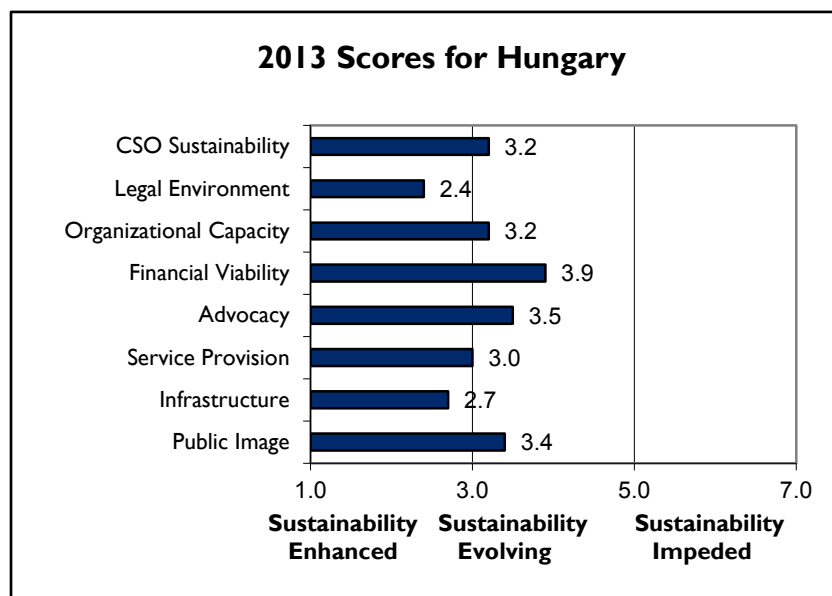


HUNGARY



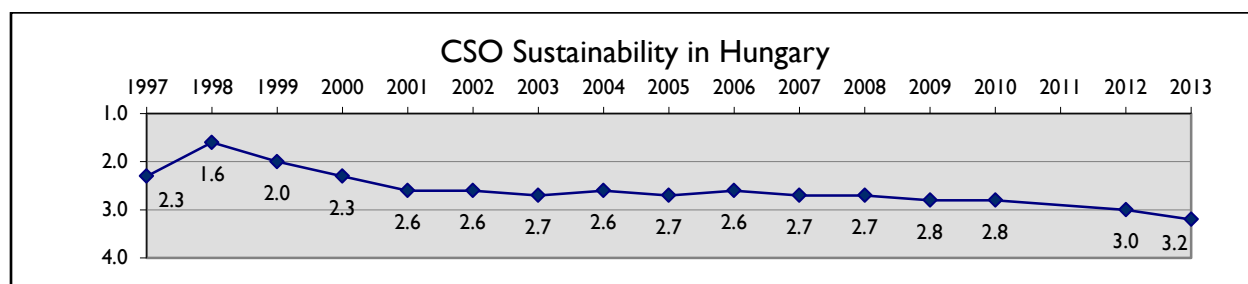
Capital: Budapest

Population: 9,919,128

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

Human Development Index: 37

CSO SUSTAINABILITY: 3.2



The political and economic trends set in motion in Hungary after the 2010 parliamentary elections continued to worsen in 2013. With general elections expected in the spring of 2014, public discourse is increasingly and aggressively dominated by political rhetoric and the government and opposition have become more polarized than ever. In this tense atmosphere, CSOs are tagged as either “government-friendly” or oppositional, regardless of their true position or the distance they keep from politics. As a result, many CSOs believe that nothing can be changed, which has deteriorated CSO sustainability, particularly the legal environment governing CSOs and their financial viability, throughout the year.

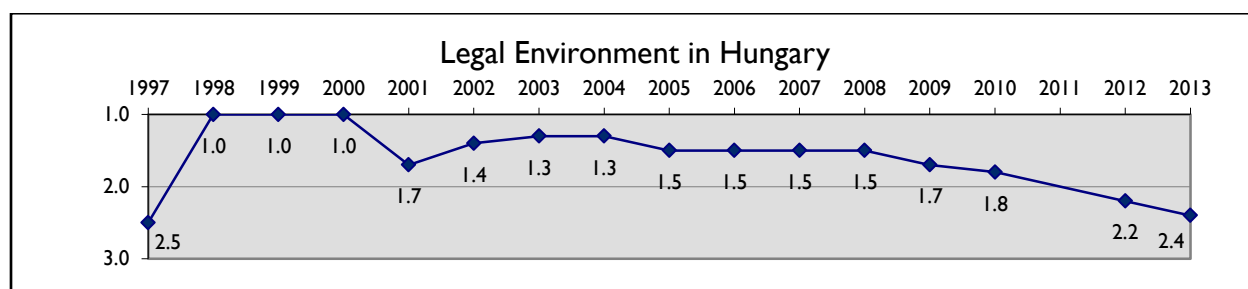
In light of next year’s elections, the ruling party Fidesz has centered its political agenda on reducing the cost of living, gaining support through popular economic measures. In January, the government lowered household electricity and gas prices by 10 percent and then claimed that external forces, namely the European Union motivated by multinational corporations, are threatening these price reduction measures. According to polls, Fidesz’ popularity subsequently increased by 6 percent compared to 2012 figures, leaving it with a stable leading position and a favorability rating of around 30 percent.

Despite the government’s focus on cost of living, the economy continues to be weak. Unemployment remains close to 10 percent and GDP is expected to grow by less than 1 percent this year. The state deficit has not decreased significantly, despite the introduction of new taxes on banks and other sectors. At the same

time, public spending is becoming increasingly opaque. For example, a parliamentary committee may declare practically any kind of investment important from a “national security” point of view, thus circumventing public procurement and related regulations. This is coupled with accusations of nepotism at various levels, including the distribution of state concessions for tobacco shops to relatives of local Fidesz officials, and the shift of lease rights on state-owned agricultural lands from long-standing tenants to government-favored entrepreneurs. Despite the public outcry and the efforts of watchdog and anti-corruption organizations on both issues, no changes were made. Given this atmosphere, CSOs feel helpless to make any changes and do not feel the need to become more transparent and accountable themselves.

According to the Central Statistical Office, 2012 was the first year in the last two decades when the number of CSOs, their overall income, and the number of CSO employees decreased. Although the number of CSOs decreased only slightly to around 65,000, the sector’s income shrank by 4 percent and the number of employees fell by 3 percent.

LEGAL ENVIRONMENT: 2.4



Since the new Nonprofit Act entered into force at the beginning of 2012, CSOs have become increasingly confused about how to adhere to provisions that they find contradictory and unclear. In May 2013, CSOs had to start submitting their 2012 annual reports in the newly required format, adding to the pressures of this uncertainty. In addition, CSOs had to start preparing to adapt to other legal changes, notably the new Civil Code, which was passed in early 2013 and goes into effect in March 2014, and ongoing amendments to the Nonprofit Act.

While the Nonprofit Act expressly aims to simplify CSO registration and operations by decreasing the opportunities for court interpretation, in practice it has had the opposite effect. Registration procedures, especially for public benefit status, have been greatly prolonged, with some CSOs waiting as long as five months for the court to approve their amended statutes. The new conditions laid out in the Nonprofit Act linking public benefit status to the execution of legally prescribed state or municipal tasks and services (with reference to concrete legislation in organizational statutes) have made it difficult for CSOs to create founding documents without expert legal help. CSOs have until the end of May 2014 to amend their statutes to comply with the new law. While the law provides for simplified electronic registration, the introduction of this system has been delayed several times, and is now scheduled to be operational in July 2014. The process of dissolving a CSO, an act that is becoming more frequent due to increasing hardships, has also become more complicated.

In December 2013, parliament adopted a package of amendments to bring the Nonprofit Act and other laws in compliance with the New Civil Code. The impact of the changes is mixed. On the positive side, changes were made to the percentage designation mechanism that allow CSOs to register in advance and to receive more information on the designating taxpayers. In addition, a detailed regulation of dissolution and liquidation procedures was adopted, although these will be hard for the average CSO representative to comprehend. On the other hand, the portion of percentage designations that can be used for operational costs was reduced to 25 percent, or a maximum of 25 million HUF (approximately \$110,000). In addition, the

amount of the designation that CSOs can use for marketing and advertisement cannot exceed 10 percent, or 10 million HUF (approximately \$44,000).

Despite these changes, problems remain. First, the Nonprofit Act and the Civil Code remain inconsistent in their regulation of economic activities and the state supervision of CSOs. Second, the new Civil Code restricts CSOs' rights to determine freely their internal governance bodies. For example, in the case of associations, no more than one-third of the executive officers can be non-members and they cannot be appointed for more than five years, while in the case of foundations, boards of trustees must consist of three natural persons, at least two of which need to have permanent addresses in Hungary. The package of amendments also failed to address other issues, such as the state-oriented concept of public benefit and the politicized operation of the National Cooperation Fund.

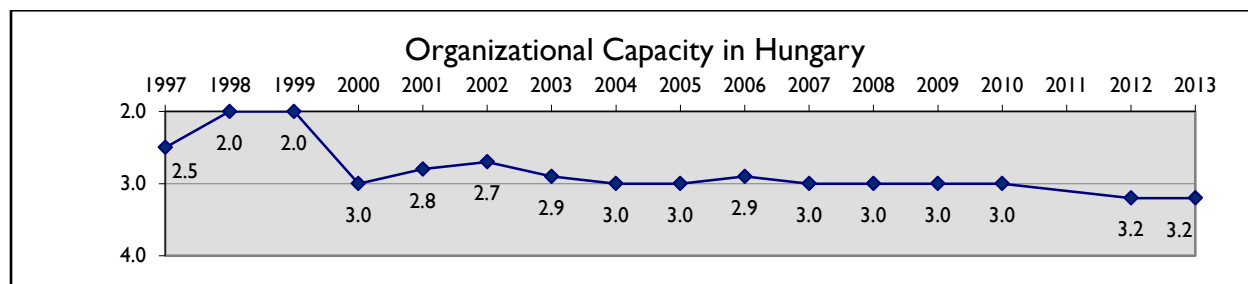
On October 3, Jobbik, an extreme right-wing party in the Hungarian Parliament, submitted a proposal that would introduce a registry of foreign agents, modeled after the Russian Law on Foreign Agents. According to this proposal, CSOs receiving more than \$4,600 total in a year from foreign states, individuals, or organizations would have to register as foreign agents. Parliament rejected this proposal in November.

CSOs believe they are now subject to an increasing variety of official inspections, such as new financial audits of long-closed state-supported projects. In addition, these inspections seem to be taking place more frequently. Many CSOs perceive these controls as retaliation for actions disfavored by the government. However, they may also be caused by confusion within the administration: as a result of frequent and hasty reorganizations, much documentation has been lost and state institutions simply cannot find information.

The legal changes in 2013 did not affect taxation or earned income. CSOs receive minimal tax benefits. There are no benefits for individual donors, and those available for corporate donors strongly favor giving to professional sports organizations. While CSOs are allowed to charge for their services, the administrative burdens involved in starting a social enterprise limit their use. With the increasing nationalization of the fields where CSOs traditionally provide services, such as education and health, fewer opportunities exist to compete for government contracts. In addition, the state gives preference to state-owned nonprofit companies and churches than CSOs in the bidding process.

While the demand for legal expertise is rising, access to paid and pro bono legal help is increasingly limited. This also affects advocacy and watchdog activities, as litigation is often the only available remedy to overcome the non-cooperation of administrative bodies, including in cases of freedom of information requests. Very few lawyers specialize in CSO law, and even specialists find it difficult to understand the recent changes in the law. Furthermore, as a result of recent reforms to the courts, judges experienced in CSO registration matters have been replaced with new judges with different specializations.

ORGANIZATIONAL CAPACITY: 3.2



The worsening legal and financial environment continues to slowly deteriorate the organizational capacity of CSOs. Constituency building is very uneven across the sector. Even when organizations strive to increase

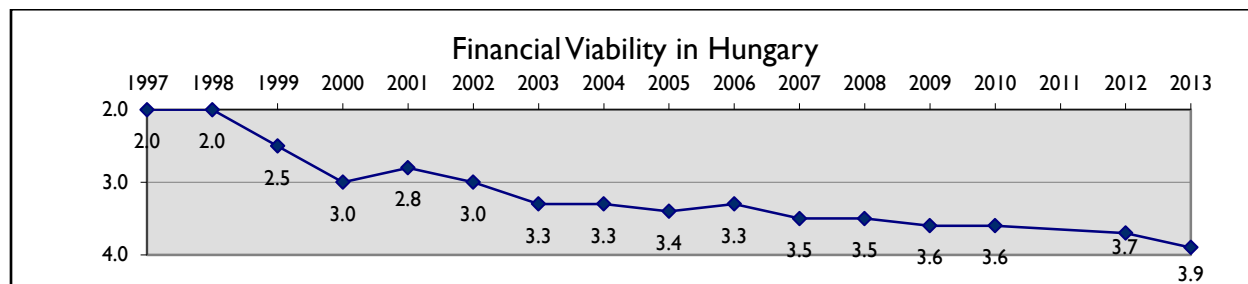
their community base, they are often unsuccessful at retaining members. The distrust and suspicion that characterizes the current public discourse hinders involvement in civil society: the public actively avoids any activity that seems remotely “political” or oppositional. On the positive side, new legal measures, such as the introduction of fifty hours of compulsory community service for high school students, may provide a new impetus to volunteer. However, CSOs still need to learn how to utilize these opportunities.

The level of strategic planning and internal management among CSOs remains weak. Only larger, more institutionalized CSOs define and regularly review their missions, develop long-term strategies, and clearly divide tasks, and even they have difficulties implementing these due to the unpredictability of their funding. Smaller organizations still often rely on a single person for leadership and lack the skills to operate strategically. Instead, they work on an ad hoc basis.

Maintaining professional staff continues to be one of the greatest challenges facing CSOs. Employees are generally engaged for specific projects and when projects end, CSOs have no means to remunerate their workers. Therefore, experienced employees frequently seek positions with the government or business sectors or leave the country. At the same time, while the younger generation views civil society as a possible career step, there are limited job opportunities available for them. These young, civic-minded people often start or participate in new, informal, social media-based movements without rigid leadership, such as Occupy Hungary or Hallgatói Hálózat – Students’ Network.

While this new activism relies heavily on modern IT tools, older CSOs often lack the skills to use these tools or do not understand their benefits. According to a 2013 survey conducted by marketingszoveg.com, there is a digital gap within the sector: while large charity organizations are well represented on the Internet, the majority of organizations have a weak online presence. Most CSOs are equipped with the necessary technical tools, but do not update them.

FINANCIAL VIABILITY: 3.9



The financial situation has deteriorated over the past several years and in 2013 even short-term sustainability for CSOs was endangered. Many CSOs survived only by spending down their reserves. Larger, more institutionalized organizations in particular suffered heavy losses, as their traditional income sources—funding from the government and EU—have almost disappeared. Government contracts to provide services became less accessible, as preference is given to state-owned institutions and churches, and state and EU support has been insufficient.

In the last year of the 2007-13 budgetary period, calls for proposals under the various Operational Programs of the EU Structural Funds have been sporadic at best. In preparation for the new EU budgetary period that begins in 2014, planning for the use of Structural Funds accelerated, and draft Operational Programs were released for public comment during the fall. Although plans were not finalized by the end of the year, CSOs expect to have even less access to EU funding. Initial indications are that only around 10 percent of the Structural Funds will be devoted to social cohesion programs (half the level of the previous budgetary

period), and – according to the draft plans available at the time of writing – most of these allocations will likely be focused on large, state-run programs, with fewer open calls for CSOs.

Human rights and advocacy organizations still depend on foreign donors, such as the Open Society Foundation, and are therefore attacked by some media as “foreign agents” not serving Hungarian interests. The media similarly attacked the European Economic Area (EEA)/Norwegian NGO Fund, which was launched in February amid great expectations from the CSO sector. The NGO Fund will distribute almost €12 million in 2013-14. In its first call in 2013, the Fund allocated almost €2.7 million in seven thematic areas, with a strong focus on human rights, advocacy and active citizenship. Despite these significant funding amounts, the CSO sector is still in dire need of other funding sources.

In its second year of operations, the National Cooperation Fund, the main state instrument that supports the general operational expenses of CSOs, continued to appear biased. The major beneficiaries of its grantmaking programs in 2013, which were approximately the same size as in 2012 (about \$15 million), were once again government-friendly organizations.

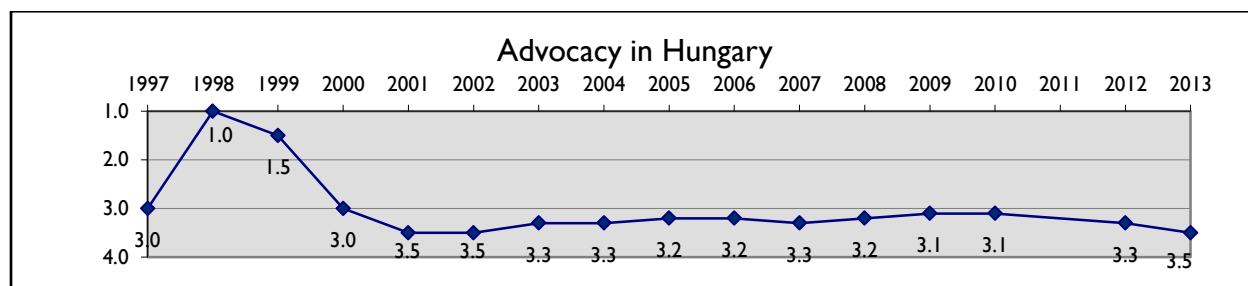
Smaller, local CSOs are somewhat more sustainable, receiving small amounts of support from a multitude of local sources, both municipal and private. However, they are affected by the diminishing role and underfunding of local governments. For example, the nationalization of the basic education system jeopardizes the work of school foundations established by parents and teachers because the municipality no longer feels obligated to support them. With potential local donors becoming poorer, financial support is also being replaced by in-kind support, such as food offered by municipalities for CSOs to use in their social care programs.

Most CSOs realize that instead of relying on domestic or foreign state grant programs, they must seek other income sources. However, administrative and political barriers prevent CSOs from winning governmental service contracts or engaging in economic activities, and private donations alone are insufficient. In most cases, membership fees are nominal. Only a few large CSOs—mainly those that are part of international networks—have developed fundraising strategies and programs.

According to a survey conducted by the Hungarian Donors Forum in 2013 of forty of the top 200 companies in the country, most respondents predict an increase in corporate philanthropy, but with thematically more focused giving. Volunteer programs involving company employees are also becoming more popular.

CSOs are legally required to adhere to stringent financial management rules and submit annual reports to the registering court for publication. Most CSOs do not go beyond these requirements, and only a few of the largest ones undergo regular independent audits.

ADVOCACY: 3.5



CSO advocacy has suffered a significant backlash in recent years. This trend continued in 2013, with more and more evidence that traditional modes and channels of advocacy have become useless. Government-CSO consultations are top-down and only serve to legitimize official positions. According to CSOs, the state

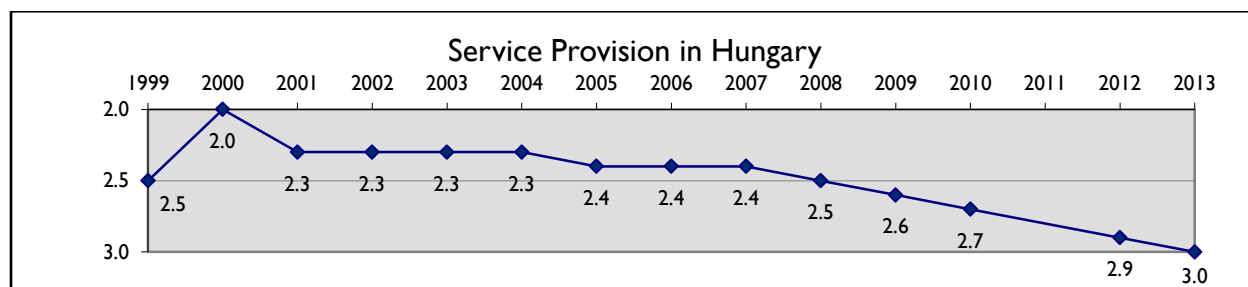
administration is not interested in CSOs' ideas and opinions, but is only seeking friendly organizations to support its current policies. For example, several major human rights organizations, including the Hungarian Civil Liberties Union and Transparency International, resigned from the government's Anti-Corruption Working Group in April after the Freedom of Information Act was amended hastily to grant broad exemptions to administrative bodies from granting access to data.

The CSO sector is still struggling to develop alternative means of advocacy. The public media, which is state-owned or controlled, often brands critics of the government as mouthpieces of the political opposition or foreign interests. This atmosphere also discourages cooperation and coalition building. Organizations prefer to build informal contacts and work for their interests discreetly rather than publicly. On the local level, local officials increasingly demand leadership positions in CSOs as a precondition for their support and cooperation.

Given the ineffectiveness of putting direct pressure on decision-makers, there is a growing feeling that CSOs need to mobilize citizens and local communities to voice their demands. However, CSOs do not yet understand how to make informal movements successful. Several spectacular advocacy actions were carried out in 2013, including the April occupation of the old Fidesz headquarters by a group of young people under the umbrella of the Students' Network. Protesters were objecting to the controversial fourth amendment of the new Constitution, which covered a range of issues, including limiting the powers of the Constitutional Court. However, these did not result in changes to legislation or policies, which were passed just the same.

Under these circumstances, while some main umbrella CSOs still advocate for legal reform, they are becoming dispirited too, as they see no opportunities to change things for the better.

SERVICE PROVISION: 3.0



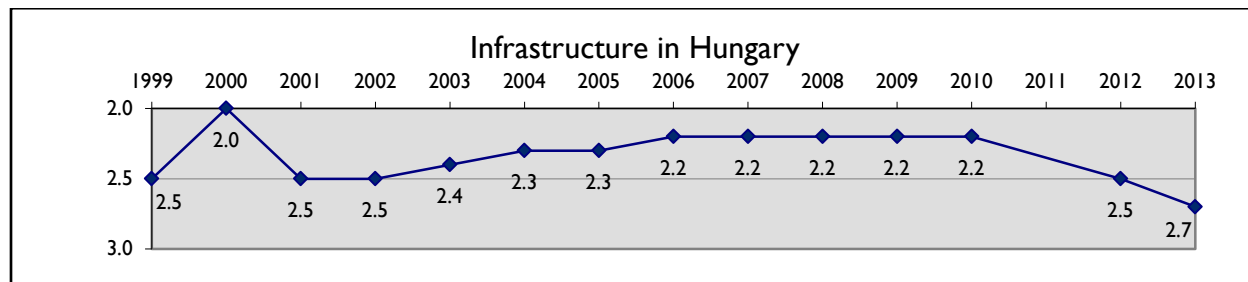
CSO service provision also continued to deteriorate during the year, particularly due to recent institutional reforms. Previously, CSOs were active in practically all areas of service provision, including education, social work with disadvantaged groups, and senior care. Some of these fields, such as education and health care, are being nationalized, making CSO contributions obsolete, as these structures are now centrally managed and maintained. For example, after the Danube floods in June, new legislation was introduced prescribing that private donations called in during disasters had to be collected through a single central phone number. The Ministry of Human Resources will then distribute the monies received after consulting with the main charities, such as Interchurch Aid and Baptist Aid.

In other fields, especially social services, serious financial cutbacks are narrowing the range of services offered. The budget now barely covers the basic state structure, making CSO contributions impossible. In addition, state financing of service provision favors state providers and churches over independent organizations. Since these structural changes are quite recent, it is difficult to predict their long-term effects.

Service providing CSOs have adapted to these circumstances by introducing less resource-intensive services that can be offered on a voluntary basis, for example, daily visits for senior care rather than institutionalized

provision. More specialized services are becoming extremely scarce. At the same time, CSOs are becoming better adapted to the needs and priorities of constituencies, as they must respond to their wishes to continue working. Due to the general impoverishment on the part of CSOs' clientele, cost recovery is still not typical, except for some unique, high-quality services, such as schools with specialized curricula maintained by foundations.

INFRASTRUCTURE: 2.7



CSOs alleged that the selection and funding of the twenty new county Civil Information Centers (CICs) by the government in 2012 resulted in some inexperienced CSOs replacing long-standing service centers. The effects of this change have since become clear. The CIC network performs unevenly, with some centers barely fulfilling their functions, which include providing CSOs with administrative and legal help, support in grant-seeking, and help in identifying partners. Furthermore, one center per county has proven insufficient to help with the mounting sustainability issues faced by CSOs. While no longer official CICs, the Nonprofit Information and Training Center (NIOK), the Tree of Life Alliance in Northern Hungary, and other similar organizations still provide basic services according to demand, mostly through online tools.

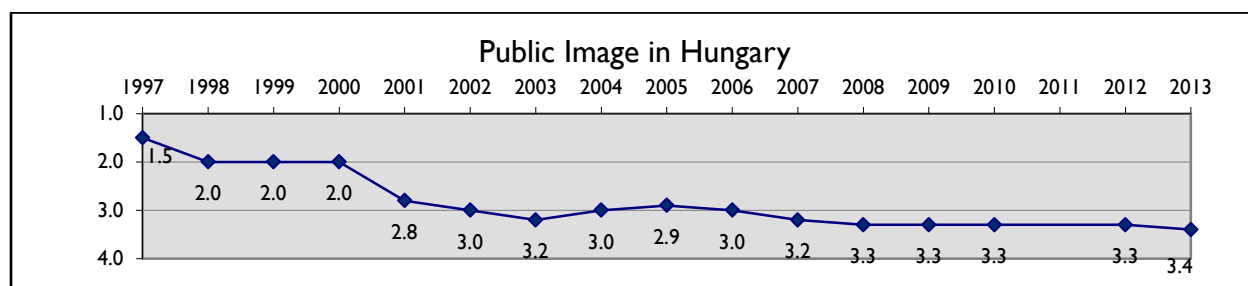
Coalition building and partnerships take place primarily at the local or regional levels or bring together CSOs working on specific issues. The environmental movement traditionally has the strongest cooperation and internal network in the CSO sector. For example, environmental, farmer, and citizen groups joined together to save the Kishantos Ecological Farming Center, land they leased and farmed for twenty years that was awarded to entrepreneurs not interested in adhering to its ecological principles. Coalition building is organized mainly online, therefore excluding those without Internet access. Intersectoral partnerships are scarce, ad hoc, and rarely involve more than two parties.

The Civil Cooperation Forum remains highly visible as the main partner to the government. The Forum claims to be the largest civil network in Europe, involving more than 500 organizations, and to be the one and only umbrella of CSOs in Hungary. Its main function is to be the “civic” mouthpiece supporting Fidesz’ policies and to discredit Fidesz’ opposition. For example, the Forum organized spectacular Peace Marches during the year. The last one, held on October 23, 2013, included 100,000 participants and ended with an address of the Prime Minister.

Local grantmaking is still relatively rare. Two community foundations—in Eger and the ninth district of Budapest—are functional and their example is spreading slowly. The increasing centralization of state funding decisions and attempts by the government to gain control over independent sources, such as the attempts to influence the grant decisions in the EEA/Norwegian NGO Fund, discourage giving. Potential donors may fear they will be attacked if they support “controversial” CSOs and that their donations would be “hijacked” if given through the centralized channels.

There is a strong pool of trainers proficient in organizational development, fundraising, and other skills relevant to CSOs, but they are utilized less and less, partly due to lack of funds, but also because many organizations do not recognize the need for training.

PUBLIC IMAGE: 3.4



The general atmosphere of distrust and political animosity in the country has damaged the public image of CSOs, as they are also viewed as either allied with the government or opposition. However, CSOs are faring better than other sectors in this respect.

Media coverage is still quite limited. CSOs receive more coverage on the local level, which is generally positive, than on the national level. Mainstream national public and commercial media almost exclusively covers pro-government CSOs, reinforcing the division of the sector along perceived political lines. Some media outlets allied with Fidesz actively label CSOs critical of the government as foreign agents with a hidden agenda to tarnish the image of Hungary abroad. CSOs generally lack the skills and capacity to try to improve their coverage, although they recognize the importance of good media contacts.

The general public's perception of CSOs mainly depends on personal experience with CSOs or their services. Businesses are generally also positive towards CSOs, viewing them as possible partners, but CSOs themselves must also become more professional and embrace more transparency in their operation and management in order to win the trust of corporations. In the longer run, negative political attitudes may influence which CSOs businesses are willing to work with.

Most CSOs publish their annual accounts and reports, as legally required. However, they do little beyond that to improve their transparency. With a few exceptions, such as the Eger city Civic Code of Cooperation developed by the local civil roundtable, CSOs have not adopted codes of ethics or similar instruments.