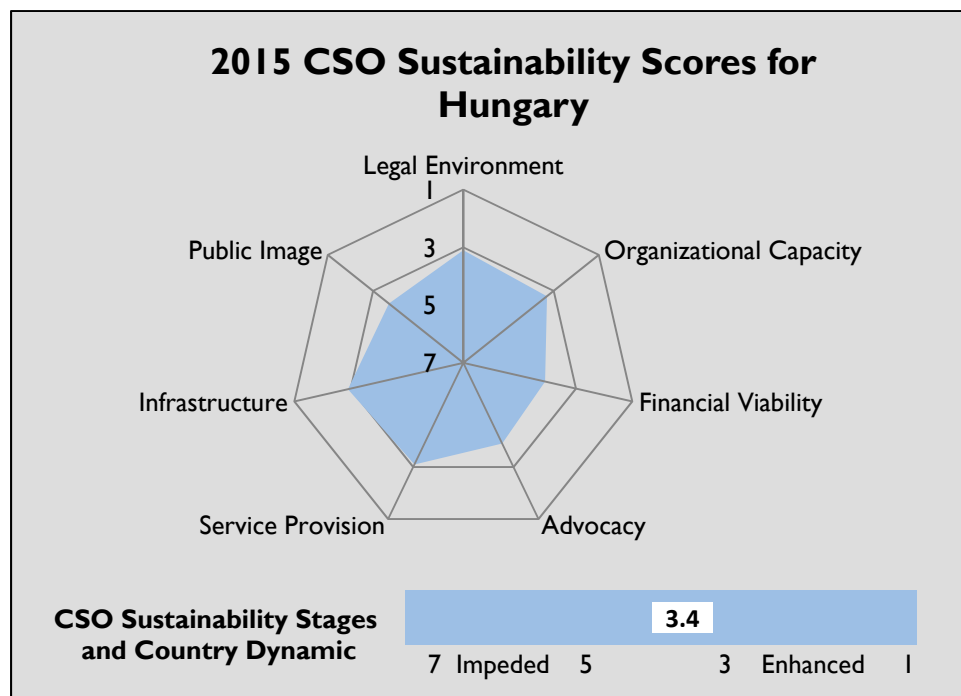


HUNGARY



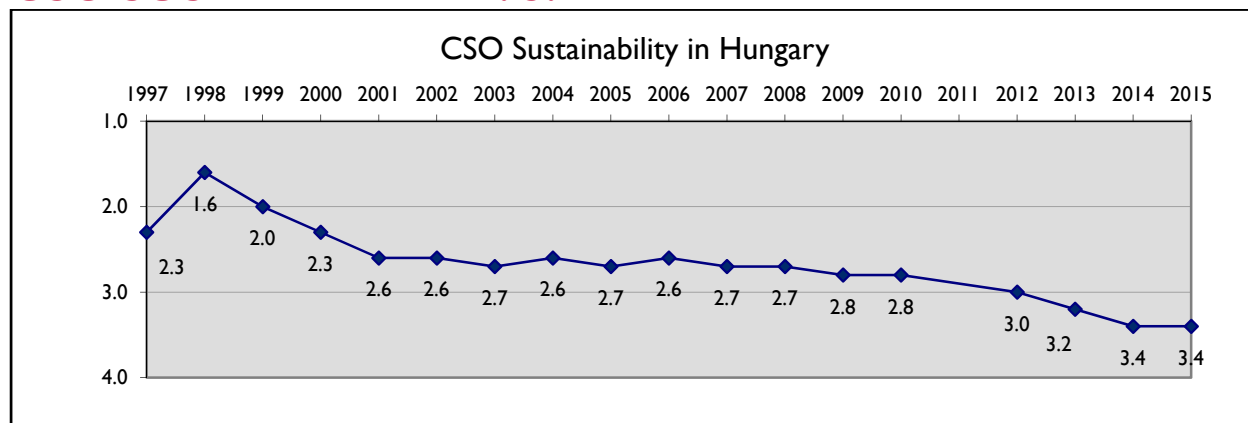
Capital: Budapest

Population: 9,897,541

GDP per capita (PPP): \$26,000

Human Development Index: 44

CSO SUSTAINABILITY: 3.4



In 2015, Hungary was challenged by an influx of refugees, largely from Syria. The refugee crisis dominated public discourse throughout the year, culminating in a wave of migrants camping at railway stations and the building of fences along the borders of Serbia and Croatia during the summer and autumn. The Hungarian government adamantly opposed EU plans to enact a compulsory quota to distribute refugees among the member states. The government also publicly campaigned against the EU plan within Hungary, which stirred fear and xenophobia in society.

The negative campaign prompted an unprecedented response from civil society. Informal groups formed to provide care for the thousands of refugees who arrived daily and were neglected by the public welfare system. Civil society also organized several demonstrations to demand the government to treat the migrants humanely rather than criminalizing them.

The refugee crisis overshadowed economic issues. In the spring, several investment and brokerage firms went bankrupt in quick succession. The bankruptcies impacted several ministries and other government institutions, with some managing to salvage funds only right before the collapse of the firms. While this raised questions regarding the effectiveness of the oversight system, it did not prompt public protests.

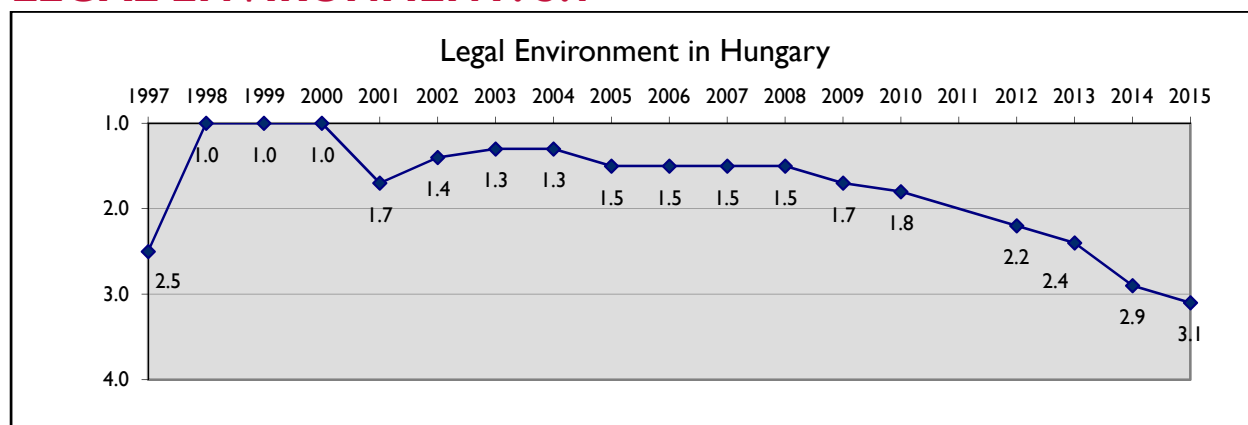
Corruption scandals, primarily related to the use of EU Structural Funds, surfaced regularly during the year. According to a report by Transparency International, EU-funded procurements were overpriced and lacked real competition due to the need to spend the resources budgeted for the 2007-2013 period by the end of 2015.

The unemployment rate decreased somewhat in 2015 to about 6.5 percent, but the statistics are distorted by the extensive public works programs in the country, which historically have not had a sustained impact on unemployment. Income inequality and the number of people living in poverty (approximately 1.6 million), or are at risk of sliding into poverty, remain significant. Discrepancies between development in the cities and the regions exacerbate social problems, with large portions of society losing hope and becoming more passive. The work of CSOs therefore continues to be critical.

Several dimensions of CSO sustainability deteriorated in 2015. The legal environment worsened as the new on-line registration system complicated the registration process, while CSOs still struggle to adapt their statutes to the provisions of the new Civil Code. In addition, a new amendment to the Freedom of Information Act could drastically increase the fees for obtaining public data. Fewer CSOs engage in advocacy, as the government shows little interest in CSO input in the policy-making process. Infrastructure weakened, as intersectoral partnerships are hindered by the government's attitude towards civil society, causing businesses to be cautious and cooperate with CSOs only on non-controversial charitable causes, while the sector's public image has suffered as CSOs find it increasingly difficult to deliver their messages through the media.

According to the most recent data from the Central Statistical Office, the number of registered CSOs decreased from over 65,000 in 2012 to 63,900 in 2014. Among associations, leisure (24 percent), sports (17 percent), and culture (13 percent) are the most popular areas of activity. For foundations, education (33 percent), social services (16 percent), and culture (14 percent) remain the leading areas.

LEGAL ENVIRONMENT: 3.1



The legal environment governing Hungary's CSOs continued to deteriorate in 2015. While the basic legal framework for CSOs, which includes the Civil Code and the Nonprofit Act, remained largely unchanged, a

new online system has complicated the registration process and ongoing administrative harassment has created an atmosphere of intimidation.

The long-awaited online registration system became operational in 2015, though with little warning or preparation. Public benefit CSOs are required to use this system, while it is optional for other types of CSOs. Initial experience indicates that the online registry (birosag.hu) is not user-friendly. In fact, it may have further complicated the registration process for CSOs as the new 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 counties, as judges interpret the legal requirements differently in the absence of any central guidance or position. While the legal environment does not encourage the founding of new CSOs, more informal, unregistered initiatives are forming.

CSOs have until March 15, 2016 to adapt their statutes to the provisions of the new Civil Code, which entered into force in 2014. While the basic regulations remain the same, the Code introduced several technical changes, such as new procedures for conducting general assemblies and the extension of a board's liability after an organization's dissolution, which have generated concern. Smaller organizations are particularly unlikely to be able to change their statutes as needed without external assistance. Those CSOs that miss the deadline may ultimately be dissolved by the court, leading to a significant decrease in the number of registered CSOs.

A new amendment to the Freedom of Information Act could drastically increase the fees for obtaining public data. The new rules allow the holder of information to determine the costs of producing or collecting the requested data. As the new provisions entered into force only in October, no new fees had been introduced by the end of the year, making it too early to gauge the impact of the new rules.

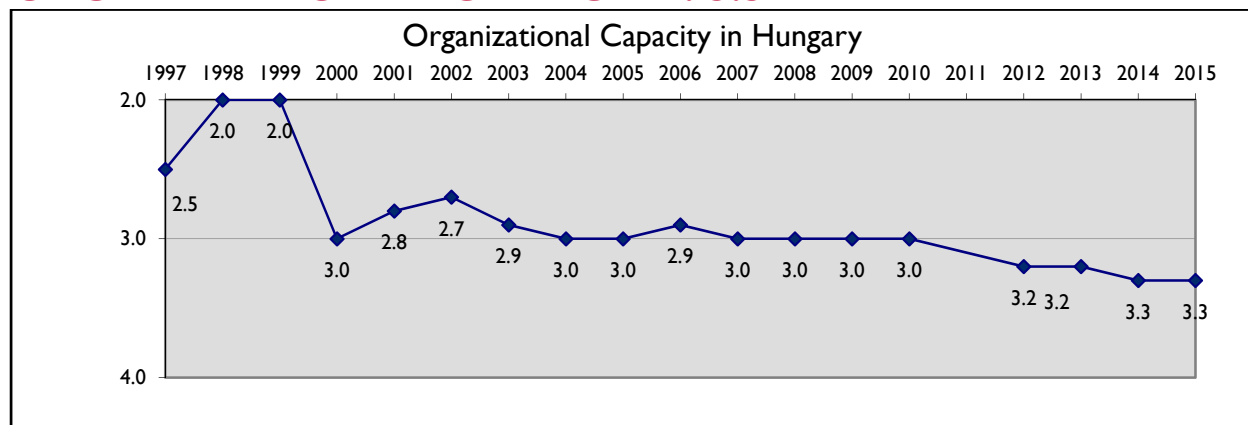
Registered CSOs are free to operate under the law, but administrative procedures are used to harass CSOs. In late January, a court ruled that the police raid at the premises of Ókotárs Foundation was illegal in the absence of reasonable suspicion. In January and February, the government launched tax inspections on seven organizations supported by the European Economic Area (EEA)/Norwegian NGO Program. No irregularities were found, and after negotiations between the Norwegian and Hungarian governments—including a condition for the Hungarian government to stop harassing organizations that manage the NGO Program—the cases against the CSOs were closed. Government rhetoric also threatens the sector. For example, high-ranking governmental officials, such as the head of the Prime Minister's Office, said publicly several times that leaders of foreign-funded CSOs should be obligated to declare their personal assets, but such legislation has not yet been adopted.

Regulations regarding taxation and earned income remain unfavorable to CSOs. While CSOs are not taxed on grants, and the taxation on earned income is also limited, individual donors do not receive tax benefits and the tax incentives available to corporate donors strongly favor giving to professional sports organizations. Individual taxpayers have the option of assigning 1 percent of their tax liabilities to eligible organizations.

Although no law explicitly forbids CSOs from competing for contracts, CSOs are often not eligible for tenders.

The availability of free legal advice for CSOs remains limited. PILnet coordinates lawyers offering pro bono services. Those organizations that cannot find pro bono assistance or are located far from participating law firms are forced to pay for legal services. Government-supported Civil Information Centers (CICs) often do not have the relevant legal capacities to fill this gap.

ORGANIZATIONAL CAPACITY: 3.3



Except in the most professional, Budapest-based CSOs, strategic planning, management, and constituency building are generally absent. Adverse funding conditions drive CSOs to consider only immediate needs, rather than long-term plans.

Very few CSOs make conscious efforts to increase their memberships or build stronger relations with the communities in which they work. CSOs only recruit members in an ad hoc manner and members' contributions comprise just a small portion of CSOs' incomes.

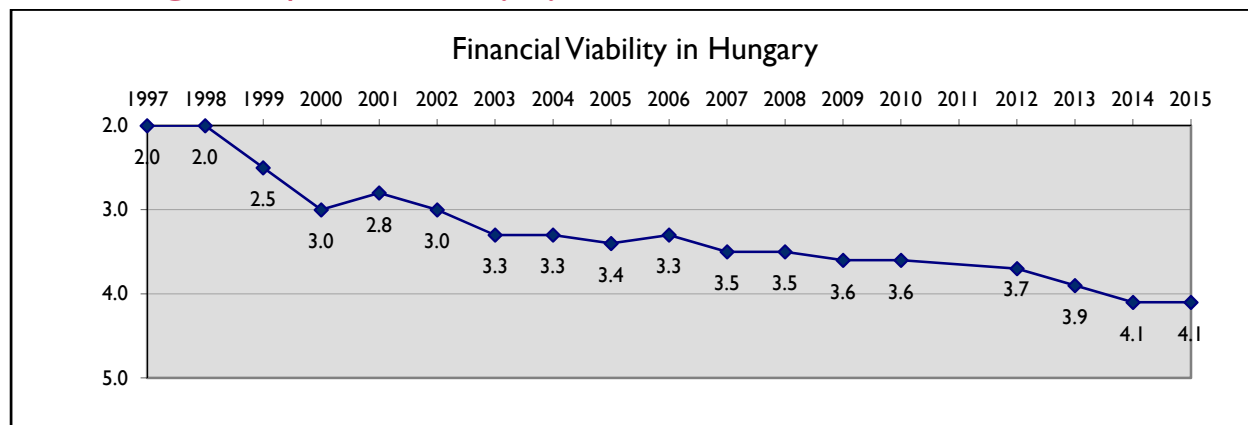
Formally, CSOs are generally led by democratically elected leaders, as required by law. In reality, however, CSOs' internal management structures are often not clearly defined. The majority of CSOs are simply too small to develop and implement robust internal management structures. Most organizations have either no staff or just one to three employees that are responsible for both governance and management.

CSOs find it difficult to retain professional staff. Fluctuations in staffing are largely due to long-term funding uncertainty, as staff members are most often employed on a project basis. On the other hand, CSOs now have access to cheap but qualified labor through a cultural public works program that serves 6,000 people seeking employment.

Most CSOs also report a shortage of volunteers. Under increasingly difficult living conditions, working people are volunteering less. To offset the shortage, CSOs are increasingly recruiting high school students seeking to satisfy their required fifty hours of community service. According to the 2015 World Giving Index, 11 percent of respondents in Hungary reported that they participated in voluntary action in 2014, compared to 12 percent in 2013.

Most CSOs have basic office equipment, such as computers and printers, but often use their members' private equipment for organizational purposes. The use of social media for organizing is becoming more widespread and professional, but significant gaps can be observed between smaller and larger CSOs in this respect.

FINANCIAL VIABILITY: 4.1



Financial viability remains a major problem for Hungarian CSOs.

The National Cooperation Fund—the key state financing mechanism to support CSOs’ institutional costs—had a budget of more than 5 billion HUF (about \$17.5 million) in 2015, a significant increase from the 3.3 billion HUF (about \$12 million) in previous years. However, its decision-making processes lack transparency. According to research conducted by investigative journalism organizations, such as Direkt36, the Fund has a strong bias towards CSOs with personal ties to party officials associated with the ruling party Fidesz and church-based organizations. Government contracting of CSOs has practically disappeared, and the remaining contracts also mainly benefit pro-government organizations and churches. Under these circumstances, many CSOs—especially those engaged in advocacy or politically disfavored issues such as women’s rights, LGBT rights, and work with drug users—cannot rely on public sources at all. According to the Central Statistical Office, the share of state and municipal funding in CSOs’ income continues to decrease, falling from 35 percent in 2012 to just 29 percent in 2014.

Most funding for the EU Structural Funds 2014-2020 period is expected to go to large, centrally managed government projects and thus will benefit few CSOs. The last call of the EEA/Norwegian NGO Program was closed in February 2015, with projects running no later than April 2016, and the Swiss-Hungarian NGO Block Grant program—including all supported projects—ended in October 2015. The continuation of both funding schemes is expected in the coming years, but it is unknown when they will be reactivated or how they will work. Open Society Institute remains the only major donor committed to providing support in 2016.

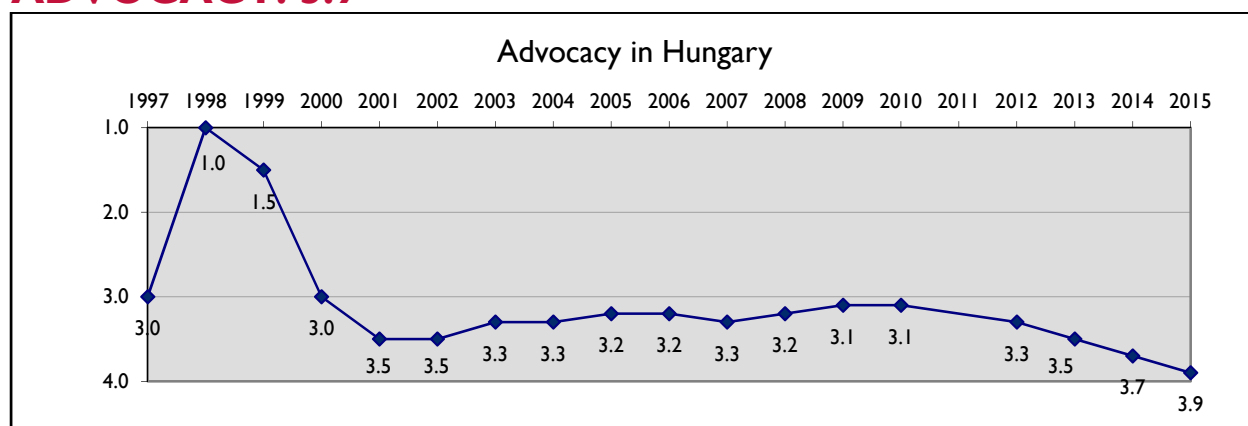
Income from 1 percent personal income tax assignments increased from 7.1 billion (\$25.5 million) in 2014 to 7.8 billion HUF (about \$28 million) in 2015. Both the overall amount and the number of taxpayers using this option increased due to a coordinated campaign by Magyar Civilszervezetek (MACI), a loose CSO coalition seeking to promote the visibility of the sector. However, the number of CSOs entitled to receive such assignments decreased due to registration requirements introduced in 2014—CSOs wishing to receive assignments now must first register with the tax authority.

Domestic philanthropy mainly exists at the local level, with individuals and businesses supporting small organizations with small donations. The 2015 World Giving Index showed a slight decline in donations, with 20 percent of respondents donating to charities in 2014, compared to 24 percent in 2013. CSOs increasingly try to attract individual donors, but few are able to implement successful, professional fundraising campaigns. However, crowdsourcing is spreading through websites such as adjukossze.hu, which is operated by the Nonprofit Information and Education Center (NIOK). In 2015, forty-eight campaigns were run on this site, an increase from thirty-six in 2014, collecting amounts ranging between 60,000 HUF (about \$215) and 1,000,000 HUF (about \$3,500) each.

Some CSOs are launching social enterprises to self-finance their activities. These mainly take the form of social cooperatives that run community cafes, organize community-supported agriculture systems, or produce crafts. However, few of these initiatives have reached the point where they can operate without external sources of funding. CSOs struggle with onerous administrative requirements for income-generating activities related to accounting, tax declarations, and licensing of specific activities. CSOs also have difficulty finding an effective balance between running a business operation and working towards the organization’s original mission.

CSOs are legally obliged to produce and publish annual reports, although external audits are only required of organizations with annual incomes of 300 million HUF (approximately \$1.1 million) or more. Financial managers are often the only paid staff members of an organization. CSOs are paying greater attention to financial management due to the harassment they faced by inspectors of various authorities over the past two years.

ADVOCACY: 3.9



During the past few years, CSOs have found that traditional advocacy efforts have yielded few results. The government only consults with its most loyal partners, if it engages in consultations at all. The government signs so-called strategic partnerships with select CSOs—mainly service providers, such as the main church-based charities—promising long-term cooperation. However, these have also become practically meaningless, as the government does not take the professional contributions or advice of these organizations into account either. Although the government periodically carries out national consultations on significant issues, these primarily consist of mailed questionnaires that have misleading questions to justify the government’s position. Furthermore, initiating a real referendum is becoming increasingly difficult due to various legal obstacles.

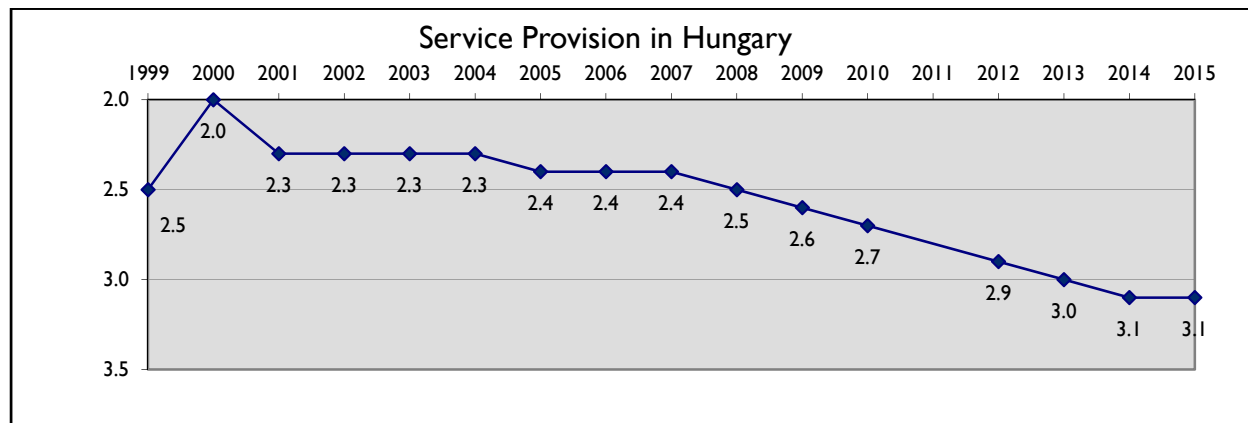
While draft legislation is usually published for comment as required by law, comments and proposals from civil society are typically not genuinely considered in the final versions. For example, in May 2015, the government adopted the National Anti-Corruption Program. Although organizations such as Transparency International were involved in the earlier stages of the program’s development, the final version was markedly different from the version they worked on and was not circulated for broad consultation. On a positive note, as a result of a broad public campaign initiated by environmental CSOs, in the spring of 2015 the president sought the opinion of the Constitutional Court prior to signing an amendment to the land law to allow the privatization of nature conservation areas. The judges found the amendment to be unconstitutional. Other elements of this law were protested, but remained unchanged.

In the countryside, the well-being of CSOs often depends on their relationship with the mayor, the local council, and institutions. Therefore, CSOs can rarely serve as independent voices due to the risk of direct or indirect retaliation, such as the cancellation of funding or free use of government-owned space.

Under these circumstances, many CSOs have become demotivated and have given up trying to participate in public matters. The main human rights organizations remain vocal and active, but their successes were mostly achieved through litigation, rather than dialogue with government. For example, through litigation, a Fidesz spokesperson was obliged to apologize for calling the Hungarian Helsinki Committee “pseudo-civil.” The wave of mass demonstrations in the fall of 2014 also died down by early 2015, and protests and demonstrations on new issues such as immigration only mobilized a few thousand people.

Similar to last year, CSOs did not engage in any tangible advocacy efforts to improve the legal or regulatory environment for the sector.

SERVICE PROVISION: 3.1



CSOs traditionally provide a variety of services, such as informal education, social welfare, health, and elderly care. However, a lack of funding increasingly prevents them from doing so, especially as major systems—education, and social and health care—have been nationalized. For example, CSOs working on education or with youth increasingly experience difficulties cooperating with schools, which have practically no autonomy under the new national system. Everything must be approved by the central governing body, which can take months to respond, if it does at all.

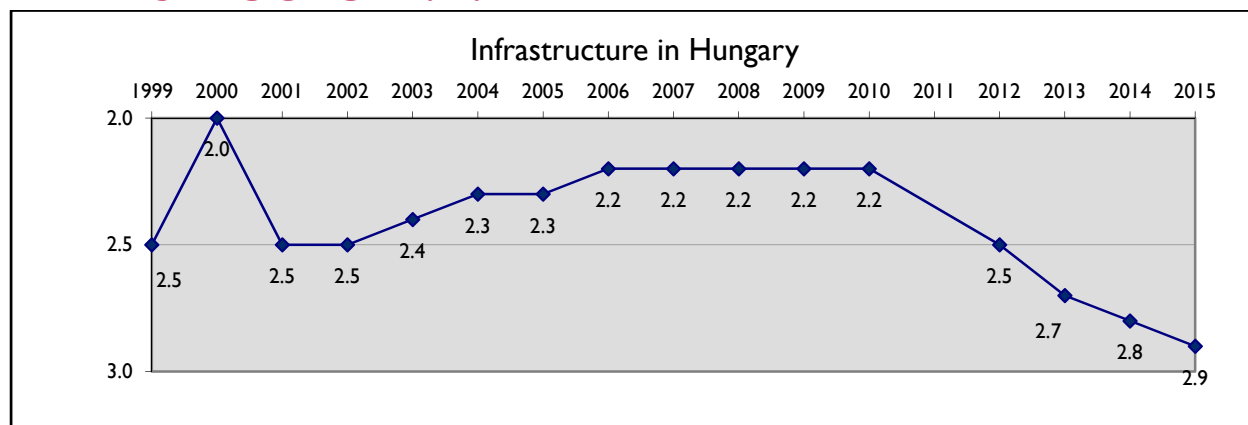
Despite the nationalization of many services, local needs are not necessarily fulfilled. In some fields, especially social welfare, budgets have been severely cut because the government has decided to rely only on public work schemes to combat unemployment and poverty. The meager remuneration of public works has basically replaced all other social benefits previously available to the poor. CSOs try to fill in gaps in services, reaching beyond their own memberships, though they struggle to do so on a voluntary basis. Alternatively, CSOs provide services with project funding, though such services are unsustainable once the funding ends.

At the same time, new informal groups have developed local services. For example, the *Heti Betevő* (Steady Income) initiative collects food and monetary donations from downtown eateries in Budapest and distributes lunches and weekly food packages to needy families in the eighth district. Beginning in the early summer, the Syrian refugee crisis brought forth an unprecedented wave of self-organized informal groups. For example, Migration Aid and Migration Service used social media to mobilize thousands of people who provided a range of services, including food, clothing, information, and medical care, to immigrants stranded at railway stations and borders. Such a large, purely voluntary action that was sustained for months had never before been witnessed in Hungary. It remains to be seen whether more formalized CSOs can build on this momentum to tackle other social problems.

Cost recovery is practically impossible because beneficiaries cannot afford to pay for services or project funding regulations prohibit the collection of fees for services.

The government generally is not willing to provide funding for CSO services or products, and government contracting of services rarely occurs. When the government does contract for services, contracts are often not awarded through open competitive processes, but instead through personal relations. Some municipalities, such as Pécs, outsource local cultural services to CSOs.

INFRASTRUCTURE: 2.9



The government-funded network of twenty county CICs continues to operate, offering services including advice on various aspects of CSO operation, databases of local CSOs, and opportunities for networking. However, services are provided unevenly across the counties, depending on the level of professionalism of the hosting organization. In addition, CICs are understaffed and can hardly reach out to CSOs working in more remote areas. While more resources are available online, they do not replace the need for in-person assistance.

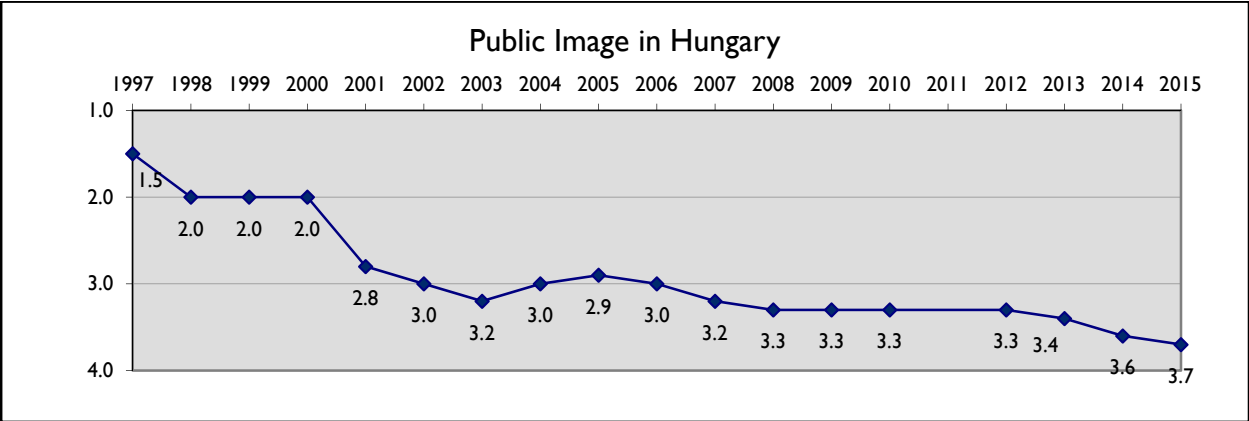
There are only two existing community foundations—located in Budapest and Eger—which raise and grant funds locally in the range of a few million HUF (\$5,000 to \$10,000) annually. There are promising new initiatives in cities such as Pécs and Nyíregyháza, as a result of a project supported by the EEA/Norwegian NGO Program that aims to establish new community foundations.

The government's hostility towards civil society in 2014 increased CSOs' awareness of the need to build stronger coalitions to defend the sector. Major Budapest-based CSOs have launched such an initiative, but it is still nascent. There are also active coalitions organized around specific issues—such as hate crimes or the environment—or particular locations, such as Eger town.

CSOs have access to training on practically all aspects of CSO operations. These services are either offered by businesses for fees that many CSOs cannot afford, or are provided by other CSOs using foreign grants. Previously existing higher education courses on civil society issues have been cut back gradually as part of austerity measures affecting universities. Another obstacle to training is that CSOs seeking to provide training services must receive accreditation for adult education programs, which is a complex process.

Intersectoral partnerships are hindered by the government's attitude towards civil society. As a consequence, businesses are cautious and prefer to cooperate with CSOs only on non-controversial charitable causes. One exception was the We're Open initiative by Google to support the Rainbow Mission Foundation's organization of Budapest Pride in 2015. This year, Budapest Pride gathered the support of more companies and was more visible overall.

PUBLIC IMAGE: 3.7



CSOs find it increasingly difficult to deliver their messages through the media. Media coverage strongly depends on the media outlet’s political orientation. Public media is virtually closed to any independent or critical voices. In 2014, both public media and private government-friendly media perpetuated 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. While the media campaign against CSOs faded in 2015, CSOs that criticize the government’s agenda are still decried. The prime minister even accused informal refugee assistance groups of “undermining the interest of the nation state.”

At the same time, the government’s actions toward CSOs increased media coverage of the sector in 2015. Independent outlets, especially online media, were more likely to cover smaller initiatives than before. For example, activities of the Give Me Your Hand Association, which works with women inmates, and a theater production about violence against women sponsored by the NaNE Association both received more coverage in 2015.

The public is still unclear about the role and activities of CSOs, especially with regard to activities that can be deemed political in any way. Such activities are often portrayed as interfering with the roles of government and politicians. In this regard, the distinction between party politics and policymaking is often blurred.

In addition, CSOs have not actively showcased their work. Recent developments, such as the weak public reaction to government measures against CSOs, have raised CSOs’ awareness of their vulnerability, and major CSOs have started to ramp up their public relations efforts. Larger advocacy organizations, such as the Hungarian Civil Liberties Union and the Helsinki Committee, have become more visible through expanded public outreach via online tools, and many other CSOs have increased their presence in social media and the public. For example, the MACI campaign, which was supported by about 360 CSOs, worked to increase 1 percent tax assignments to CSOs, as well as promote public understanding of CSOs’ work.

Instead of trying to create relationships with civil society actors, the government establishes its own CSOs. The state’s main partner continues to be the Civil Cooperation Forum, which is a government-organized NGO (GONGO). More recently, the government has partnered with the Center for Fundamental Rights, which often speaks out against human rights CSOs. Businesses have a more open attitude towards CSOs than the government, but often consider CSOs not professional enough to be effective partners. As stated above, businesses also favor working on non-controversial issues with CSOs for fear of damaging their public relations.

CSOs have a better understanding of the need for increased transparency to improve public relations, but some organizations remain reluctant to share information, citing the need for privacy. Although new regulations, such as the requirement to publish annual reports, promote transparency, few CSOs advance beyond these requirements. While there are voluntary codes of conduct covering certain topics, such as the collection of donations, they are not broadly used by the sector. The Self-Governing Body of Fundraising Organizations has doubled its membership from previous years, and now includes seventeen members and ten candidates. This suggests that CSOs that rely on individual donations increasingly realize the importance of transparency and accountability to their supporters.