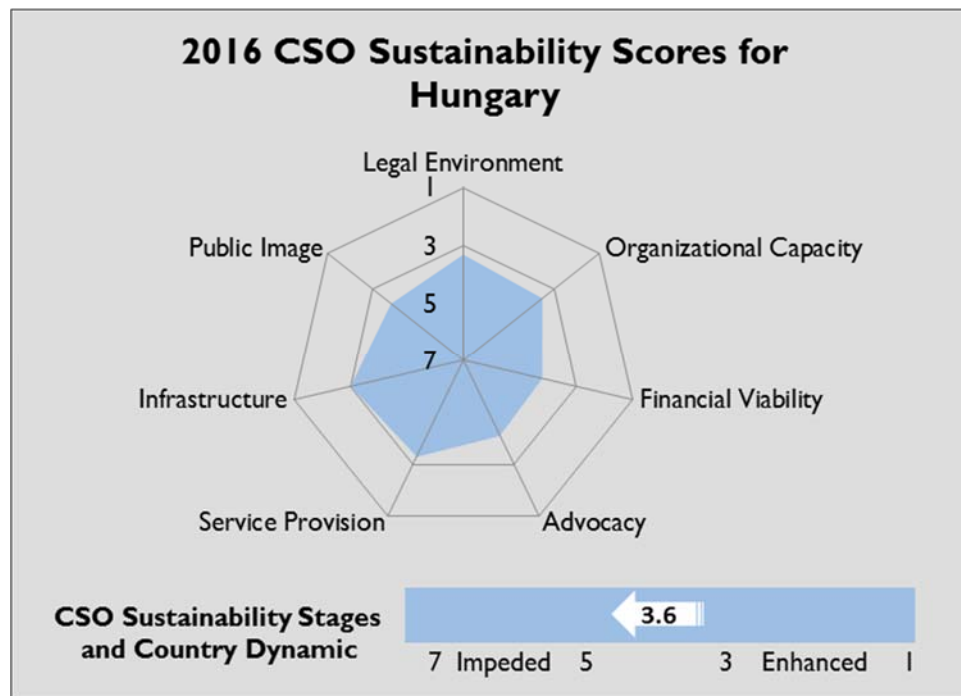


# HUNGARY



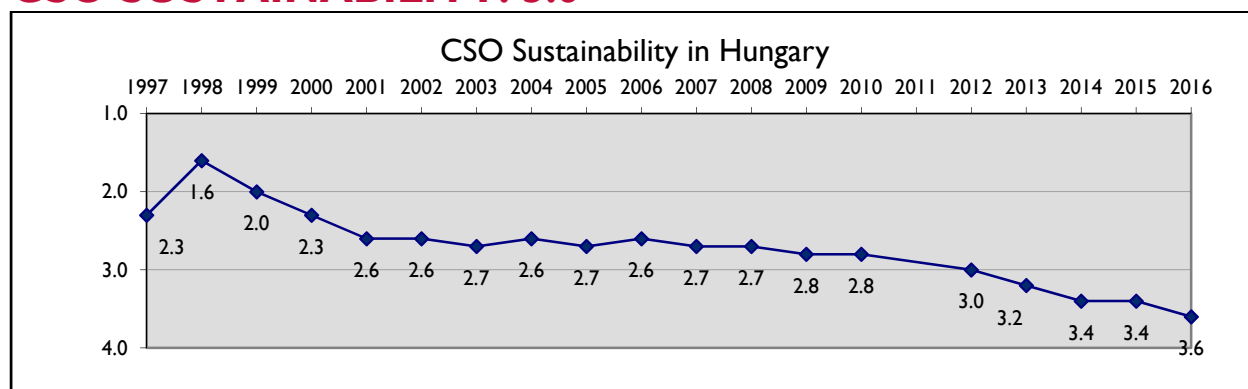
**Capital:** Budapest

**Population:** 9,874,784

**GDP per capita (PPP):** \$27,200

**Human Development Index:** 44

## CSO SUSTAINABILITY: 3.6



Corruption and the refugee crisis dominated public discourse in Hungary in 2016.

During the year, five foundations established by the National Bank in 2014, each with endowments of 50 billion HUF (about \$200 million), were subject to intense scrutiny. The foundations, which were created to support the teaching of economics and related objectives, ultimately created companies and bought real estate. Renewed media interest in the National Bank also exposed nepotism within the Bank itself and at the foundations, as well as dubious use of funding.

Investigative news outlets, such as Atlatzo.hu, and CSOs, such as K-Monitor, continued to monitor the use of EU Structural Funds, with experts finding systematic overpricing in infrastructure projects, sometimes running as high as 50 percent of the projects' total value. Also, major tenders are awarded almost exclusively to government-friendly executives through non-transparent bidding procedures. This hinders the access of CSOs to these funds, which in the past comprised an important source of income for the sector. Although

the European Commission and the European Anti-Fraud Office (OLAF) have sent several warnings, Hungarian authorities rarely investigate these cases.

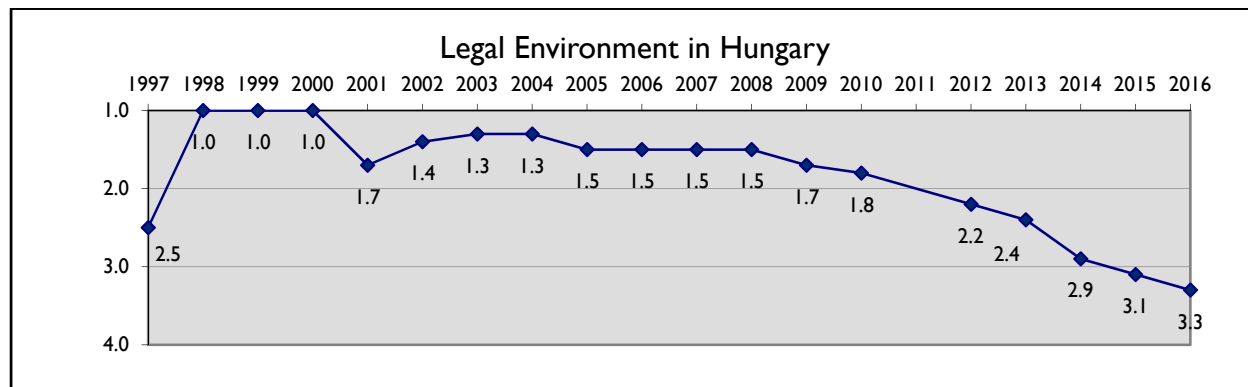
These corruption concerns were overshadowed by the ongoing public debate about the migration crisis. Very few immigrants entered Hungary after the country’s borders were closed in September 2015, and many of those who had previously entered the country used it only as an access point to other points in the EU, leaving before their asylum applications were processed. Still, Hungary continued its “fight for sovereignty,” calling for a referendum against the EU’s proposed refugee quota system. A citizen campaign successfully encouraged some citizens to stay away from voting, and others to cast invalid votes (by crossing out both yes and no answers). The referendum results were ultimately invalid as less than half of the electorate voted. In addition, 6 percent of votes were invalid, an unusually high proportion.

Living conditions in the country are worsening. According to statistical surveys of the European Commission and the Hungarian Central Statistical Office, about 40 percent of the population lives in or is at risk of sliding into extreme poverty. This situation contributes to a general feeling of helplessness and apathy among the populace. According to a study published by the Pew Research Center in October 2016, 61 percent of Hungarians feel they cannot influence the government outside of elections, making it “the lone nation where pessimism clearly outweighs optimism on this front.”

In this context, the negative trends affecting civil society over the past few years continued in 2016, with deterioration reported in all dimensions of sustainability. Options for funding have narrowed, reducing financial viability, while government rhetoric continues to vilify independent CSOs and further shrinks civic space. Major changes made in recent years in many sectors, especially the nationalization and centralization of education and the dismantling of the social welfare system, have virtually excluded CSOs from providing services. Meanwhile, advocacy remains futile. These factors have adversely influenced organizational capacity and infrastructure as well.

According to the most recent data from the Central Statistical Office, both the number of CSOs and the number of their employees decreased in 2015 for the third year in a row, while the sector’s income grew slightly. However, the increased income was mainly generated by nonprofit companies, as opposed to traditional CSOs. In 2015, just over 62,000 registered CSOs operated. Among associations, leisure (23 percent), sports (19.5 percent), and culture (14 percent) are the most popular areas of activity. For foundations, education (33 percent), social care (16 percent), and culture (15 percent) are the leading areas.

### LEGAL ENVIRONMENT: 3.3



The legal environment does not support the work and development of civil society. In 2016, adverse developments in legislation affecting the operation of CSOs, as well as in the implementation of existing legislation, led to a deterioration of the overall legal environment affecting the sector.

While the basic regulations remained the same, the new Civil Code, which entered into force in 2014, introduced several technical changes. These include new procedures for conducting general assemblies and the extension of a board's liability after an organization's dissolution, which have generated concern among CSOs. CSOs originally had until March 15, 2016 to adapt their statutes to the provisions of the new Civil Code, but the deadline was extended by a year to March 15, 2017. In addition, the nonprofit law that came into effect in 2012 introduced new conditions to receive public benefit status. The effects of this became visible only in recent years. According to the most recent data, by the end of 2015, the share of CSOs with such status fell dramatically, from 55 percent of the total number of registered organizations to just 20 percent.

The process for registering an organization or amending organizational statutes is still very burdensome. A new online registration system became operational in 2015. However, the online forms demand more information and filling them out has proven to be technologically challenging. Furthermore, it can still take months for registering courts to approve registration or other changes, including simple modifications to a CSO's statute. Court decisions are also uneven across the country, as judges interpret the legal requirements differently in the absence of any central guidance or position.

Although the laws technically allow CSOs to operate freely, there has been an atmosphere of intimidation and fear since 2014, with leading political figures referring to independent CSOs as possible "security threats" that "engage in illegal political activities." Although the authorities did not take any dramatic actions against CSOs in 2016 (in contrast to the previous two years), the government's rhetoric perpetuated the feeling of insecurity within the sector. In one case, in October, tax investigators, without warning, visited the premises of EnergyClub, a major nonprofit think tank, with a search warrant and seized financial documents related to one of its projects supported by the EEA/Norway Grants' climate change program. No further actions were taken against EnergyClub by the end of the year.

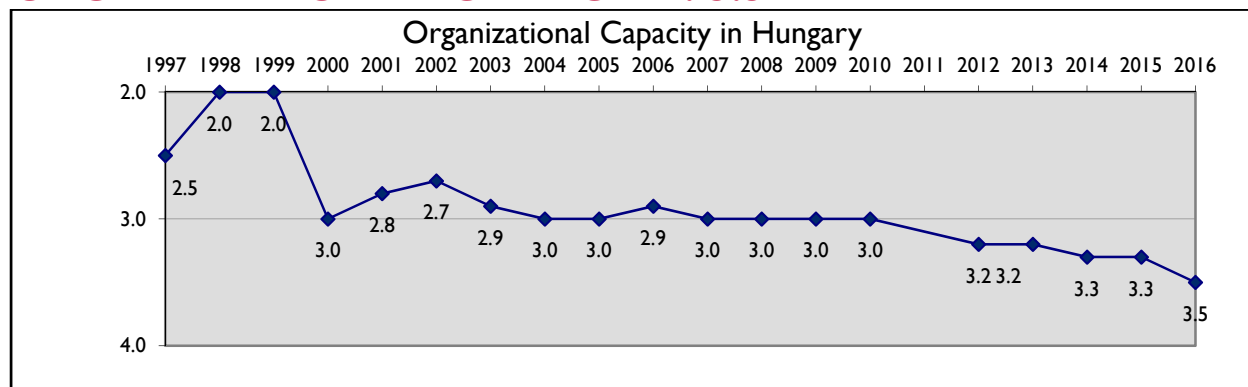
While the main laws regulating CSOs in Hungary did not change in 2016, some new legislation and amendments adversely affected the sector's work. Changes to the freedom of information (FOI) legal framework during the year further limited the scope of public information by introducing additional exemptions. The use of corporate tax donations assigned to professional sports organizations, for instance, is not considered public access data any more. Local governments can make similar exemptions regarding the use of local industry taxes. This limits the rights of CSOs engaged in FOI, as well as access to data on the use of public funds that could benefit CSOs.

In 2016, the government re-introduced public foundations as a legal form, which had previously been abolished in 2007, through an amendment of the Public Finance Act. Many see this development as a way to make the use of public funds less transparent, as these foundations would be established and operate using public funds, but with laxer reporting and disclosure obligations than those that normally apply to state financing. Private schools operated by foundations to serve children with special needs are also under threat due to planned legislation, which would require them to fully apply the National Basic Education Plan and offer special services only as extras. According to information currently available on the matter, if they do not conform to these obligations, their assets may be nationalized.

The taxation of CSOs did not change in 2016. While CSOs themselves are exempt from corporate income tax, there are no tax deductions for individual donors, and the system for corporate donations strongly encourages giving to professional sports organizations rather than CSOs. While in principle CSOs can earn income through the provision of services and compete for contracts, in practice this is becoming rarer and rarer as there are hardly any tenders or procurements for which CSOs are eligible.

There is still insufficient pro bono legal support for CSOs, especially in the countryside.

## ORGANIZATIONAL CAPACITY: 3.5



Organizational capacity declined in 2016, as adverse funding conditions continued to deter CSOs' efforts to build capacities and human resources in a systematic manner. According to the latest statistics from the Central Statistical Office, during 2015 the number of CSOs decreased by approximately 1,700 (or 2.7 percent), while the number of people they employ fell by 2.5 percent. These trends likely continued in 2016.

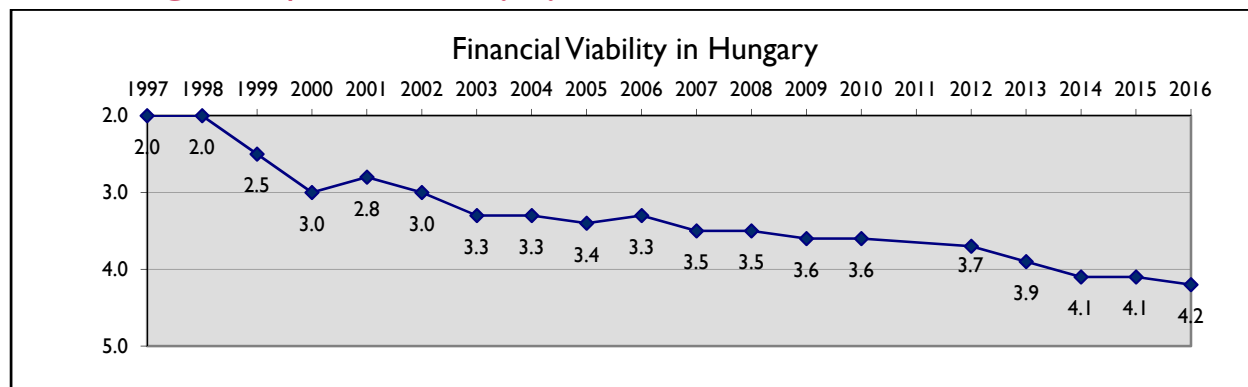
While many organizations strive to build constituencies, they typically achieve only limited success, partly stemming from their lack of expertise in recruiting and motivating volunteers or donors, as well as general apathy within the population. On a positive note, more people seem to be engaging in informal movements or clubs, which sometimes—though rarely—develop into formal organizations.

Amid worsening political and financial conditions, only the largest, most experienced CSOs work along clearly defined missions and strategies; most other CSOs work in an ad hoc manner. Many smaller CSOs are “one-man shows,” run by a few people without professional credentials. As a result, management functions are not separated. Larger CSOs, in contrast, have greater human resources and can therefore separate governance and management functions to some extent. CSOs struggle with administrative tasks that increasingly require professionals experienced in areas such as management, accounting, and law. While there is a small, but growing pro bono community, most CSOs do not have the means to obtain the necessary expertise.

Turnover of professional staff continues to be a problem in the sector. The overall number of employees in the sector has been on the decline since 2012. Employees are typically hired on a project basis and no longer have positions when funding ends. Furthermore, CSO representatives report that the government's attitude towards CSOs, including personal attacks on CSO leaders in the media) has stigmatized employment in the sector. According to the World Giving Index, only 9 percent of Hungarians reported that they volunteered in 2016 (compared to 11 percent in 2015), rendering Hungary 127<sup>th</sup> in volunteering out of 140 countries.

Due to a lack of funding, technical equipment—especially that of smaller or newer CSOs—is deteriorating and becoming obsolete. There are still huge gaps in the use of modern technologies and social media within the sector. Smaller CSOs rarely have their own webpages, and even if they do, they often lack important information, such as the names and contact information of key people. While most CSOs do maintain Facebook profiles, these are rarely updated and unattractive for potential followers.

## FINANCIAL VIABILITY: 4.2



The financial viability of civil society continued to deteriorate in 2016, with most CSOs lacking both short- and long-term funding. In September 2016, four major Roma rights and integration organizations—Chance for Children Foundation, Roma Press Center, Legal Defense Bureau for National and Ethnic Minorities, and Romaversitas Foundation—made a joint announcement that they were closing or scaling down their activities due to a lack of funding.

The projects supported by the EEA/Norway NGO Program, valued at approximately €11.5 million (\$12.3 million), all ended by the spring of 2016. No new funding sources have emerged to take its place. The Swiss-Hungarian NGO Block Grant, which was expected to resume funding in 2016, is also still on hold.

Although EU Structural Funds started to be distributed during 2016, few calls were open to CSOs, and these grant mechanisms, which are operated by the government, seem increasingly non-transparent and biased against independent CSOs. For example, in September, after a ten-month delay, the Ministry of Human Resources announced funding decisions on its latest call for funding for *tanodas*, local institutions providing after-school education and community programs to marginalized children, primarily Roma. *Tanodas* are typically run by CSOs or church-based organizations. The ministry rejected the applications of most of the long-standing institutions operating *tanodas* in disadvantaged regions, forcing them to close or significantly downscale their services. Most of these institutions were members of the Tanoda Platform, a standard-setting and advocacy umbrella organization.

Independent organizations, especially those with advocacy and watchdog functions, are practically unable to receive public funding. Though they are eligible to apply, funding decisions are almost always negative, so many such organizations have given up trying.

CSOs are also increasingly excluded from entering into contracts with the state. When municipalities do out-source services, local powers often demand a position in, or at least influence over, the decision-making body of the CSO service provider.

The National Cooperation Fund (NCF)—the key state financing mechanism that supports CSOs' institutional costs—distributed 3.5 billion HUF (about \$14 million) in 2016 (down from more than 5 billion HUF (about \$17.5 million) in 2015) to about 4,000 CSOs. However, it is difficult to obtain an official list of grantees. In early 2016, the mandate of the CSO-elected members in the NCF decision-making bodies (comprising one-third of the membership) expired, and the Ministry of Human Resources organized new elections. Fewer than 1,500 organizations registered and took advantage of the opportunity to vote. The reason for this lack of interest is not known, but is likely related to the fact that elected representatives are a minority in the committees, and therefore have limited influence.

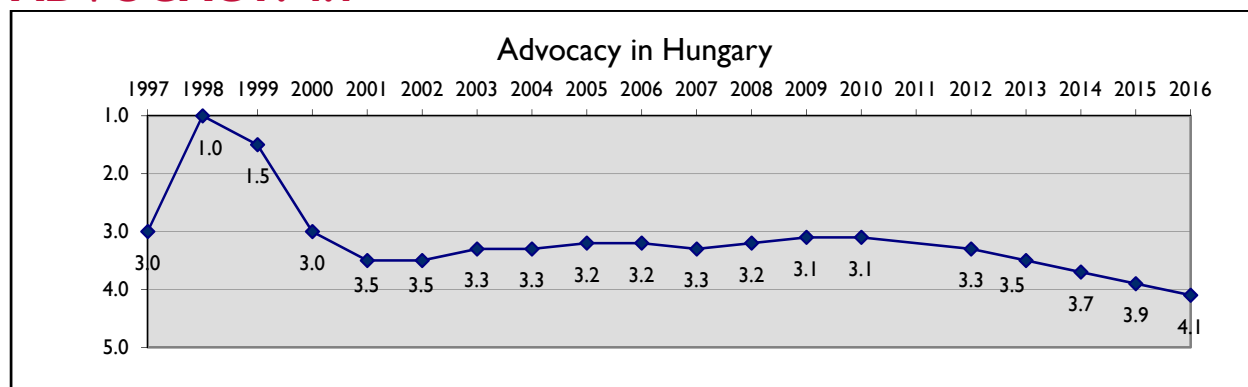
Both the number of CSOs benefitting from 1 percent income tax allocations and the amounts donated increased—from 13.5 billion HUF (\$45.7 million) and 25,120 recipients in 2015 to 14.5 billion HUF (\$49 million) and 25,800 recipients in 2016. However, the distribution among organizations continues to be very uneven. The top twenty beneficiaries are almost exclusively foundations dedicated to treating sick children or saving stray dogs.

Although more CSOs are aware of the need to pursue alternative funding mechanisms, such as crowdsourcing and generating their own income, mainly through the launch of social enterprises, these cannot make up for the absence of public and international funding. Crowdsourcing, mainly through the use of Adhat.hu, is becoming more popular, but it can only raise enough funds for small-scale action. While some larger CSOs occasionally hold fundraising events, they often just bring in enough income to cover the costs of organizing the events. CSOs rarely use other fundraising techniques, such as peer-to-peer giving and giving circles. It is also difficult for most CSOs to sustain a loyal circle of supporters. According to the 2016 World Giving Index, 16 percent of respondents in Hungary reported donating to charities in 2015, a decrease of 4 percent from the previous year.

While specific data is not available, corporate support to the sector appeared to be at roughly the same level in 2016 as in previous years. Most corporate donors are major multinational companies, rather than Hungarian-owned businesses. Therefore, corporate donations are still driven by central or regional strategies or priorities, rather than local ones. Still, several such companies, such as Tesco and Auchan, implemented competitive small grant schemes for the first time in 2016. In general, local business support depends primarily on personal contacts and networking.

CSOs are required by law to maintain stringent accounting systems. CSOs generally adhere to these systems and work in a transparent manner in order to avoid visits by tax inspectors.

## ADVOCACY: 4.1



CSO advocacy is practically non-existent, and one of the weakest indicators of CSO sustainability. Traditional channels of advocacy (e.g., formal consultations, petitions, and signature collections) continue to be ineffective at the national level. The government is only willing to consult with very loyal organizations. In addition, government-organized NGOs are emerging. For example, the Center for Fundamental Rights, created in 2013, refutes criticism of the government by long-established human rights and watchdog groups. The government labels critical organizations as “political” organizations acting outside of their role in civil society, which they define as traditional charity. In early December, the government decided to leave the Open Government Partnership (OGP) initiative (which it joined in 2012), after it was criticized in part for the lack of meaningful collaboration with civil society on matters related to open governance.

Advocacy at the local level is also weakening. Municipalities, especially in larger towns, are increasingly pushing through decisions without consultation or even in spite of citizen protest.

The government seems to respond only to mass protests. In 2016, the extreme centralization of the education system prompted mass protests during the first half of the year, with about 50,000 people taking to the streets. In addition, in response to a statement by the State Secretary for Higher Education alluding to “checkered shirts” (used as a pejorative label for intellectuals), hundreds of classes and teacher teams spontaneously posted group photos outfitted with checkered shirts. In response to these public displays, the government set up a so-called Public Education Roundtable and promised to reform the system, including through the creation of several regional education governance bodies in order to decentralize decision making. Protesters claim that the announced reform plans failed to address their key demands of autonomy for teachers and schools, in particular in terms of flexibility in the curriculum and textbooks used. The movement became less visible by the end of the school year, and its future remains unclear.

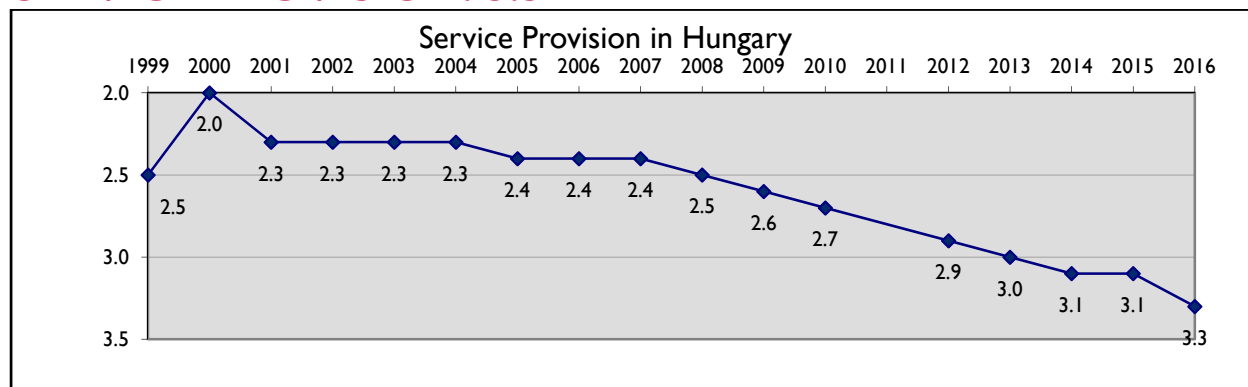
Another movement emerged in 2016 to protect Budapest City Park from becoming a new museum quarter, and to stop the widespread removal of trees in the capital's public areas. When the first workers arrived in City Park in March, a group of citizens established a permanent camp in the area. With the support of major environmental CSOs, such as Greenpeace and the Clean Air Action Group, the group organized several demonstrations during the summer and fall. However, the government seems adamant about constructing new buildings in the green areas; the removal of trees continues; and concessions made to the movement (such as promises to plant more trees than are cut down) appear nominal.

Despite the difficult environment, major human rights organizations, such as the Helsinki Committee, Hungarian Civil Liberties Union, and Transparency International–Hungary, continued to engage in advocacy in 2016, including on behalf of refugees. In 2016, the government called a referendum against a proposed quota system to distribute refugees among EU member states. The government conducted a 15 billion HUF (approximately \$50 million) campaign depicting migrants as potential terrorists endangering Hungary's “homogenous, Christian national identity and heritage.” Voices that were critical of this campaign had few channels to convey their messages. One of the most successful counter-campaigns was the Two-Tailed Dog parody party, which crowdsourced more than 30 million HUF (about \$100,000), for a campaign that sarcastically distorted the government's messages and encouraged citizens to cast an invalid vote. Twenty-two major human rights and advocacy CSOs joined together to deliver a statement condemning the government's stigmatizing approach towards migrants and calling for their humane treatment. They also argued that the question on the referendum as formulated was legally ineffectual, and as such no valid answer was possible. On the day of the referendum, 98 percent of voters voted with the government; however, more than 6 percent of the votes were invalid—a very high proportion—and voter turnout was only 43 percent, rendering the results invalid.

Advocacy for Roma rights severely deteriorated during the year due to the closing of four major Roma rights and integration organizations because of a lack of funding.

As in 2015, there were no consistent advocacy efforts to improve the legal environment governing the sector. Organizations that previously engaged in this area have given up on trying.

## SERVICE PROVISION: 3.3



Although CSOs continue to provide a range of services, especially supporting marginalized and vulnerable groups in fields such as education, social welfare, and health, the overall quality and quantity of services provided by CSOs continues to decline.

As a result of reforms and budget cuts over the past few years, CSOs are now virtually excluded from providing education and social welfare services. As a result, vulnerable groups now receive hardly any services. In addition, the quality and efficiency of social services has suffered, as such services receive less attention and much less funding. For example, the centralized education system gives CSOs fewer opportunities to provide needed services in cooperation with schools, such as informal and after-school education. In addition, everything must be approved by the central governing body, which can take months, if it happens at all.

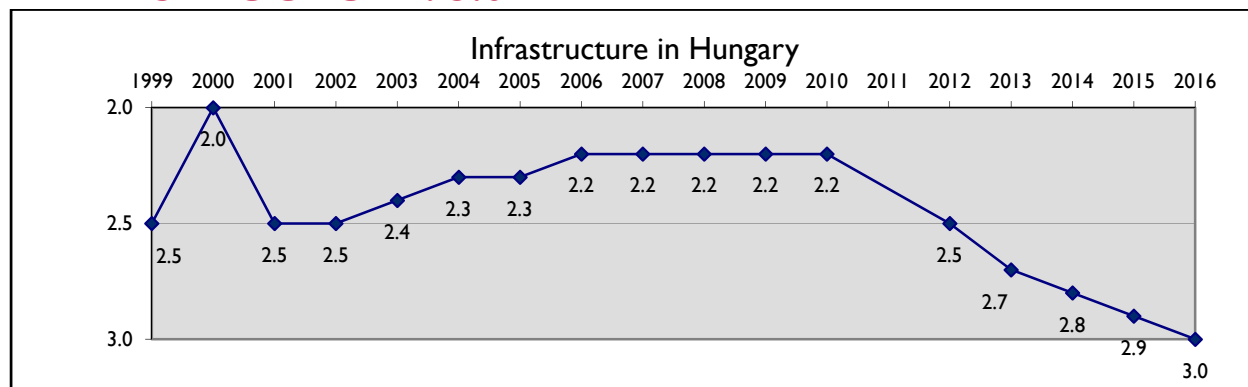
Despite these obstacles, CSOs continue to try to provide much-needed services that respond to the needs of vulnerable target groups, which extend far beyond their membership. CSOs identify needs through various academic research and surveys. In addition, some CSOs—particularly the biggest relief organizations—conduct their own assessments.

Under the circumstances, CSOs increasingly focus on providing low-cost services on a voluntary basis, such as awareness-raising activities for vulnerable groups. In general, CSOs cannot recover the costs for their services, as their funding levels are inadequate and clientele is unable to pay. CSOs regularly offer their products to other CSOs, and occasionally to academia, for free, but there is no interest in their products from the government or official institutions.

The government generally excludes CSOs from contracts for the provision of services. Generally, only major churches, state-owned companies, and foundations have the possibility of entering into contracts with the government.



## INFRASTRUCTURE: 3.0



Civil society infrastructure is weak, especially in terms of the availability of local resource centers, local grant-making, and intersectoral partnerships.

The government-supported network of Civil Information Centers (CICs) continues to operate. CICs help CSOs write grant applications, provide legal advice, and support networking among CSOs, but they are underfinanced and provide uneven services. Also, the number of centers (one per county) is unable to meet the demands of the CSO sector: their work is mostly limited to the county seat, and they can barely reach out to smaller settlements.

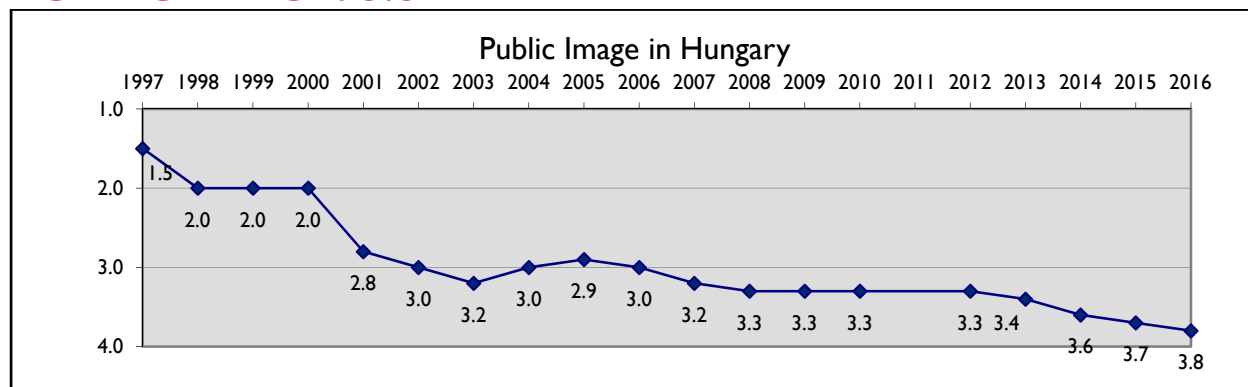
Local grantmaking organizations are gradually developing, but still need further development in order to be significant local actors. In 2016, the Ferencvaros Community Foundation, the oldest community foundation in the country, increased its grantmaking budget by 50 percent, although this is a unique exception. In the past two years, community foundations were launched in a few countryside towns, such as Pécs, Miskolc, and Nyíregyháza.

Coalition building is weak and ad hoc, typically occurring only around concrete issues or cases. It works better in some segments of civil society, such as among human rights or environmental organizations, but in other areas, such as CSOs working on employment issues, existing coalitions are falling apart, as they have become frustrated with the lack of advocacy results and the overall negative trends in policymaking. At the same time, self-financed informal networks, such as the teachers' movement, are emerging and could form the basis of future coalitions or broader movements.

Some specialized organizations, such as Civil Support, the Nonprofit Information Training Center Foundation, and the Cromo Foundation, offer training to CSOs on topics such as strategic planning, fundraising, and using social media. There are also training companies that offer management training to CSOs on a pro bono basis. However, most CSOs do not seek out these trainings due to insufficient funding, indifference, and a lack of understanding of how these skills would contribute to their efficiency and results.

Intersectoral networking is rare. When it happens, it is usually bilateral and ad hoc. More strategic partnerships to achieve common objectives are occasionally formed, for example, between anti-corruption CSOs and independent media outlets or between nature conservation CSOs and National Park Directorates.

## PUBLIC IMAGE: 3.8



As in past years, the government’s policies and continued vilification campaign had a strong, negative affect on civil society’s public image in 2016. While independent media and CSOs’ own communication efforts aim to counter this trend, they have much less visibility and reach.

The Hungarian media landscape is increasingly dominated by public and government-friendly private media as newspapers, radio, and TV stations are being bought up by government-friendly tycoons. A typical example is the takeover of the Mediaworks company by a Hungarian owner in October 2016. While most of the company’s holdings, which is composed of county newspapers, has been re-shaped in a pro-governmental direction, one of the company’s flagships, *Népszabadság*, a popular leftist daily, was suddenly closed (even its online archive was made unavailable overnight).

Public and government-friendly media generally only cover the activities of pro-government organizations or non-controversial issues, such as traditional charitable actions. In addition, they frequently echo the government’s vilification of independent CSOs, labeling them as being “Soros-dependent.” In 2016, the media directed such accusations at the twenty-two pro-refugee organizations that campaigned against the quota referendum. In September, a vice president of the governing party publicly threatened to initiate an investigation into the operations and financing of these “Soros-supported” CSOs.

At the same time, CSOs’ ties with the remaining independent media, especially investigative journals such as *Átlászo* and *Direkt36*, continued to strengthen in 2016. For example, major anti-corruption organizations work closely with them to highlight the shortcomings of politicians’ asset declarations.

According to a regular survey carried out by the Association of Community Developers, the public views CSOs increasingly favorably (an increase of 0.2 points in the past year on a scale of one to four), but most people still do not have a clear understanding of the role of CSOs in society. Recent research conducted by the Publicus Institute in relation to the teacher protests in spring 2016 found that respondents agree that civil society groups need to voice problems and concerns; however, as soon as they enter the (perceived) political arena, they lose their credibility, mostly due to the general disillusionment in politics. The findings also indicate that CSOs must scale up their public relations efforts, including by using social media more professionally. Campaigns such as *Magyar Civilszervezetek (MACI)*, a loose CSO coalition seeking to promote the visibility of the sector, need to continue for the long term to counter these trends.

The government continues to divide civil society into “good” and “bad” organizations based on whether they are government-friendly or independent. This division is made clear by the government’s decisions on which organizations to fund or consult with. In addition, high-ranking officials of the governing party continue to make vilifying public statements about independent CSOs on a regular basis. At the end of the year, the prime minister declared 2017 “the year of revolt” when “George Soros and the powers symbolized by him will be

supplanted from Europe”. According to experts, such as the Hungarian Donors Forum, business perception of CSOs is more positive though not completely independent of the political atmosphere.

Most CSOs work in a transparent manner, as they are legally required to do so, but they have not developed codes of conduct. Membership in the Self-Governing Body of Fundraising Organizations is growing slowly and currently includes twenty-three major CSOs.