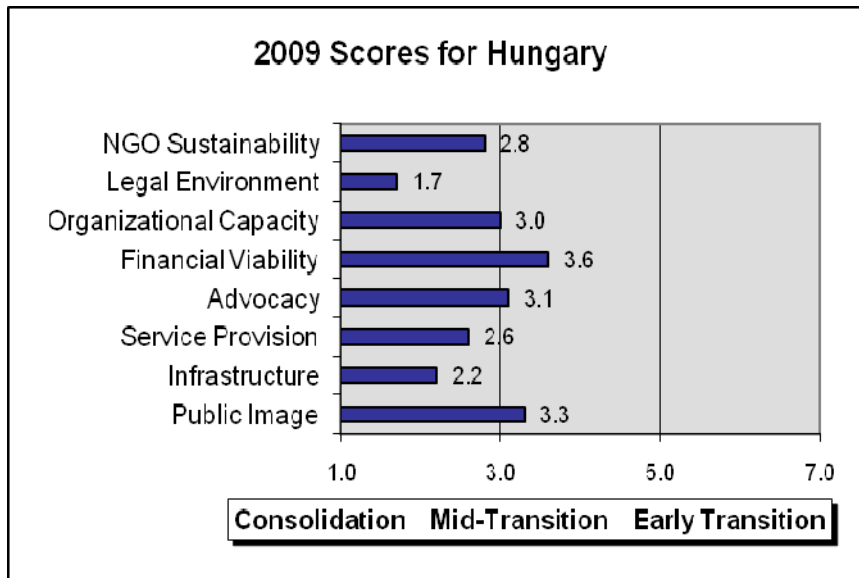


# HUNGARY



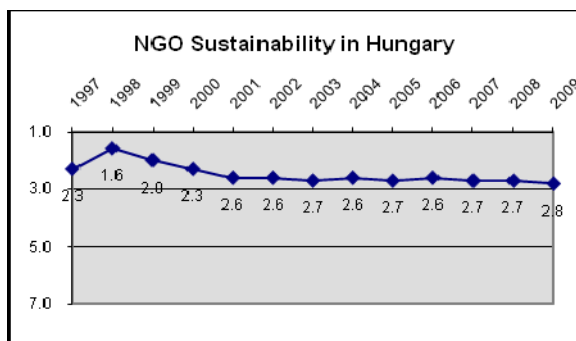
**Capital:** Budapest

**Polity:**  
Parliamentary Democracy

**Population:**  
9,880,059 (July 2010 est.)

**GDP per capita (PPP):**  
\$18,600 (2009 est.)

## NGO SUSTAINABILITY: 2.8



Hungary has 62,407 registered NGOs, including 22,075 foundations and 32,670 associations. The country has been severely affected by the financial crisis, which in 2009 was coupled with a serious political crisis. In March, Ferenc Gyurcsány, the prime minister and leader of the governing Hungarian Socialist Party, resigned. In April, after lengthy negotiations with the Socialist Party, the Alliance of Free Democrats decided to support the independent Gordon Bajnai as prime minister. Bajnai appointed a so-called “provisional expert government,” emphasizing that he did not have political ambitions and took office for only one year to

ensure an economic recovery. As a result, the Socialist Party had to govern in the minority during a year when the country faced serious economic troubles and mounting unemployment.

Further symptoms of social and economic troubles included a series of organized attacks on Roma people in the northeastern region of Hungary; the failure of an NGO-initiated campaign for more transparent election financing; and a joint call by major embassies to the Hungarian government warning of the decline in foreign investors’ trust due to the government’s lack of transparency. All of these events left a bitter mark on civil society, which showed little capacity for dealing with the challenges. Furthermore, civil society organizations were hit hard by difficulties in funding from the EU Structural Funds and other government resources. There were also some promising signs, however, of increased advocacy capacity at the national level and an increase in investments in NGOs’ organizational capacity.

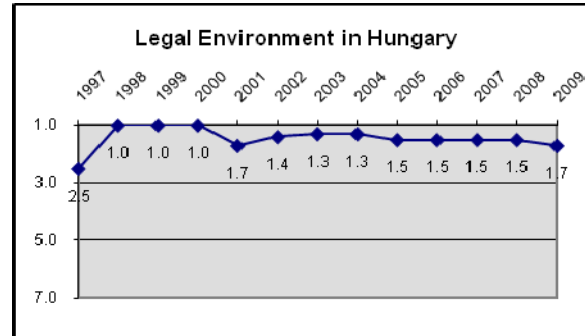
## LEGAL ENVIRONMENT: 1.7

The legal environment for NGOs experienced a major setback in 2009. In past years, individuals who contributed to NGOs could take a tax credit of 30 percent of the donation, up to approximately \$400. In 2009, however, individuals were no longer allowed to claim any tax credits for their donations. Meanwhile, companies can deduct 50 percent of the amount of a donation to prominent public benefit organizations (PBOs), up to 100 percent of their pre-tax income. (PBOs achieve the designation “prominent PBO” if they perform certain government responsibilities such as providing education or social services). If a company commits to a long-term donation to a PBO or prominent PBO, 20 percent of such donations are eligible for a tax deduction each year. This is a significant step back from previous years, when companies were able to deduct 100 percent or 150 percent of their donations to PBOs and prominent PBOs, respectively, without further limitations, from up to 20 percent of the tax base.

In addition, NGOs still have to pay VAT on in-kind donations, including those delivered through alternative mechanisms such as text message donations, and the VAT was increased from 20 percent to 25 percent in 2009.

A positive development in 2009 was the adoption of the new Civil Code, which includes some progressive and long overdue changes in foundation governance and operation, but these

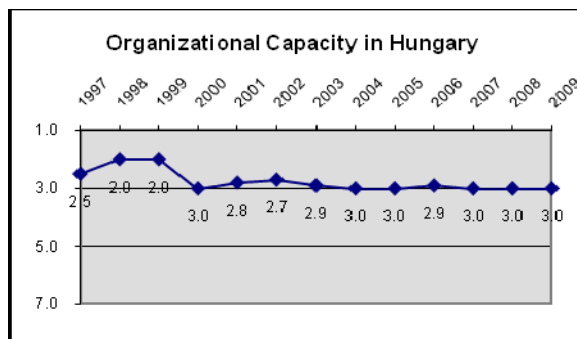
changes are not scheduled to come into effect until mid-2010.



As of June 30, 2009, the so-called public benefit company as a separate legal form was discontinued. This change was long awaited and was a largely positive development for the NGO sector. All public benefit companies had to either transform into a type of nonprofit corporation or terminate their operations. The problem is that the Tax Code is not clear about whether they can receive tax-exempt income from their public benefit activities and if so, under which conditions.

There was little progress on the official NGO registry that the government began developing in 2008. An online database was introduced in 2008, but is not yet up to date or searchable as planned.

## ORGANIZATIONAL CAPACITY: 3.0



Funding sources that were focused on building organizational capacity continued to increase in 2009. The Norwegian Financial Mechanism held two more rounds of funding for NGO capacity building, supporting the development of over eighty NGOs around the country. In addition, a major EU Structural Fund project, the Social Renewal Operative Program, assisted hundreds of organizations through its funding for regional centers that support local civil society development. Several hundred NGOs have applied for these funds; when applying, they had

to think through their own plans for institutional development, an immediate positive effect of the increased options.

As a relatively new phenomenon, for-profit providers have also begun to operate in the organizational capacity field, in part by bidding for state-sponsored projects and in part by providing NGO capacity building services for free as part of their corporate social responsibility activities. There are still questions, however, about the quality of the support, as

### FINANCIAL VIABILITY: 3.6

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A large number of NGOs are still dependent on government funding, but more are using a variety of fundraising tools besides proposal writing. For example, they employ direct mail and cause-related marketing campaigns. Strategic partnerships between companies and NGOs are becoming increasingly visible to the average citizen.

NGOs that were awarded EU funds experienced a number of problems, including unilateral modification of the terms of the contract, rejection of financial reports, and withholding grant payments without clear justification. Okotars Foundation commissioned an analysis of the regulatory framework and scrutinized more than fifty contracts. The research revealed serious issues surrounding the legal underpinnings of the funding and misinterpretations of the rules underlying grant awards.

At the same time, many NGOs that receive government funding are now facing the

### ADVOCACY: 3.1

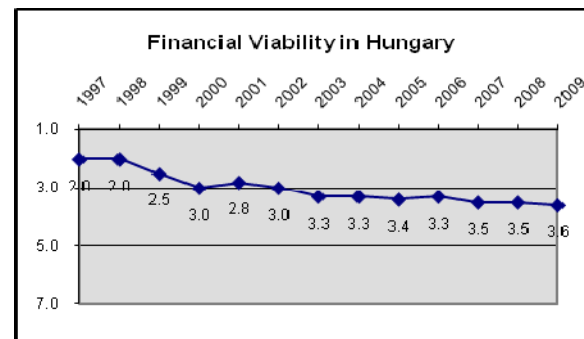
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In 2009, there were several occasions when NGOs achieved important changes at the national level due to well-placed, highly visible actions or campaigns. For example, during the political turmoil surrounding the appointment of the provisional expert government, Transparency International succeeded in challenging the appointment of the Minister of

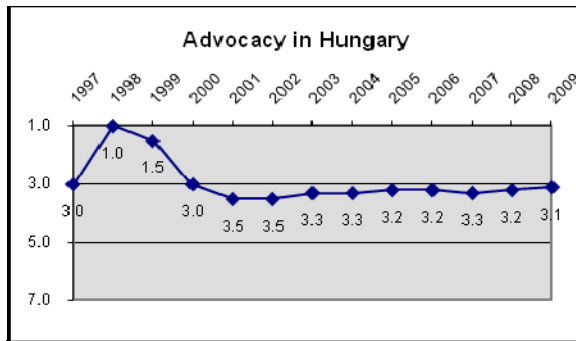
some regional centers reported that not enough capacity building experts are familiar with NGO development.

Despite increased support, the actual capacity of NGOs continued to shrink; downsizing and even bankruptcy among previously well-established organizations seemed to be more common than in earlier years. Concrete data from the Statistical Office on the number of NGOs that closed in 2009 will not be available until spring 2011.

difficulties of reporting on their programs, deciphering unclear reporting guidelines and working with inexperienced program staff on the donor side. Many are experiencing delays in final payments. Given the volume of these projects, many NGOs had to advance payments of up to several hundred thousand dollars, typically by taking out loans. Because of the financial crisis, these loans are no longer available for the newer rounds of proposals; as a result, many NGOs are less able to access government funds.



Economy. The initial candidate owned a company that had once been found liable by the Company Court for participating in a cartel. TI Hungary publicly stated that an official with such a history could not be expected to effectively battle corruption, and the proposed minister was subsequently asked to step down.



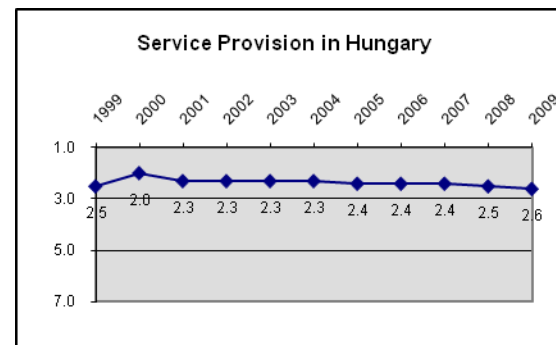
The Hungarian Civil Liberties Union won a number of strategic lawsuits. The biggest political ramifications came from a lawsuit the group filed on behalf of a newspaper against a state-owned company, which resulted in a Supreme Court resolution stating that the salaries and wages paid by state-owned companies should be made public. Following this judgment, the salaries of certain managers of the Budapest Transport Company were publicized by another newspaper, leading to the collapse of the company's top management. The incident was a major factor in the disintegration of the socialist-liberal coalition governing Budapest.

These examples indicate a kind of advocacy that has previously not existed or been successful in Hungary: a political, but not politically biased, action based on legal and moral principles that can lead to serious changes in the political establishment and the country's governance. Unfortunately, not all initiatives were successful: an effort led by TI and Freedom House to bring all parties to agreement on transparent rules for election campaign financing failed.

There is also an important new initiative supported by a coalition of NGOs to challenge the financing practices of the European Social Fund in Hungary, which is the implementing agency of the EU Structural Funds. Based on the Okotars Foundation analysis mentioned in the Financial Viability section, NGOs organized demonstrations against the fund and its relevant ministry, and were subsequently invited to discuss their problems with the fund's managers. NGOs anticipate a long battle with the bureaucracy to improve financing regulations.

## SERVICE PROVISION: 2.6

In 2010, further cuts were made to the per-capita levels designated for human services such as social services, education, and health care. This resulted in reductions of up to 50 percent of the providers' budgets. While local governments and churches are likely to find other sources to support their services, NGOs are more vulnerable.

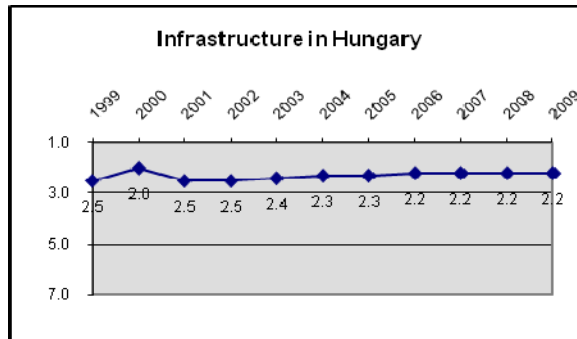


There were some positive developments relating to NGO providers of social services this year. For example, a government regulation that had prescribed additional conditions for NGOs to run services and biased the system against NGO providers in favor of local government and church providers will be abolished in 2010. Due to the overall decrease in the public sector's financial resources, however, the effect of this change is questionable.

management were held throughout the year. There seems to be an increasing demand for quality assurance among service providers; in fact, the Ministry of Social Affairs was considering introducing quality assurance requirements for its grant funding schemes. This is likely a result of increased competition for scarce resources.

The question of service quality has become a central issue, and seminars on quality

## INFRASTRUCTURE: 2.2



New resources available to NGOs show a shift in the government's support of the sector. The government's Social Renewal Operative Program (an EU Structural Fund project) has a clear mandate to strengthen regional resource centers supporting NGOs. This is in line with a general trend of shifting public administration and social service provision responsibilities to the regions, but it puts national support organizations in a difficult position. Before, they served as umbrella organizations for the county level. Now they will need to compete with the strengthened regional-level support

## PUBLIC IMAGE: 3.3

The general image of the sector has not improved, and there is still a sense among the public that civil society is simply a vehicle for political parties to garner votes. This was reinforced by the internal crises of both the liberal and socialist parties, during which major figures left and founded various social movements or NGOs to support their ideas.

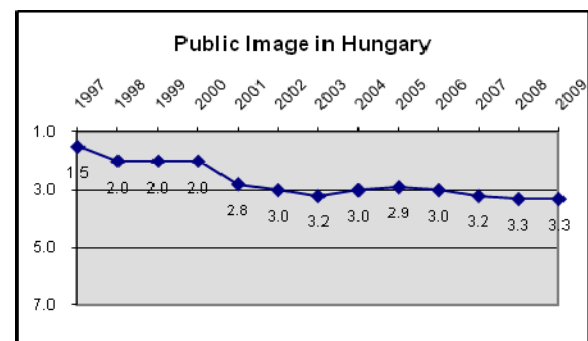
In 2009 a new group, Media Union, was launched. Over 200 media outlets and PR agencies have joined to promote one cause every year. In 2009 the campaign was entitled "No Excuses," with a focus on sports and a healthy lifestyle. While this is the highest impact social advertising campaign to date, such campaigns can also have an adverse effect. Many companies join them as part of their corporate social responsibility activities and then consider that they have contributed enough, rather than

organizations, which serve as umbrellas for the counties in their respective regions.

The major funders, the Norwegian Financial Mechanism and the CEE Trust, also seem to prefer directly supporting local organizations through their grantmaking programs. Some national-level support NGOs must seriously reconsider their role in supporting the sector.

In 2009, there were good examples of network and coalition building among NGOs. While Hungary has some large NGO networks, they are mostly viewed as old-fashioned and inefficient, and for many years were largely financed by the state rather than their members. Now the country has a growing number of smaller, more independent, issue-based networks. Examples include coalitions focused on improving public financing practices and promoting the interests of nonprofit service providers, and a network forming among NGOs to prepare for the Hungarian EU presidency in 2011.

supporting smaller NGOs with equally important causes.



VEKE, an organization advocating for better public transport systems, managed to maintain a constructive and unbiased image in the midst of Budapest's public transport scandals. Unfortunately, most NGOs lack the capacity to fend off political labeling. Either they do not view political independence and accountability

as important or they do not have the skills to put those qualities into practice.

In general, NGOs do not seriously concentrate on presenting a transparent, accountable face to the public. This year, several major controversial issues were in public discourse, including the

Roma, European elections, and the H1N1 flu, but there was no authoritative and credible opinion to which people could turn if they wanted to hear the “real story.” This is an indication that NGOs as well as the investigative media have a long way to go before they are sources of reliable information to the public.