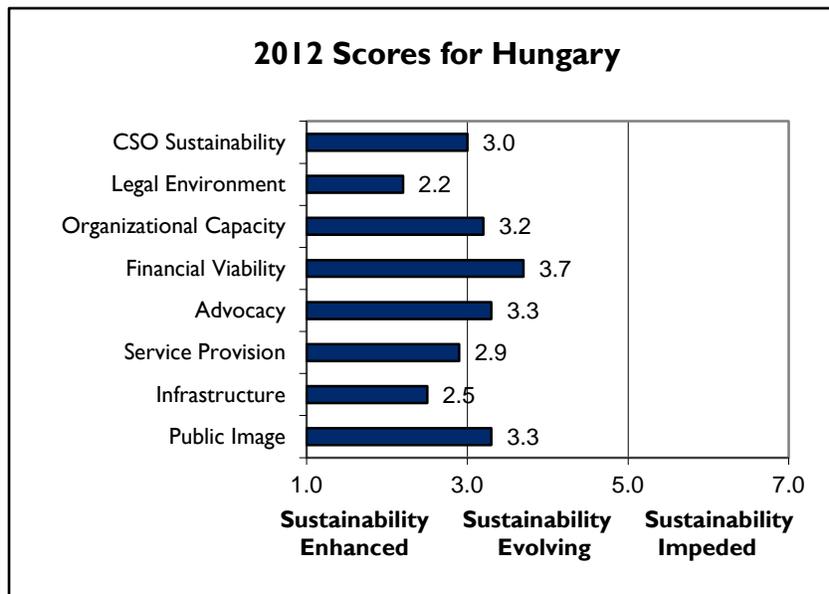


HUNGARY



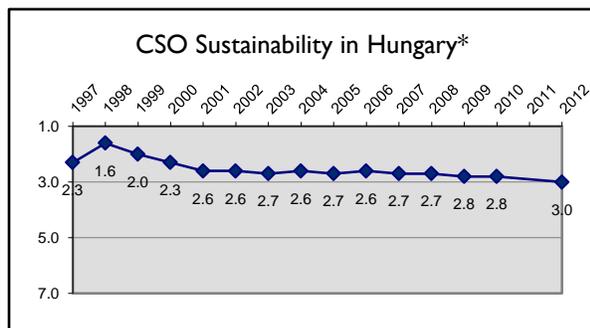
Capital: Budapest

Population: 9,939,470

GDP per capita (PPP): \$19,800

Human Development Index: 37

CSO SUSTAINABILITY: 3.0



Hungary continued to be plagued by the weakened rule of law and deepening economic crisis throughout 2012. While the legislative pace slackened, important acts passed in 2011, including the new constitution, have already been amended several times. The implementation of sweeping new legislation also remains uncertain.

Beginning in September, political and public attention focused on a proposed new election law. According to this proposal from the governing party Fidesz, citizens

wishing to vote in general elections would be required to register in person at least fifteen days before the election. Human rights organizations and think tanks criticized the proposal for seriously limiting the constitutional right to free and equal elections.

The proposed election law is just the most recent in a series of legal reforms viewed as threatening democracy. In response, several major demonstrations have been organized, chiefly by the One Million for Press Freedom movement. The first, which took place on January 3, drew 50,000 to 80,000 people in front of the Opera House where the government was celebrating the promulgation of the new constitution; the latest



*Due to logistical problems, scores were not reported in 2011.

was on October 23, a national holiday, with approximately the same turnout.

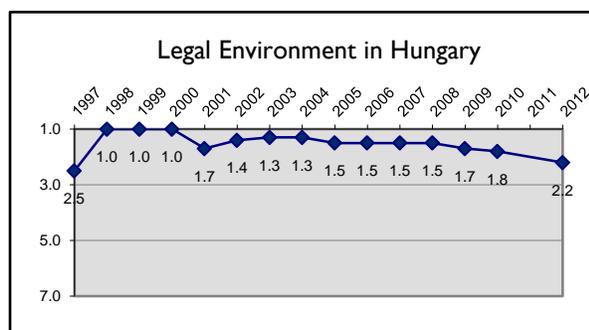
Despite earlier optimism, the economy plunged into a recession: according to forecasts, the GDP decreased by 1.2 percent in 2012, and may only grow by 1 percent in 2013. While the government entered into negotiations with the EU and IMF on a bailout package, it has been reluctant to initiate much-needed structural reforms, e.g. to the pension system, and has attempted to patch the deficit by introducing new taxes, including on telecommunications and banking transactions.

Standards of living are deteriorating and the proportion of people living in deep poverty is increasing. The unemployment rate is above 10 percent and inflation is expected to be around 6 percent in 2013. Social and ethnic tensions are rising, as is emigration, which has reached a level not seen in the last twenty years. Political apathy is also high, with 54 percent of respondents in polls now saying that they will not vote in the next election.

Civil society has been affected by the deteriorating conditions in the country. Anecdotal evidence indicates that most CSOs consider their conditions worse in all respects, a significant change from the stable or improving situation of the previous decade. The crisis also revealed weaknesses that were not apparent earlier – especially with respect to advocacy capacity – that may have resulted in overly optimistic scores in previous years.

According to the latest data from the Central Statistical Office, in 2011 there continued to be approximately 65,000 CSOs registered in Hungary, including 23,500 foundations and 41,500 associations. The majority of foundations work in education (32 percent), social services (16 percent), and culture (14 percent), while leisure and hobby (25 percent), sport (16 percent), and culture (12 percent) are the predominant activities among associations.

LEGAL ENVIRONMENT: 2.2



The legal environment in Hungary has deteriorated over the past two years. At the same time, weaknesses in the legal environment have become apparent, indicating that previous scores in this dimension were overly optimistic.

The new Nonprofit Act was passed in late 2011 and entered into force at the beginning of 2012. While initially raising high hopes, the legislation ultimately caused disappointment. The law's interpretation and implementation has raised many questions, resulting in

uncertainty and confusion among CSOs on how to adapt to the new rules. Implementing institutions – especially registering courts and attorneys – also remain at a loss as to how the new law should work in practice. The law has already been amended twice to clarify highly technical issues that were poorly defined initially, raising questions about the legislation's stability.

As a result of these uncertainties, court interpretation varies from county to county and the registration of new CSOs is often slow. While CSOs should theoretically be able to register in thirty days (which can be extended an additional thirty days), registration may take much longer in practice. The on-line registration system provided for in the legislation is still not operational: after several delays, it is now expected to be launched in July 2013, although few details have been made available.

The conditions for obtaining and keeping public benefit status have changed dramatically. The new definition of public benefit activity – one which contributes to the execution of state or municipal tasks and services – requires CSO statutes to clearly refer to concrete legislation to demonstrate the state tasks they are

performing or supporting. In the absence of clear legislative guidance, CSOs feel helpless about how to interpret such provisions, and question what direction practical implementation will take.

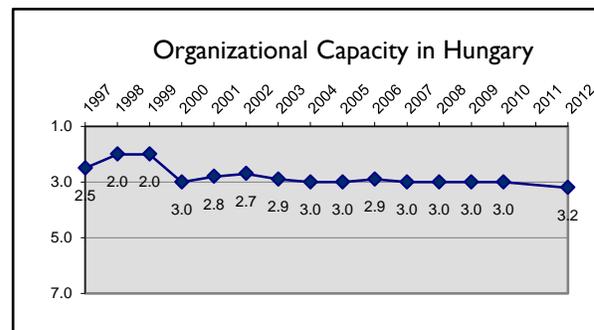
While CSOs can operate freely, the authorities now have the right to control and inspect more areas of CSO activity, such as the means of collecting gifts and donations, than previously. CSOs are concerned that this will lead to politically motivated tax audits and other actions, although there is no concrete evidence that this is happening.

The new Nonprofit Act did not improve tax benefits. There are still no personal income tax benefits for donations, and it remains to be seen whether the corporate tax deduction re-established last year under different rules will serve as an incentive to companies. While in theory CSOs can earn income by providing services and competing for government contracts, in practice they are increasingly excluded, as preference is given to faith-based organizations.

Given the uncertainty in the legal environment, CSOs need local legal aid more than ever. However, only a few organizations, such as the Hungarian Environmental Partnership Foundation (HEPF), have the capacity to provide this kind of help. The newly appointed county Civil Information Centers, which are legally obligated to provide legal advice to CSOs, have little experience in this field. Therefore, specialized legal assistance for CSOs is practically non-existent at the local level.

ORGANIZATIONAL CAPACITY: 3.2

While experts previously thought that CSO capacity had been steadily increasing over the last decade, serious shortcomings are now apparent. Rapid and unpredictable changes in both the legal and financial circumstances have made strategic planning practically impossible for CSOs, even for just a few months in advance. Only a small circle of larger, institutionalized CSOs have or strive to develop clear strategies and management structures; the majority of organizations operate on an ad hoc basis.



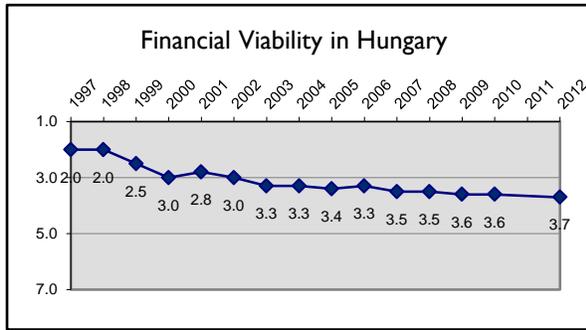
The steeply worsening financial conditions have also eroded the achievements of the past decade, particularly in terms of maintaining professional staff. Even larger umbrella CSOs have been forced to cut back on employees or go back to working on a fully voluntary basis. With staff leaving the sector, valuable knowledge and experience is lost. As there are no resources to recruit a new, younger generation, the potential to bring in fresh ideas and creativity is in jeopardy. Smaller organizations are often dominated by one person, with no organizational structures at all. While there is still popular interest in volunteering, few CSOs now have the capacity to efficiently involve and manage volunteers.

Anecdotal evidence indicates that many CSOs, especially mid-sized groups, are often removed from their constituencies, and that the ideas they have about community needs and preferences do not always match reality.

Most CSOs have access to technical equipment, although their ability to maintain it depends on their financial resources.

FINANCIAL VIABILITY: 3.7

Financial viability has undoubtedly experienced the sharpest setback of all dimensions of CSO sustainability. The negative trends that started in 2011 continued and deepened throughout 2012. The chief state



mechanism to support CSOs, the National Cooperation Fund (NCF), experienced severe cutbacks in 2011 to just above 3 billion HUF (approximately \$14 million), less than half of the pre-2010 level; 2012 funding remained at this level. The first grants awarded under the new grantmaking system, which increased government dominance in the decision-making process, caused great disappointment. Of the more than 3,000 CSOs that received grants ranging from \$1,000 to \$22,000, many were awarded more for their political loyalty than the work they perform. Other

sources of state support are negligible.

Support from the EU Structural Funds was largely suspended in 2010-11 and did not resume in 2012 as hoped. Only the Human Regeneration Operative Program had some funding open to CSOs, but few organizations benefited from this due to delays in publishing the calls and making funding decisions.

The Trust for Civil Society in Central and Eastern Europe announced its last call for proposals in February, and wrapped up at the end of the year. The Open Society Institute remains committed to supporting a limited circle of human rights and civil liberties CSOs.

Two new donor-funded grant programs were seriously delayed, leaving many CSOs without any grant options throughout the year. The Swiss government approved a consortium of foundations led by HEPF to manage a block grant scheme at the end of 2010. However, this was followed by a year and a half of diplomatic negotiations with the Hungarian government, which wanted control over how funds would be distributed. Eventually, a trilateral contract was signed in July 2012 and the first call for proposals was announced in September; grant decisions are expected in early 2013. This fund is both geographically and thematically limited, covering only two out of seven regions in the country and only funding environment and social services projects. The process to select an implementer for the new European Economic Area (EEA)/Norwegian Fund began in late 2011, but also encountered delays due to differences between the donors and the Hungarian government. Eventually, the same HEPF-led consortium was appointed in late October, and the first calls for proposals are expected in early 2013.

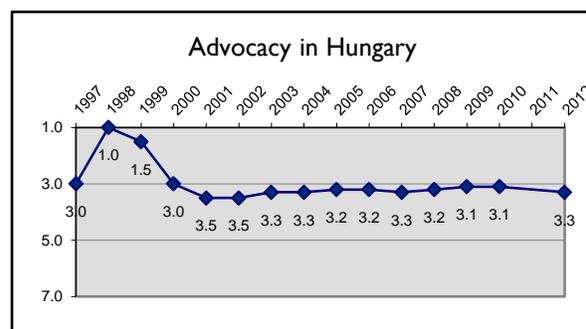
Local grantmaking sources are still largely absent and donations - from both corporate and individual sources - cannot make up for their absence. As a result of the government's anti-corporate attitude and the extra taxes imposed on certain sectors, multinational companies are reluctant to invest in the country, including through philanthropy. Worsening standards of living have also decreased people's willingness and ability to give. Despite these obstacles, a few Budapest-based organizations have been successful at fund raising. For example, church-based charities such as the Hungarian Interchurch Aid run successful fundraising campaigns before Christmas with strong backing by the public media. Such examples, however, remain the exception rather than the rule.

Existing regulations oblige CSOs to maintain highly administrative financial management systems. Under the new Nonprofit Act, CSOs must now submit their annual accounts to the registering court on an annual basis, which should improve transparency in the sector.

ADVOCACY: 3.3

CSO advocacy has declined sharply over the past few years. At the same time, CSOs now consider scoring in previous years to have been overly optimistic.

The administration largely turns a deaf ear towards civil society. The governing party, aided by their two-thirds majority in parliament, pushes through their own agenda at whatever cost, often making consultations with other stakeholders, including civil society, meaningless. Traditional means of advocacy, such as petitions, have lost their effectiveness, with the government often ignoring them altogether. As a consequence, CSOs have largely given up on pursuing such advocacy techniques, but have not yet found new ways to make their voices heard.



Participation mechanisms that used to function effectively, such as the Consultative Forum on Employment, have either been dissolved or revised to exclude independent CSOs. While the Act on Public Participation, passed in late 2010, established the institution of strategic partnerships, the actual agreements concluded in 2012 indicate that the government is only willing to partner with friendly organizations. Other CSOs that expressly request to participate in these arrangements are regularly excluded.

Controversial governmental decisions, such as the new Civil Information Centers and the NCF's grant decisions, are further signs of the ruling elite's indifference and neglect towards civil society. In turn, many CSOs are afraid to take action for fear of losing their remaining funding or other possible repercussions, such as extraordinary tax audits.

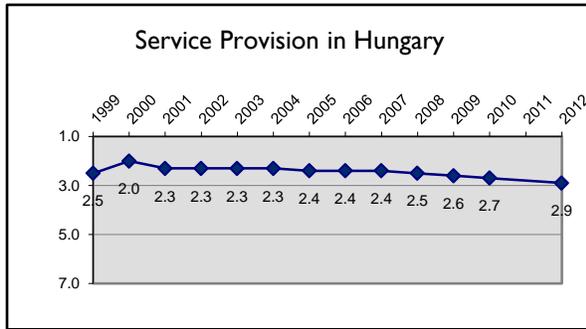
Policy in Hungary is sometimes influenced by scandals. For example, after the Life-Value Foundation collected more than 100,000 signatures calling to include domestic violence as a separate crime in the new Criminal Code, the parliament was legally obligated to discuss the matter. However, governmental MPs strongly downplayed its importance. One even went so far as to say that if "every woman would bear three to four children and start to think about making a career only afterwards," domestic violence would not be an issue. The ensuing media uproar and demonstration forced Fidesz to quickly declare that they would give more careful consideration to the matter.

A few loose coalitions such as the Civil Advocacy Roundtable are still active, but they include only the national umbrella CSOs. On the local and regional levels, cooperation between CSOs is less apparent. New types of organizing, mostly based on social media, such as the Hungarian version of the Occupy movement and the One Million for Press Freedom (Milla for short), are still active, but it is impossible to predict whether they will have any long-term impact. At the national holiday on October 23, Milla announced a new joint initiative with the Solidarity trade union movement and ex-Prime Minister Gordon Bajnai aimed at replacing the present ruling party in the 2014 elections.

Since the Nonprofit Act was passed in late 2011, there has been little advocacy for additional reform of the legal environment governing civil society. A few groups – including HEPF and the European Center for Not-for-Profit Law (ECNL) – attempted to reform regulations governing foundations; however, in the absence of any openness on the legislators' side, these efforts were futile.

SERVICE PROVISION: 2.9

The service providing segment of Hungarian civil society has traditionally been the most developed, providing a wide range of services in the social, educational, cultural, and other areas. Historically, these groups have been pioneers, developing services in response to new needs, providing alternatives, and disseminating their methods and best practices. However, the negative trends observed in 2010-11 continued to impact CSO service provision.



In particular, funding for service provision is declining, and governmental service provision contracts are increasingly awarded to churches and faith-based organizations, as opposed to ideologically neutral CSOs. Local governments, whose circumstances and functions will fundamentally change beginning next year when new legislation comes into force, are hesitant to sign contracts or simply lack the means to do so. Due to these difficult financial conditions, many service organizations, including established ones like the Red Cross, now struggle to sustain their services,

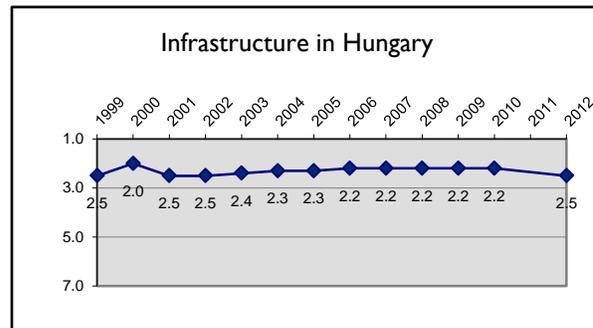
even on a purely voluntary basis.

While service providing CSOs generally strive to reflect constituency needs, they often serve disadvantaged or vulnerable groups, making cost recovery unrealistic. In some cases, CSOs develop marketable services, but are still expected by society at large to sell them below cost. As more organizations try to develop services in order to survive, the market is becoming supply-driven, further decreasing chances for full cost recovery.

Umbrella organizations of service providing CSOs, such as the Hungarian Anti-Poverty Network (HAPN), have begun to speak up for their constituents and become more active advocates, something at which they have traditionally been quite weak.

INFRASTRUCTURE: 2.5

The system of county Civil Information Centers (CIC), a network that has existed for a decade, has changed dramatically. The Nonprofit Act now legally acknowledges CICs and the services they are obligated to provide, including basic legal advice, information on calls for proposals, grant-writing help, and Internet access. The government announced a call for proposals to select new CICs in spring 2012. The list of appointees again caused disappointment. Only five of the twenty CSOs that previously provided these services were re-appointed; many of the others are unknown organizations without a history of serving as CSO resource centers. For example, the Fin-de-siecle Foundation, a political analysis and consultancy organization with very close ties to the ruling party, became the Budapest CIC, which is expected to play a central role in developing the network, replacing the long-serving Nonprofit Information and Education Center (NIOK). It remains to be seen how the newly selected organizations will fulfill their roles, but initial signs are concerning: some CICs could not be found at their addresses and/or their webpages do not provide the type of information they should. CSOs continue to turn to some of the “old” resource centers like NIOK. While these groups try to continue providing help, in the absence of funding, their capacities are limited.



The Civil Cooperation Forum is emerging as the main – self-proclaimed – representative of the sector, claiming to have hundreds of organizations under its umbrella. The leader of the forum was appointed to chair the NCF Council, with the power to override committee decisions. At the same time, he is one of the main organizers of the Peace Walks, mass demonstrations organized in support of the government and clearly aimed at countering the protests organized by Milla and similar movements.

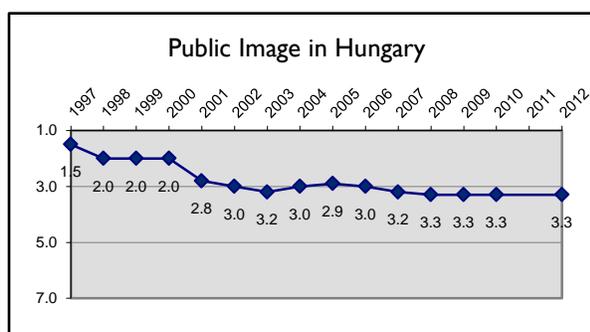
Local CSO coalitions still exist and struggle to survive, but cooperation among different segments of the sector is still weak. A few CSOs, such as NIOK and HEPF, try to convene national, issue-based networks,

but apathy within the sector makes it difficult to facilitate cooperation either within the sector or with other sectors. The cooperative system of the environmental movement remains unique. Nevertheless, changes in the rules approved at their last National Gathering in March to create a more permanent twenty-person Consultative Council gave rise to internal debates, with some activists and CSO leaders viewing the move as a step towards a centralized and anti-democratic structure.

Over the last decade, a pool of trainers and organizational experts has evolved. However, in the absence of funding, most CSOs cannot afford these services.

Local grantmaking is still largely absent. There are two fledging community foundations in Eger and the 9th district of Budapest, but they are just getting started and their example has yet to spread. The Hungarian Donors Forum still actively promotes cooperation with the business sector. It now has more than twenty corporate members, mainly subsidiaries of multinational companies, but is also opening up to Hungarian-owned family businesses.

PUBLIC IMAGE: 3.3



Journalists rarely report on civil society activities beyond scandals involving the sector. This is especially true of the increasingly government-controlled public channels. At the same time, the government uses all kinds of measures to silence media seen as oppositional. For example, the government denied a frequency to Clubradio, which would have provided CSOs with additional opportunities for media coverage. Local media tends to be more open to reporting on local CSO activities as they generally have fewer news items, but their reporting is often

superficial and lacks discussion or analysis. Most CSO communication with the media tends to be ad hoc. Only a couple of professional CSOs have media strategies and nurture regular media contacts. Other CSOs usually only put out occasional – and not very well-written – press releases.

According to a 2012 survey by the Association of Community Developers, CSOs benefit from more public trust than other institutions (2.6 on a scale of one to four). However, perception strongly depends on personal experience and involvement with the sector.

The government sends mixed messages to the sector. Although it emphasizes the importance of civil society in its statements, its actions contradict this sentiment. The politically-biased appointment of the CICs and the NCF grant decisions indicates that only loyal organizations, often faith-based groups, are considered a valuable part of civil society. CSOs criticizing the government are portrayed as agents of foreign interests or the political opposition.

Cooperation with businesses is somewhat better. According to a 2012 survey conducted by the Hungarian Donors' Forum among forty-two major corporations, businesses view CSOs as partners that contribute special knowledge and expertise to joint programs. However, CSOs must also become more professional and transparent in order to win and retain the trust of corporations.

The sector still lacks a common code of conduct or other instruments of self-regulation. While CSOs are legally bound to publish their reports, few proactively promote them among potential partners and constituencies. In 2012, NIOK launched a new initiative for self-regulation, the Fundraisers' Self-regulatory Body, with nine member organizations, predominantly large CSOs, relying on individual donations such as Greenpeace and Habitat for Humanity. Its main goal is to improve transparency in the way that donations are

collected and used. At this stage, however, it is not very widely known in the sector and it remains to be seen whether more CSOs will apply its Code of Conduct.