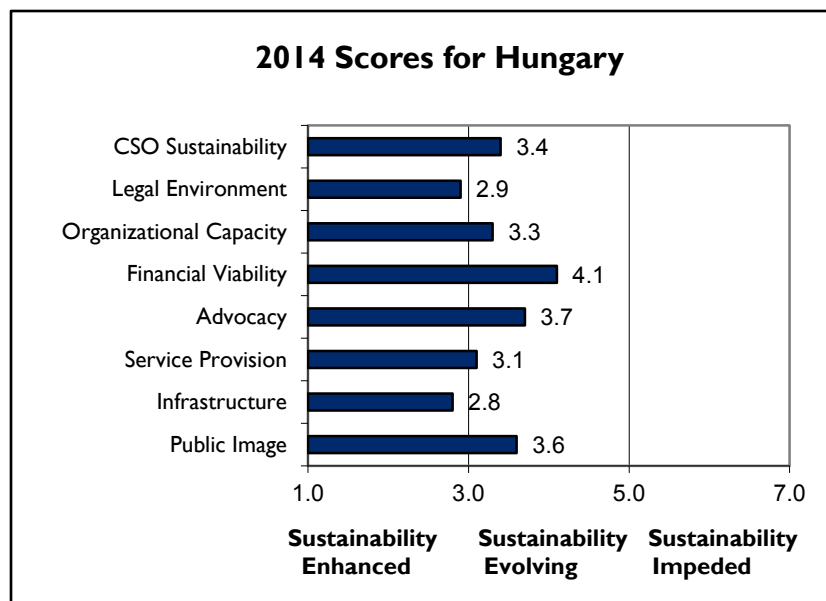


HUNGARY



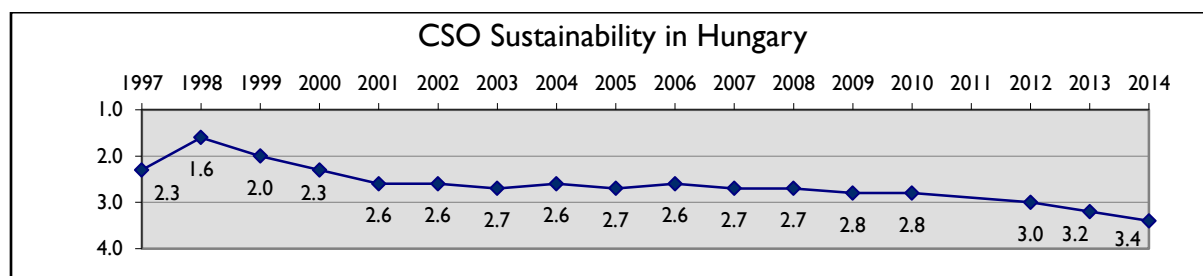
Capital: Budapest

Population: 9,919,128

GDP per capita (PPP):
\$24,300

Human Development Index:
43

CSO SUSTAINABILITY: 3.4



2014 was an election year in Hungary, with parliamentary elections in April, European Union elections in May, and municipal elections in October. FIDESZ, the right-wing party in power, easily won the parliamentary elections and maintained its two-thirds majority, due in part to the fragmented opposition and new election rules that strongly favor the incumbent. Human rights CSOs along with international organizations voiced concerns about the change in rules, some of which were made at the last moment. For example, the regulations for local elections in the capital were amended only three months before voting took place. Some CSOs implemented smaller campaigns to mobilize voters—such as the Opre Roma! movement which encouraged Roma people to vote—but these had no visible effect. On the municipal level, especially in smaller settlements, several independent local candidates supported by CSOs won elections.

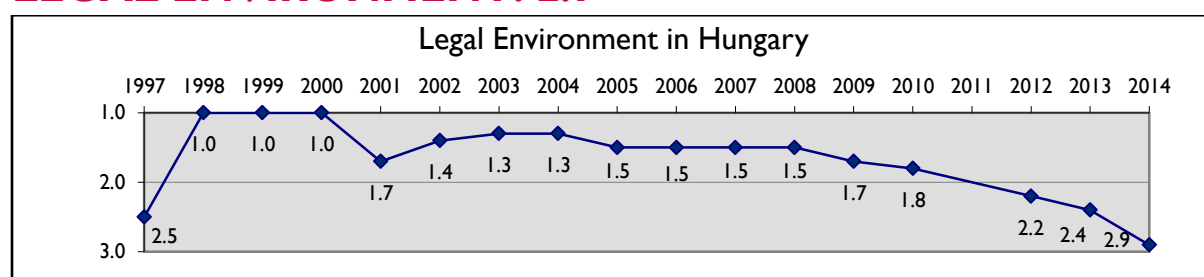
After the parliamentary elections, a significant controversy around CSOs emerged regarding alleged bias within the European Economic Area (EEA)/Norwegian NGO Fund and its four-member operator consortium led by the Hungarian Environmental Partnership Foundation (HEPF). The EEA/Norwegian Fund is a key independent funding mechanism focused on rights-based advocacy and watchdog activities, providing funding of almost €12 million over three years. The controversy began with the Prime Minister's Office publicly accusing HEPF of favoring the opposition in its funding decisions, but it soon escalated into a broader attack on advocacy and rights-based CSOs, with the government also employing its control agencies to threaten and harass CSOs. This effort to discredit and intimidate CSOs, which received significant

international attention, seriously impacted the sector's financial and operating environment, as well as its public image, and prompted concerns about the possibility of future legal developments affecting civil society.

At the same time, the work of CSOs is more needed than ever. National statistics show a deepening social crisis, with more than one-third of the population living below the poverty line. According to official data, unemployment is only 7.6 percent, but this figure was minimized by temporary employment offered through public work programs. After three years of stagnation, the economy grew in 2014 by approximately 3.5 percent. However, the budgets for the main social sectors such as health and education continue to shrink, and the state deficit remains high at approximately 85 percent.

According to the most recent data published by the Central Statistical Office in 2014, the number of CSOs, their overall income, and the number of CSO employees decreased in 2013 for the second year in a row. In 2013, there were 64,500 registered CSOs, a decrease of about 700 since 2012. Among associations, leisure (25 percent), sports (16 percent), and culture (13 percent) are the most popular areas of activity. For foundations, education (32 percent), social care (16 percent), and culture (14 percent) are the leading areas.

LEGAL ENVIRONMENT: 2.9



The Nonprofit Act, which entered into force in 2012 and was amended in December 2013, remains the basic law governing CSOs. New conditions laid out in the Nonprofit Act link public benefit status to the execution of legally prescribed state or municipal tasks and services and require reference to concrete legislation in organizational statutes. The grace period for CSOs to amend their statutes to comply with the new law and conditions for public benefit status ended on May 31, 2014. According to registering courts, only 10 to 15 percent of the CSOs that previously had public benefit status met this deadline. This failure is due to a combination of difficulties in interpreting the new conditions, absence of adequate legal assistance, and lack of awareness among CSOs of the new requirements. The new Civil Code, which passed in 2013 and came into force in March 2014, requires CSOs to amend specific details in their statutes once again, with a grace period through March 2016. The amended Code also introduces some problematic new provisions. For example, it extends the personal liability of legal representatives for the organization's financial obligations.

The registration procedure for CSOs is still lengthy, usually taking several months and often involving several rounds of requests by the courts for modifications. Although the amended Nonprofit Act promised the introduction of a simplified electronic registration system, it was still not operational by the end of 2014.

The legal environment allows CSOs to operate freely in terms of their programmatic activities and internal management structures. However, regulations are often unnecessarily bureaucratic. For example, there are stringent content and format requirements for annual reports and procedures for dissolving an organization are complicated.

In 2014, the government used various state bodies to harass and threaten CSOs involved in the EEA/Norwegian NGO Fund. First, the Government Control Office (GCO) conducted a several-months long audit and investigation against the operator foundations and fifty-eight of the Fund's previous and present grantees. The Fund's donors repeatedly protested these investigations, claiming that the GCO has no

legal authority over the Fund under international agreements or domestic legislation. The targeted organizations had no legal remedies available to them and were forced to comply with the GCO's demands.

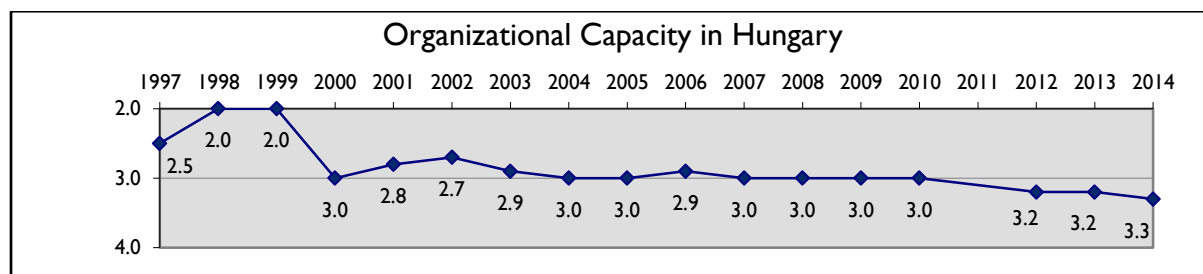
Second, the Prime Minister's Office publicly made other unsupported criminal accusations ranging from embezzlement to misappropriation, prompting a police investigation in August that culminated in September with searches of HEPF's and its partners' premises, during which documents and laptops were confiscated. In addition, the tax registration numbers of the four operator foundations were suspended for not cooperating with the GCO. The GCO published its report in late October, alleging various criminal offenses, including misappropriation and budgetary fraud, with few supporting facts or data. HEPF and its partners were never given an opportunity to defend themselves against these accusations. By the end of 2014, these procedures were still pending, and while the EEA/Norwegian NGO Fund continued its operations, the future of the management partners was uncertain.

Public statements by the prime minister intimidated civil society more broadly as well, especially advocacy and watchdog organizations. During the prime minister's annual speech in Baile Tusnad, Romania, he discussed "groups disguised as CSOs but serving foreign interests through foreign funding." Furthermore, according to an interview with Bloomberg News, in December the prime minister stated that "he would back legislation to force non-government organizations funded from abroad to be specially registered, citing a U.S. procedure, because it's important to know 'who's in the background' of such groups." In this atmosphere, many CSOs fear that they will lose basic freedoms and legal guarantees achieved over the last two decades.

Tax treatment of CSOs and donors remains the same. There are no benefits for individual donors, and those available for corporate donors strongly favor giving to professional sports organizations. Although no law explicitly forbids CSOs from competing for contracts, they are usually not eligible for tenders. With increasing centralization of public services, there is less space for CSOs to compete for service contracts or even maintain existing ones. CSOs legally can earn income from the provision of goods and services, and in practice increasingly rely on this source of revenue.

Limited legal assistance is available to the CSO sector, especially in the countryside. Only a few lawyers have expertise on CSO matters, and even they may be deterred from helping for fear of government reprisal. The Hungarian office of the Global Network for Public Interest Law (PILnet) increasingly channels pro bono assistance from major law firms to CSOs. Civil Information Centers (CICs) are often unprepared to offer legal assistance.

ORGANIZATIONAL CAPACITY: 3.3



Amid an uncertain operating environment and worsening legal and financial conditions, constituency building, strategic planning, and internal management continued to weaken in 2014. CSOs continue to focus on their day-to-day survival and find it difficult to prioritize improvements to strategic planning or management due to the absence of necessary resources.

The gap between larger, more institutionalized CSOs and smaller ones continues to broaden. Only more institutionalized CSOs, which account for a small portion of the sector, define missions, develop long-term

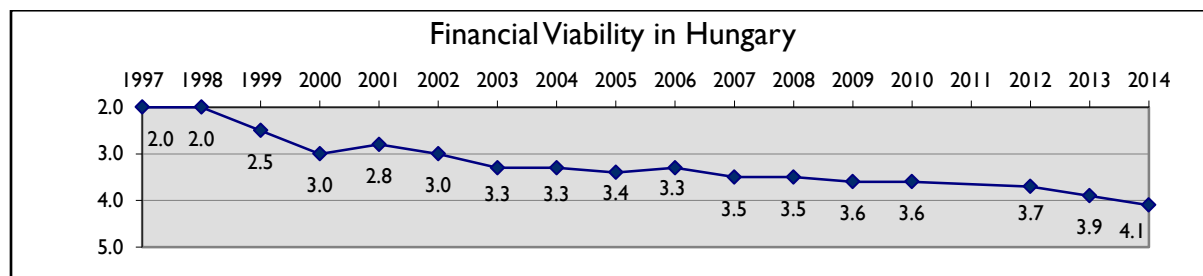
strategies, and clearly divide tasks, and even they have difficulties implementing strategies due to unreliable funding. Smaller organizations still often rely on a single person for leadership and lack the skills to operate strategically.

The level of civic activism is generally low, as exemplified by the decreasing turnout at elections, making it difficult for CSOs to mobilize individuals and communities. Local initiatives are more successful at mobilizing constituencies, but these are often limited to one-time voluntary activities. In 2013, the government introduced mandatory community service for high school students, creating a new opportunity to recruit volunteers and build constituencies. Some CSOs learned to utilize this opportunity successfully in 2014 by actively reaching out to schools and promoting their activities among students. However, it still remains to be seen to what extent students will remain involved once they fulfill their mandatory hours.

Longer-term retention of paid staff remains a major problem and according to the latest data from the Central Statistics Office, the number of employees fell by 10 percent in 2013. Professionals are generally employed on a project basis, and when funding ends, CSOs simply do not have the means to maintain them. While some experts are able to continue working on a freelance or voluntary basis, it is not a viable alternative for many. Due to excessive administrative burdens, accountants and financial managers are often the only permanent employees in CSOs.

CSOs increasingly use modern online technologies like social media, though this practice varies, with some organizations running professional online campaigns, and others not even having their own websites.

FINANCIAL VIABILITY: 4.1



CSOs continue to face enduring issues in financial viability. According to the latest data from the Central Statistical Office, the sector's income shrank by 1 percent in 2013. The government's targeting of the EEA/Norwegian NGO Fund raises serious concerns about future donor funding opportunities, particularly for advocacy groups. Grants from the Open Society Foundation remain one of the few available sources of funding for most human rights, gender, and LGBT organizations. Most CSOs cannot rely on EU funding anymore. With the EU budgetary period of 2007-2013 coming to an end, earlier calls for proposals have expired. Furthermore, according to the current draft Operative Programs for the 2014-2020 period, most funds will be used either for business development or for large projects run by state institutions.

According to the Central Statistical Office, the share of state funding in CSO incomes continues to decrease, falling from 35 percent in 2012 to 30 percent in 2013. While more recent data is lacking, this trend likely continued in 2014. As a result, most CSOs cannot rely on state funding anymore. Local, municipal sources are meager and uncertain, though they are often the only funding source available for smaller local CSOs. Many CSOs consider state and local funding, including funding from the National Cooperation Fund, to be distributed in a biased manner, based more on affiliation than merit. An analysis by the Atlatzo.hu investigative journalism web portal showed numerous cases of grants being awarded to politically-linked organizations.

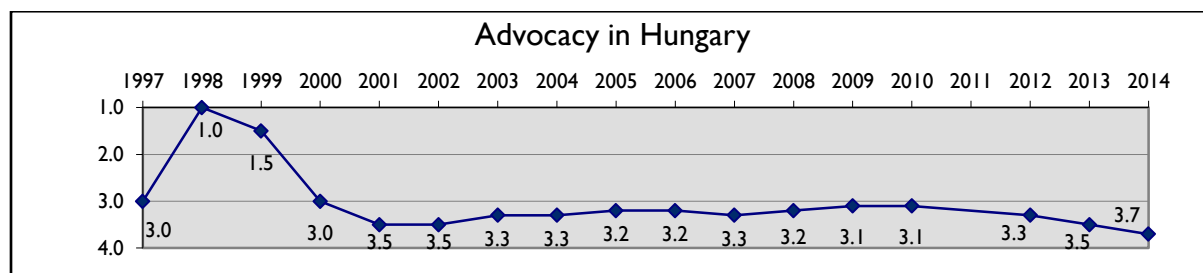
While CSOs try to diversify their funding sources by seeking private and corporate donations, the decline of the middle class undermines these efforts. Companies traditionally prefer to give to CSOs working on non-controversial issues, such as childcare, rather than advocacy or watchdog organizations. Only some of the larger, national level CSOs have managed to cultivate networks of loyal corporate supporters. For example, the Volunteer Center Foundation increasingly relies on fees for organizing corporate volunteering programs.

A positive sign in fundraising is the appearance of successful crowdsourcing campaigns, such as Adjukossze.hu developed by the Nonprofit Information and Training Center (NIOK) Foundation. In 2014, at least thirty projects successfully collected amounts ranging from HUF 65,000 to more than HUF 1 million (approximately \$260 to \$4,000) through Adjukossze.hu. Advocacy and watchdog CSOs are also running more professional campaigns and utilizing the increased attention they received from the government's attacks. For example, Atlatszo.hu is nearly halfway to collecting 4,000 regular subscribers, which would cover the costs of their basic operations. Another promising trend is the emergence of charity shops run by CSOs, some of which show signs of long-term sustainability.

Income-generating activity is increasingly difficult as the fields in which CSOs traditionally offer services are becoming centralized and nationalized, and contracting to CSOs is being cut completely. Other types of income, such as membership fees and sale of products, are small. Under these circumstances, the importance of volunteers is increasing, but there is not yet a culture of strong community support.

CSOs could improve their transparency by communicating more proactively, but increasing reporting requirements to authorities hamper these efforts. CSOs must meet a complex web of administrative and financial conditions, including reporting to the courts and the tax authorities. Therefore, most CSOs focus on fulfilling these requirements and take no other initiatives related to financial management or transparency. Only the largest CSOs can afford independent audits.

ADVOCACY: 3.7



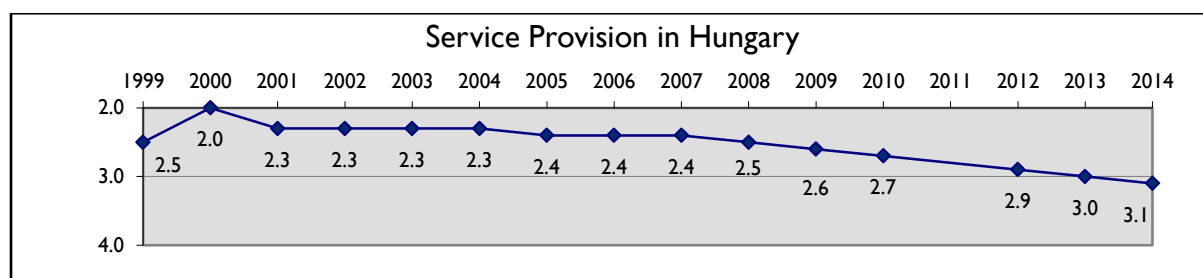
The state's lack of openness to CSO input has now rendered advocacy efforts essentially obsolete. The government only seeks out the opinions of a chosen few, such as CSOs represented by the Civil Cooperation Forum, and no other actors have the opportunity to influence decisions. Advocating for or voicing criticism of policies is immediately framed as a political attack motivated by the opposition or foreign interests. Legal requirements for public participation and consultation are neglected, and consultations have become mere formalities. For example, the governing party regularly uses legislative motions proposed by individual members of parliament, allowing them to bypass normal administrative and consultative processes and change laws in as little as a week.

Some key human rights and anti-corruption organizations like the Hungarian Civil Liberties Union and Transparency International - Hungary continue their advocacy work, but with no real impact. Transparency International's latest study on lobbying asserts that official policies are often decided "in VIP boxes of football games." While their findings gained significant international media coverage, the government did not provide an official response. Under these circumstances, there is also no advocacy for reform of CSO law and policy.

At the same time, in some instances CSOs successfully used modern technologies to mobilize supporters quickly. For example, a thousand people were mobilized in six hours for a demonstration in support of HEPF on the day of the police raid. At the end of October, informal groups used social media to organize a mass protest of 30,000 to 40,000 people against a proposed tax on Internet use, the largest street demonstration in recent years. This was followed by a number of other smaller protests in November and December addressing a variety of public issues including corruption, social policy, and nationalizing the remaining private pension funds.

Locally, there are some examples of good cooperation between CSOs and municipalities. For example, in Pécs, the local government entered into a constructive dialogue with CSOs regarding the long-term strategic development of the city, including the role CSOs could play in the process. There were also some active coalitions, such as a homelessness movement in Budapest called The City Belongs to Everyone. In other places, the lack of openness at the national level is reflected at the local level, with advocacy being possible only through informal channels and becoming affiliated with the local government.

SERVICE PROVISION: 3.1

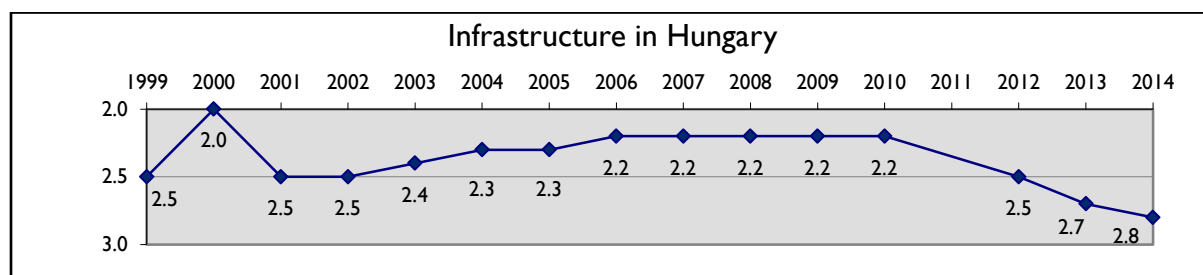


The lack of opportunities and willingness of the state to cooperate with CSOs severely limit CSOs’ engagement in service provision. Negative trends observed in recent years became more pronounced in 2014. Fields such as health, education, and social services—where CSOs traditionally had significant service provision roles—are increasingly centralized and nationalized, and contracting to CSOs has no place in this system. Social welfare budgets have been reduced as the government relies on public institutions for the development and implementation of social welfare policy. Under these circumstances, the state only provides basic services; more and more services are left out, such as those for people with disabilities. If the state contracts for services at all, church-based organizations are given preference. In the absence of funding, CSOs struggle to sustain their work in these fields.

Despite these challenges, CSOs still provide a variety of services tailored to the needs of disadvantaged and marginalized groups and communities, but CSOs face increasing difficulties in sustaining these services. Some organizations have expanded into niche areas such as sports and community building, but they have to rely on volunteers instead of paid professional staff and base their activities on free online tools unless they can secure temporary project funding. CSOs never fully recover the costs of their services for several reasons, including the widespread public belief that nonprofit organizations should provide services for free and EU funding rules’ prohibition on collecting fees. In addition, the country’s economic decline renders it practically impossible for beneficiaries to pay for services.

While CSOs are willing to learn from one another and adopt better service models, the government does not demonstrate openness to exploring alternatives to improve service provision. In fact, sometimes it implements policies that are counterproductive to certain CSO services. For example, the government’s zero-tolerance drug policy led to closure of successful needle-exchange services of the Blue Point Foundation in the eighth district of Budapest, one of the most affected neighborhoods by drug abuse.

INFRASTRUCTURE: 2.8



The infrastructure supporting the sector continued to deteriorate in 2014. The network of county Civil Information Centers (CICs) selected by the government in 2012 and partly funded by the government is still operational. However, these centers perform unevenly. Some locations like Pécs have a long-standing, well-run CIC, while centers in other locations are hardly visible and often lack expertise, necessitating them to outsource services, such as legal advice.

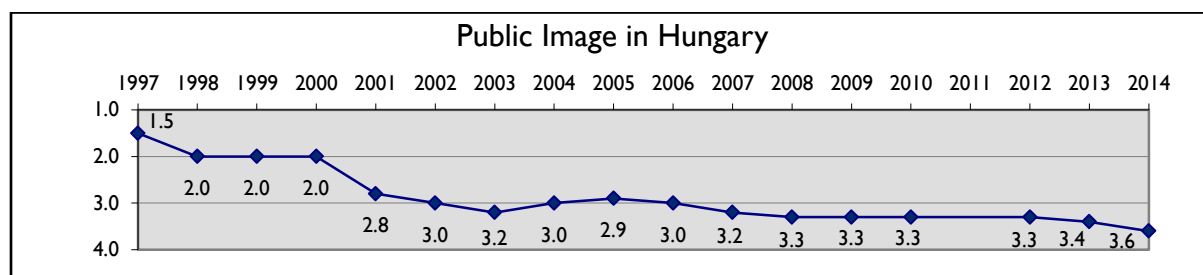
The density of the CIC network—one center per county, twenty centers altogether—is insufficient to meet demand and CSOs in the countryside generally feel that assistance from the CSO sector, including from the CIC network, is inaccessible. In some areas, such as Végegyháza village, grassroots initiatives are trying to create new local resource centers using project funding, including EEA/Norwegian NGO Fund grants. In addition, some traditional resource centers that are no longer part of the CIC network still provide some basic services. For example, NIOK continues to publish a weekly electronic newsletter for CSOs.

Both nonprofit and for-profit organizational development specialists offer training opportunities to CSOs, but CSOs typically lack the resources to take advantage of them. As a result, a decreasing number of trainings are advertised. Modern development models and practices therefore are unable to spread in the sector.

The development of local CSO coalitions is slow, though some coalitions, like the long-standing Civil Roundtable of Eger City, remain strong. The development of coalitions is hampered by political divides and the fact that some CSOs seek favor with the government, undermining trust within the CSO community. Even in fields with traditionally strong networks, such as environmental protection, cooperation is weakening as CSOs have become disillusioned with the lack of results of their work and the struggle for daily survival. At the same time, there are some promising initiatives such as the Human Platform, a coalition of groups engaged in a range of “human” sectors, like education, culture, and social services. The Civil Cooperation Forum remains the government’s key CSO partner, acting as the government’s “civic” mouthpiece. In 2014, the Forum ran a billboard campaign before the elections criticizing opposition politicians.

Neither local grantmaking nor intersectoral partnerships are improving. The Budapest 9th District Foundation initiated a project to promote the concept and practice of community foundations, but it has not yet had a noticeable impact. The business sector has some interest in partnering with CSOs, and there are examples of successful partnerships, such as the ongoing cooperation through the Hungarian Donors Forum. There are currently no successful partnerships between CSOs and the government outside of the few organizations with whom the government chooses to cooperate.

PUBLIC IMAGE: 3.6



Parallel to the harassment of the EEA/Norwegian NGO Fund, its operator foundations, and its grantees, a new public discourse on the role and function of civil society began in 2014. Both public media and private government-friendly media perpetuate the notion that CSOs should only engage in traditional, apolitical, charitable roles, while stigmatizing advocacy or watchdog organizations as “political” or “foreign agents” trying to undermine the democratically elected government. These media messages are most often formulated directly by high-ranking governmental officials, increasing their weight in public discourse.

Independent online media and some traditional media increasingly cover CSO activities, reporting about them in a positive tone and highlighting the importance of their activities to hold the government accountable in a non-partisan way. However, the reach of these outlets is limited, as their audience is mainly individuals who are already politically aware. It is virtually impossible for advocacy organizations to present their views on public media, as they are considered troublemakers. Public media typically reports only on benign, non-controversial CSO activities, such as dog shelters or gift-giving to children with disabilities.

The negative messages perpetuated by the public media and government officials have been destructive to the public perception of CSOs, especially since most of the population has no clear understanding of the work and purpose of CSOs. Under these circumstances, CSOs have started to self-censor to distance themselves from anything considered remotely political.

These negative perceptions have not yet affected the business sector’s approach toward CSOs, though businesses have traditionally engaged with non-controversial organizations and activities anyway. Businesses are still open to cooperation, but they could increasingly become discouraged from partnering with CSOs for fear of losing their position and good relations with the government.

Locally, public perceptions are more mixed, depending on the local authorities; the local media, which is controlled by the municipality; and the local CSOs themselves. People’s attitudes towards CSOs largely depend on their personal experiences, but often even active members of local associations do not realize that their organizations are part of the larger civil society sector.

This situation makes the role of public relations, transparency, and self-regulation even more important, but these skills are still generally weak within the sector. In 2014, the government’s attacks on CSOs made organizations realize the importance of transparency in countering the accusations. For example, several of the CSOs investigated by the GCO uploaded complete project documentation on their websites, rather than just providing them to the GCO.

Regulations obligate CSOs to publish annual reports, and they largely do so. The use of cost-effective social media tools and online networking and development of eye-catching content are gradually increasing, at least among larger, more active CSOs. Under the umbrella of the Self-Governing Body of Fundraising Organizations, about a dozen of these CSOs are also engaging in proactive efforts to improve transparency in the way that donations are collected and used.