implementation. On a positive note, the corporate sector has taken a greater interest in NGO activities, as evidenced by the increased number of philanthropic foundations created by private and corporate entities, despite the meager tax incentives. NGOs joined together on more advocacy efforts, with a greater level of success.

government institutions and certain service providers. The law provides some benefits to both the host organization and the volunteer,

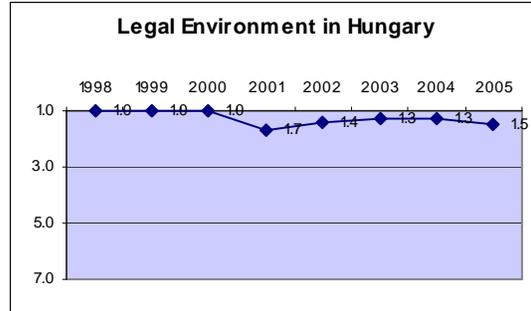
including tax-free reimbursement for expenditures related to the volunteer activities. The law also requires that in order to be eligible for these benefits, the organization and volunteers must sign a volunteer contract, register the organization with the appropriate Ministry, and keep records of the volunteer activities. While the law is important for greater recognition of volunteerism and ensures a safer working environment, it only covers public benefit organizations. The majority of organizations do not have public benefit status, creating an unduly high burden on NGOs that wish to register as a host organization. An expert working group recommended a broader, more enabling approach, but legislators chose a more bureaucratic and regulatory scheme, raising concerns about the impact on grassroots organizations.

The Environmental Management and Law Association (EMLA) conducted a study on the registration of public benefit associations. The EMLA filed the same founding statutes with each of the twenty different courts, and received twenty different resolutions in response, requiring a wide range of modification to the statutes, many of which did not have any legal foundation. The legal team leading the project reported a lack of predictability in the application of the Law on Associations and the Law on Public

Benefit Organizations and raised serious concerns about the infringement on citizens' freedom of association.

ORGANIZATIONAL CAPACITY: 3.0

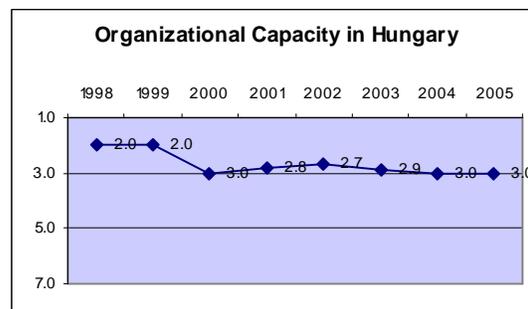
Delays and cuts in the E.U. and other state funding have seriously affected the organizational capacity of Hungarian NGOs. Most organizations have to focus on mobilizing their resources, including their financial reserves, rather than building capacity. Many organizations have gone into debt, which is a problem because most debts are outside of the banking system (as banks generally do not give loans to NGOs.) The overall situation has not improved since 2004 when NGOs' failure to comply with NCF requirements revealed



While Parliament has yet to enact the new Law on Legislative Process, other legislation affecting NGO participation in the decision-making process was enacted. One example is the Law on Freedom of Electric Information, which introduced the concept of e-government and other public participation opportunities. As of January 1, 2006, ministries will be required to publish draft legislation on the internet. Parliament is debating a draft Law on Lobbying. NGOs are not listed in the law as potential lobbying organizations, which may adversely affect their ability to access political decision-makers.

Measures have been taken to improve regulation of the NCF. For example, applicants are now permitted to submit missing documents after the deadline for applications. The law and regulations governing conflict of interests have not changed, however, and the system continues to permit self-dealing. This is important because NGOs continue to elect their peers to sit on the Colleges that make decisions concerning the distribution of funds.

deficiencies in their organizational management and financial operations.



NGOs are increasingly capable of mobilizing their constituencies through one-off campaigns. Examples include the Day of Cyclists, the Pink Ribbon Walk, and others. NGOs, however, lack the long-term thinking necessary to identify and maintain continued support, and have to start afresh each time. Most organizations do not consider it important to reach out to their members and other constituents, and concentrate on building relations with government in order to secure funding.

NGOs continue to lack a culture of strategic planning, though a Trust for Civil Society Program has provided approximately 300 organizations with strategy development training and exercises. In addition, 100 key organizations received funding and technical assistance in the process. Generally, NGOs have had to focus instead on their short-term

survival and crisis management instead of capacity building and strategic planning.

High tax rates have stifled NGO employment. The government continues to raise the minimum wage and NGOs are having even greater difficulties paying the increased salaries. More “mid-sized” organizations resolve staffing issues with volunteers because they are still not big enough to be employers. Though statistics are not yet available, it is likely that layoffs increased while hiring decreased. The impact of the Law on Volunteering on human resources is still unknown. The number of applications for NCF support for operational costs doubled this year and it is likely that even less funding will be available per organization next year. When the E.U. funding is finally distributed to the NGOs, many will upgrade their technology with the funds they had requested for that purpose.

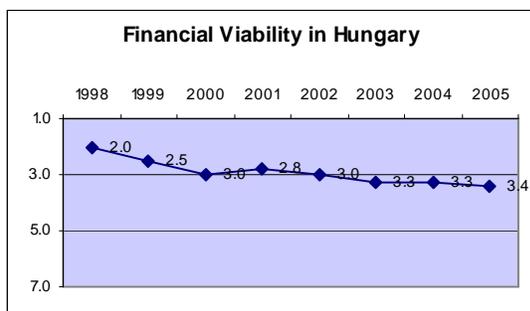
FINANCIAL VIABILITY: 3.4

This past year was disappointing for the NGO sector. While this was the first full year in which organizations could take advantage of the E.U. Structural Funds dedicated to social and economic development, they experienced delays, administrative burdens, bureaucratic restrictions, and serious cash shortages. The government was nine to twelve months late in executing the contracts and transferring the funds, and required NGOs to advance millions of forints before they signed the contracts. The strict accounting regulations from Brussels required that projects start up as planned in order for their expenses to be reimbursed, regardless of whether the contracts had been signed or not. The largest non-profit creditor reported that NGOs had to advance on average of 17 million HUF (\$85,000 USD); one NGO had to front 56 million HUF (\$280,000 USD).

Even the larger organizations had to empty their reserves and suffered serious losses as a result.

NGOs reported similar issues with non-E.U. government funding; in 2005, all ministries were required to cut between ten and fifteen percent of their budgets and ensure that reserves be carried forward for the next year. As expected, many ministries made cuts to NGO budgets. In one example, the Ministry of Social Affairs made cuts that affected almost all NGO service providers.

Funding from the National Civil Fund was also delayed due to government bureaucracy. The NCF was also required to ensure that it carry a small reserve forward for the next year, which decreased its budget even further. The NCF was involved in a major scandal this year, in which the supervising Minister called transparency issues in the grant distribution to the attention of the Council. NGOs affiliated with members of the Council and the Colleges consistently received a higher amount of funding than others. The criteria for selecting grantees were unclear and the event shed light on ongoing conflict of interest issues.



For the first time in eight years, the amount of funding available through 1% contributions decreased, as did the number of taxpayers that participated. Though the decrease was not significant, the trend towards stagnation has become clear, signaling that the 1% mechanism may have reached its limit. One factor was the tax reporting period was extended from two and a half months to five months, which adversely affected 1% campaigners who often made miscalculations about timing. The extended tax period also interfered with other fundraising activities, which were practically impossible to execute during the tax period. All of these factors forced NGOs to focus all of their financial and human resources on surviving, and exhausted their reserves.

The NGO sector did experience some positive developments. Local fundraising efforts increased, as witnessed by the Trust Program Implementers, and the corporate sector took

greater interest in NGOs. In 2003²⁵, the European Commission issued a directive that permits member states to adopt accounting legislation that considers non-financial aspects of certain types of corporations in the audits of their financial reports. Guidance is provided by the International Accounting Standards (IAS), which all member states are required to follow as of 2005. Numerous public relations firms and financial institutions are preparing to enter the new “social-auditing” market across Europe. Hungarian corporations are also exploring the possibilities of improving their corporate social responsibility practices, which may provide accounting benefits in the near future.

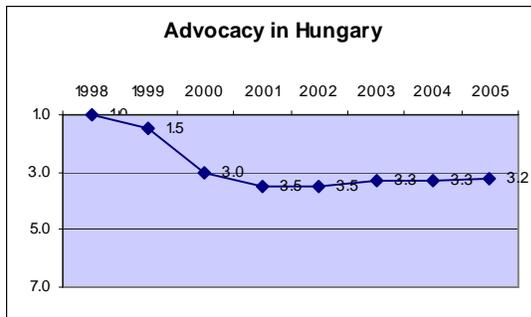
²⁵ [Directive 2003/51/EC amending Council Directives 78/660/EEC, 83/349/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies and insurance undertakings](#) (June 2003)

ADVOCACY: 3.2

The NGO sector showed greater interest in being involved in government decision-making, as demonstrated by several initiatives. While sub-sectors in areas such as environmental protection and disability rights had been effective in the past, this was the first year that the sector united as a whole around specific issues. The NGO sector, for example, influenced the Freedom of Electronic Information Act; an organization drafted the law and allowed for comment by many others. The law permits NGOs and citizens to access data on public institutions, drafted and adopted laws, court decisions, and other important information that will improve their abilities to monitor government activities and engage in advocacy activities. Another success in NGO advocacy and partnership is the Law on Public Interest Volunteering. Early in the year, newly appointed Ministry officials annulled the draft law that the NGO community and government officials had worked on for more than two years, and replaced it with a more restrictive regulatory approach. The legislative effort, however, is a good example of NGOs initiating

and developing a draft law, and pushing it through Parliament.

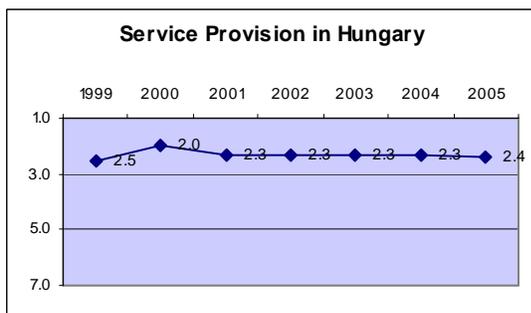
Other sector-wide initiatives include the Civil Organizations for the Openness of the National Development Plan Process (CNNy), which reported on the Development Plan Process and forced Ministry officials to consider more open consultation methods. The HAND Platform for Development NGOs was able to attract more of the Ministry of Foreign Affairs’ attention to their agenda. NGOs also demonstrated against the forced budget cuts, though it is typical that NGOs only demonstrate when the issue is their access to funding. While these initiatives did not reach a wide audience, other initiatives received a fair amount of media attention. According to the Media Monitor of the Trust Program, media coverage of lobbying and advocacy activities has not increased as much as other news stories covering NGOs. The result is that the overall coverage of advocacy and lobbying efforts decreased by almost ten percent.



Despite encouraging events such as the initiation of sector-wide advocacy projects, the level of understanding of and capacity for effective advocacy remains low. NGOs are often unable to define a proactive advocacy

SERVICE PROVISION: 2.4

Funding issues have weakened the NGO sector's ability to provide continuous, high-quality services. NGOs, motivated by the prospect of E.U. funding, invested in quality assurance and developed other services; they were hoping to rely on government normative and other budget funding for long-term support. These organizations were discouraged by the delays and other problems, and they now seek only to fulfill the conditions to receive funding.



The legal framework regulating services such as health care, education, and social support is another obstacle for NGO service providers. According to a legal analysis issued this year, the legal framework does not facilitate contractual relationships between the government and NGO sectors. The law takes a paternalistic approach in which the government

agenda, define goals, build effective coalitions, reach out to beneficiaries and wider audiences, or follow up on their efforts. As a result, the influence of the NGO sector remains low.

Local advocacy efforts continue to depend on the factors such as political affiliations, strength of local NGOs, and community traditions. One rare example of a success is the initiative to disseminate the learning of a successful advocacy project from north-east Hungary within the KORTE program, the results of which will be available within two years.

grants a privilege to NGOs that receive government funding, even when they are providing basic services that the government would otherwise have to provide. All types of funding for NGOs are called "support" in the laws, regardless of whether an organization competed for and won a grant or it is being paid for services it provides. The concept of "public service" is not clearly defined.

Overall, the NGO sector's ability to provide services has increased. In 2003, 21% of all local governments offered services to their communities via NGOs, compared to only 11% in 1996. Similarly, in 2003, 2200 organizations offered services, compared to 900 in 1996. Community support for service organizations is higher than for other types of organizations, as exemplified by the outstanding support for cancer-related NGOs.

With the support of the Trust Program and the NCF, new NGO quality assurance systems have been introduced. For the first time, NGOs are able to become familiar with and start to apply quality control systems that are adapted more to the needs of non-profit organizations than other systems such as the UK "import" PQASSO model or the locally piloted Trademark of Trust.

INFRASTRUCTURE: 2.3

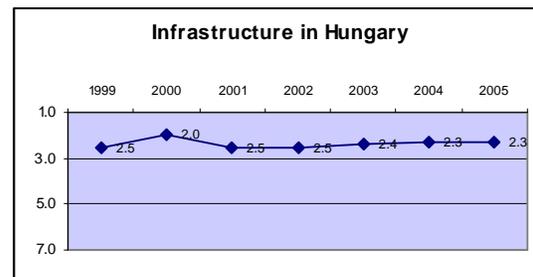
Over the past year, the number of training courses for NGOs increased, especially in areas related to project management, proposal writing, communications, and other areas related to management and planning. Most of these are funded by the E.U. and their quality varies. Training and consultations related to capacity building are limited. The Trust Program now supports the first nonprofit leadership-coaching program.

Local NGO support organizations, mainly the Civil Houses, are struggling. While they receive some state funding and provide basic services, they have been unable to develop strategies and profiles. Many NGO support initiatives, for example, emerge from NGOs in other parts of the country.

Local grant-makers re-grant foreign support and have been unsuccessful in raising local capital, though corporations and philanthropists have greater interests in creating their own foundations. In 2005, three of the five wealthiest individuals in Hungary created their own foundations to support various activities such as contemporary culture, children with disabilities, and regional development. Almost all banks and telecommunications companies

have foundations or sophisticated grant schemes.

Several issue-based NGO coalitions emerged this year, unlike previous years. Examples include the CNNy group, which formed to address the draft law on lobbying. NGOs also petitioned the DG Justice “Watchdog Fund” concerning the delay in the E.U. funding for human rights and advocacy NGOs after the U.S. withdrew its funding.

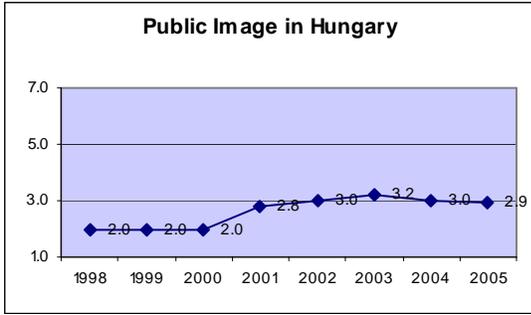


Full statistical data is available again on the Hungarian NGO sector serving as an important basis for advocacy and research purposes as well; although it is not ensured for the long term. A number of new higher education courses were launched this year dealing with the nonprofit sector and NGOs.

PUBLIC IMAGE: 2.9

One issue that received significant media attention is the activities related to the July presidential elections in Parliament. The three large parliamentary parties were unable to agree on a candidate that was acceptable, and Parliament delayed its decision. Led by an NGO, a group of leading intellectuals signed a petition to nominate Mr. Laszlo Solyom; all three parties agreed to his nomination. As a result, the President of Hungary was nominated by an NGO. While this case shone a very positive light on NGOs by showing that NGOs can be truly independent and can influence important events. On the other hand, it also raised concerns about how involved or how much influence they ought to have over politics.

A major trend over the past year, related to the issue of political independence and influence, was the attempt by both parties to use NGOs as a means to gain political leverage. One new organization was formed to investigate government corruption, though it became clear that the organization was formed by an opposition political party. In another example, members of the governing party sent letters to local units to ensure that they encourage other “affiliate” organizations to register as electors for the NCF. All political parties started their campaigns well in advance of the May 2006 elections.



The Civil Media Monitor, supported by the Trust program in Hungary, demonstrated that local news outlets, whether they are print or electronic, cover the NGO sector much more

than national news outlets. Only a handful of topics received outstanding national media attention, and those related to sensitive social issues such as environmental protection-NATO locator, legalization of drugs, women and abortion, or budgetary corruption issues.

Perhaps due to the corporate sector's increased interest in NGOs, more articles have been published in economic weekly papers on the transparency and accountability of NGOs and the non-profit sector. However, the sector seems to be far from effective in self-regulation, other than some encouraging initiatives at the local level.