

The article first published at NENO's newsletter "Infoleht nr. 3-4 2007"

LEARNING POINTS FROM THE NATIONAL CIVIL FUND IN HUNGARY

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1. Background and origins

The National Civil Fund (NCF) is an autonomous governmental fund established in 2003 to support civil society organizations in Hungary. Its establishment was triggered by a concurrence of several factors, the main ones including:

- the need and willingness of the government to support civil society at a larger scale (after an election in which civil society support was clearly expressed for the major opposition party);
- a long-standing claim of the NGOs to re-distribute the amount of percentage tax designations which is not utilized by the tax payers¹;
- the recognition that operational costs of NGOs need to be financed as they are not sufficiently met by other donors while NGOs remain weak in their organizational capacities.

The fund was also designed to replace the earlier mechanism of providing operational support through the Parliament, which process was admittedly politically loaded.

The government initially thought that it would provide such large scale operational support matching the percentage designations if there was to be one partner that could be its counterpart on the side of the civil sector. However the idea of a centrally organized representational body met with resistance among most NGOs, therefore in the end, while the election element was retained in the NCF, its function remained merely that of distributing funding. Due to this origin, however, the NCF is, uniquely among government agencies, governed by a majority of elected NGO representatives.

2. Description of the NCF²

The NCF supplements the mechanism of percentage allocation in that the government matches the amount of funds that are designated to NGOs through the percentage system³. 60% of the resources of the NCF are allocated to NGOs to support operational costs. In addition, it also supports projects aiming at the development of the whole civil society sector (e.g., research, education, networking). Elected NGO representatives sit on all committees, which are deciding on the distribution of the funds. Specifically, the Fund is administered by the Council and a

¹ In Hungary every taxpayer can designate 1% of their personal income tax to a qualifying NGO of their choice. However, only about 30-35% of taxpayers use this mechanism, which constitutes about 45-48% of the total available amount. This means that over 50% of the funds that could potentially be designated to NGOs do not reach them.

² "Legal and Institutional Mechanisms for NGO-Government Cooperation in Croatia, Estonia and Hungary", by Katerina Hadzi-Miceva, ©ECNL and Institute for Public Affairs (IPA), Poland. The paper was presented by Ms. Hadzi-Miceva at the conference on October 25-26 in Warsaw, under the project titled: KOMPAS II, financed by the European Union., p.14

³ I.e. the government will provide from the budget the same amount to the National Civil Fund as was designated (in total) by taxpayers to NGOs in the preceding year and the law states that in no case the fund will contribute less than the 0.5% of personal income taxes collected.

number of Colleges. The Council is the strategic decision-maker, which sets the priorities, allocates its resources for the various purposes, and develops rules regarding support. It consists of 17 members (2 representatives of the Parliamentary Committee on Civil Society; 3 representatives of the Ministry; and 12 representatives of civil society: 5 elected from national organizations working in various fields, 7 elected on a regional basis). There are also 11 Colleges, which are the operative decision-makers, deciding about concrete grant proposals. They are organized in all regions, as well as on a professional basis (e.g. to support capacity building or research in the sector). Colleges have 5-11 members, the majority of each elected by the NGOs. In the first year a total of 28 million Euros were distributed to support the operational costs of over 3,500 organizations, and both the amount and the number of supported NGOs has slightly increased year by year. The NCF is currently supervised by the Department for Social Dialogue in the Ministry of Social Affairs and Labor.

3. Learning points

After almost four years of its operation, some learning points can be drawn about the concept and the operation of the fund. It is important to point out that some of these learning points relate to conceptual flaws in the system (e.g. that it supports non-PBO beneficiaries), while others are “merely” a question of implementation (e.g., that the procedures are too bureaucratic).

Importance of government’s commitment to support the development of civil society. Perhaps the biggest advantage of the NCF is that through this mechanism the government is able to provide funding for a range of issues which would otherwise not be addressed and which relate to the development of the overall sector. This includes, e.g. support for research regarding NGOs, training and HR development in the NGO sector, publications on the sector, support to promote NGOs etc. The Hungarian government devised a strategy in 2003 and renewed it in 2007 in which it commits to support the development of civil society as a whole and the NCF is perhaps the main mechanism (although certainly not the only one⁴) through which the strategy is being carried out. It also a sign of good will on part of the government that it acknowledges the need to support operational costs of NGOs. Operational costs and overall sector support are two key factors needed for the development of the NGO sector Hungary and it would be quite difficult to raise funding for these purposes from other sources.

Necessity to align procedures with the organizational goals. In the first year the NCF funds were managed by the State Treasury and the procedural rules for application as well as reporting were overly burdensome and unnecessarily bureaucratic, so NGOs could not keep up with the requirements. In addition, the initial calls for proposals and application forms were not very clearly crafted, due in part to the inexperience of ministry staff as well as the members of the Council and colleges in grant-making. (See also below.) As a result, almost 90% of the first round applications did not pass the admission criteria and had to be rejected. The responsible Ministry for overseeing the distribution needed to intervene to allow for a broader interpretation of the strict formal requirements so as to permit for a higher number of applications to be considered. Consequently, the decision on the distribution of the funds came later than expected, leaving NGOs with only a month to spend the allocated funds, which originally were designed to cover costs for over a year. The procedures have been improving every year and as of 2007, the

⁴ In fact, in the 2007 strategy document the government prescribes it to every ministry to develop its own strategy and policy towards civil society. In addition, the government helped adopt the Law on Public Interest Volunteering and is continuing the review and reform of the legal framework affecting NGOs as part of the implementation of its strategy.

funds are managed by a separate public benefit company; yet the difficulties with procedural rules remained an issue NGOs have to grapple with continuously in applying and reporting to the NCF.

Necessity to properly deal with conflict of interest. From the beginning it could be seen that the election of decision-makers by NGOs, although suggesting a nice democratic arrangement, would have its downsides as well. The Law on the NCF does not exclude NGOs whose leaders are represented in the decision-making bodies from receiving funding from the NCF. At the same time – again, due in part to inexperience – the Council and Colleges did not develop proper conflict of interest internal regulations that could be applied to them. As a result, a pattern could be seen after the first two years of funding in which those NGOs affiliated with decision-makers tended to receive all the funding they applied for while others tended to receive lesser amounts. At one point the supervising Minister herself made a statement to call the attention of the Council to such controversies.⁵ Finally the Council adopted an internal regulation but this did not seem to disarm critiques regarding self-dealing. In fact, a most recent study (as yet unpublished) asserts that the greatest problem regarding conflict-of-interest in the NCF has been not in self-dealing but in political constituency-building. In other words they found evidence that in the regions the Colleges were filled with members affiliated to the governing coalition.⁶ It is questionable whether this element can be eliminated from the system given the imminent political interests present in the distribution of such amounts of money. In fact, as a learning point many experts question the appropriateness of the election mechanism itself (as opposed to NGO experts being appointed by the government based on NGO nominations, like in the case of Croatia).

Necessity to develop a strategic approach in funding. While the overall goal of the NCF, according to the Law on the NCF, is to help develop civil society in Hungary, it has not been clear over the past years whether this goal is being achieved; or whether it is merely supporting a wide range of NGOs to finance their operational costs. During the four years of its operation, the Council did not provide an overall strategic or policy document about how the NCF aims to achieve its main objectives, and the Colleges did not develop any programming document for their respective regions of professional areas. In addition, the financing principle, according to which each applicant may receive a certain percentage of its operational expenses of the previous year (operational expenses defined to include, e.g. salaries of project staff as well), contributes to maintaining the status quo rather than inducing change in the sector. As a result, as was noted in the Report of the State Audit Office in 2006: “The use of the operational support provided to NGOs was overall in accordance with the law but did not result in the expansion of the role of civil organizations as drivers of social change.”⁷

Necessity to have grant-making expertise. One problem of the election mechanism is that people who get elected to be decision-makers of the NCF do not necessarily (and do not in most cases) possess any expertise regarding grant-making. Such criteria for nominees was not defined in the Law or any internal regulation of the NCF. Therefore the Council and Colleges consist of committed and respected NGO leaders; however these bodies lack the expertise and experience in

⁵ Factually about the National Civil Fund - press release of Kinga Göncz, Minister of Youth, Family and Social Affairs, August 30, 2005

⁶ Although the members are nominated and elected by the NGOs themselves, the local party chapters have apparently found ways to influence this process, e.g. by encouraging active participation of their favored NGOs or by promoting the nomination of college members who wear two hats (i.e. are politicians as well as NGO leaders).

⁷ From the Report of the State Audit Office on the first two years of operation of the National Civil Fund (September, 2006) – unofficial translation

grant-making, the importance of which should not be underestimated in a Fund that manages 25-30 million Euros per year. Furthermore, the NCF has a very limited budget to employ consultants to help with such expertise. As a result, individual members of these bodies often turn, informally, to other donors and NGO development centers or consultants to help with program design, selection criteria or communication of the decisions etc. Because this is done on an individual rather than institutional basis and as a favor rather than a service, the whole process becomes haphazard and lacks transparency.

Necessity to develop transparent criteria in defining and supporting operational costs. Until today the criteria based on which funding decisions are made are not clear. As the State Audit Report states: “The Council determined only formal requirements for the decisions on the applications. Stemming from its role as a principle governing body it should have been the Council’s task to develop substantive requirements, which it failed to do. The definition of ‘operational costs’ was not clear and was interpreted differently by the various bodies of the Council as well as the Treasury and the NGOs.”⁸ This may have been due in part to the inexperience of Council and Colleges’ members in grant-making, but also reflects a lack of understanding of organizational development and NGO sector development. Without doubt, financing operational costs of NGOs is not an easy task to do but – especially when utilizing public funds - there needs to be a clear scheme according to which it could be resolved.

The need to consider developmental aspects in operational funding. As mentioned above, there seems to be a lack of understanding of NGO development among Council and College members. Critiques raised from the developmental perspective point to problems that the government creates by providing – even if only partially – operational costs to NGOs year after year without further requirements. With such “handouts”, the government on the one hand encourages “free riding” (e.g. several experts reported the “awakening” of NGOs that have been “asleep” for years before the NCF funding became available); and on the other hand promotes dependence on government funding even of those NGOs who would otherwise be capable and well placed to raise independent funding. Experts have suggested to introduce developmental criteria in funding (e.g. rather than simply supporting salaries and rent, to support organizational objectives, e.g. in fundraising or communications) as well as limitations on the length of time one NGO could receive such support (e.g. three years). However, such recommendations have not found resonance with the NCF Council as yet.

Necessity to align sector development with proper use of public funds. Another learning point relates to the concept that was largely promoted by those who conceived the idea of the NCF: that the government should provide support to small organizations who have less capacity to raise funds from international donors or the private sector, and who do great work but lack infrastructure and resources. This served as justification to open up the NCF to non-public benefit organizations. In Hungary, the public benefit status has a “low threshold” (i.e. it is not too difficult to obtain it). Almost 50% of NGOs have this status and it essentially defines minimum standards of accountability for the NGO sector.⁹ Therefore those organizations that are not PBOs are mostly the small, mutual benefit associations such as village folk clubs, producers associations, hobby groups etc. No doubt that there are also numerous small NGOs that would otherwise qualify as public benefit (e.g., a small town association of health professionals

⁸ From the Report of the State Audit Office on the first two years of operation of the National Civil Fund (September, 2006) – unofficial translation

⁹ In contrast, in Poland for example, the public benefit status is linked to very strict criteria and seems to have an effect of creating an “elite” within the NGO sector rather than to serve as minimum standards.

providing services to handicapped or elderly people on a volunteer basis). However, the possibility of funding non-PBOs resulted in the fact that literally hundreds of mutual benefit associations – such as local motocross associations and grape-wine makers – are funded from taxpayers' money. In addition, it gives ground to political clientele-ism, as in Hungary non-PBOs are not prohibited by law to engage in political activities such as supporting a candidate of political party; or even to nominate a candidate for the elections. An alternative solution could be – as could be in the case of a country where PBOs represent a smaller part of the NGO sector and therefore the government would aim to reach beyond these organizations – to define funding criteria which include basic accountability and transparency requirements regardless of whether the funding is restricted to PBOs or not.

Need to ensure for diversity of public funds available for NGOs. As a side effect of the NCF, other ministries that used to finance certain NGOs directly related to their fields (e.g., social services, education, environment, culture) have cut back on the funding with the reasoning that it is the NCF that should provide for financing (all) NGOs. Furthermore, even though it is often difficult for local NGOs to receive funds from the local government, the easily available central funding diminishes all incentive for them to turn to this funding source. (In fact, it diminishes incentives for any other type of fundraising as well.) Thus, it contributes to the gap between the NGOs and their local constituents and – despite the fact that the Colleges are elected on a regional basis – links NGOs to central funding.

We realize that the above provides a rather critical view of the NCF, with perhaps too much emphasis on the flaws of this system. Doubtlessly, many very good and effective NGOs are being supported by the NCF year by year and it has indeed initiated important steps in the development of the nonprofit sector in Hungary (such as the piloting of quality assurance projects or supporting new research on the sector). However, we felt it important to share these learning points in order to help prevent the same mistakes in the case of a similar fund being launched in Estonia.

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