The emergence of an independent third sector
The ‘rehabilitation’ of foundations came about before the political changes; the legal provisions pertaining to foundations reappeared in the Civil Code in 1987. Moreover, the Parliament also passed the law on association in 1989, thus the legal guarantees of the freedom of association became enacted. In other words, the regulation of the legal status of foundations and associations was already achieved before the change of the political regime. This suggests that the development of the civil society was not an outcome of a political process; civil organisations played an active role in the preparation of the changes.

The regulatory environment of the civil organisations has significantly improved for the last two decades. Though the development of the legal and economic regulations was neither smooth nor fully consistent, it moved in a positive direction. The subsequent regulatory steps may not reflect a firm concept which would have been carefully thought over, but altogether they still reveal some important tendencies.

Chronology of regulatory events
1990: Foundations and voluntary associations can be established without government permission, tax exemption of all nonprofit activities, unconditional and unlimited tax deductibility of the donations to foundations
1991–1994: General restrictions on the tax advantages of nonprofit organisations, setting conditions for tax exemption and tax deductibility
1994: Three new forms of nonprofit organisations (public law foundation, public law association, public benefit company) appear in the Civil Code
1997: 1% of the personal income tax can be given to nonprofit organisations selected by the taxpayer
1998: Nonprofit organisations serving public interest can apply for the public benefit and eminently public benefit status; the public benefit status becomes a condition for preferential tax treatment
2004: Institutionalisation of the public support to civil society organisations by the creation of the National Civil Fund
2005: Legal regulation of the tax free allowances to volunteers; the legal form of public benefit company is substituted by the nonprofit company; limitation of the individual donors’ tax preferences
2007: Appearance of the social cooperative as a new legal form for public benefit economic activities

The most striking of these tendencies are the gradual transition of a loose regulatory framework into a detailed regulation and the diminution in tax advantages. In the early 1990s, the procedures of the court registration were simple and free form bureaucracy. Nonprofit organisation had to meet very few formalised conditions in order to get direct government support; their tax exemption and the tax deductibility of donations to foundations were practically unconditional. The administrative and accounting rules were not fully developed yet. Under the climate of boundless enthusiasm for the newly gained liberties, the disadvantages of a sketchy regulation and the serious dangers of the lack of control over the use of public support and tax
privileges were generally neglected. These dangers became known only as a result of various scandals (quick loss of endowment by foundations financed from the state budget, bankruptcy of economically weak nonprofit service providers, tax abuse by fake foundations, service fees disguised as donations) in the first half of the 1990s. As a reaction to these problems, the regulation of the profit sector started to change and this process is still not finished. The rules guiding the functioning of civil organisations have become much more detailed, more complicated, and more differentiated; the tax advantages have been cut. The administrative obligations have gradually widened, the transparency and accountability requirements have become much stricter. New, more state controlled legal forms of nonprofit organisations (public benefit companies, public law foundations and public law associations) have been created for the nonprofit provision of public goods and distribution of public funds. All these changes have been accompanied by a decrease in the less transparent indirect state support, especially in the tax deductibility of individual donations and in the tax exemption of the nonprofit organisations’ business income not related to their basic, public benefit activities.

An analysis of the changes in tax policy towards the voluntary sector can also detect another important trend, that of a gradually strengthening connection between the public support of nonprofit organisations and the public benefit character of their activities. The tax policy have always tried to differentiate between the public benefit organisations and those civil groups which only indirectly serve public purposes though this effort was not explicit in the beginning. At the first stage of development, this differentiation was based on a rough simplification. The dividing line was drawn between the foundations and voluntary associations referring to the fact that foundations can only be established in order to serve public purposes while voluntary associations can decide to serve only their own members. Accordingly, the tax treatment of foundations became more advantageous than that of the voluntary associations and other membership organisations. The organisational form as a basis of tax treatment and the system of tax advantages lacking any control of the actual organisational behaviour proved to be increasingly dysfunctional. Thousands of foundations were established (in many cases by voluntary associations in order to raise tax deductible donations for them) in the first half of the 1990s, thus the share of organisations enjoying preferential tax treatment increased a lot. This made obvious that the foundation/voluntary association distinction was not an appropriate way of finding the dividing line between the public benefit organisations and those voluntary groups which do not directly serve public purposes. The following efforts to develop another solution led to the birth of the law on public benefit organisations in 1998. This law defined the public benefit status, its degrees and the rules of getting registered as of public benefit. As a result, the public benefit status became the single most important condition for both preferential tax treatment and direct public support.

Finally, another tendency is also worth mentioning. This is the decentralisation and democratisation of the decision making process in the distribution of central state support. The two milestones of this process were two laws, one of them on the 1% system, the other on the creation of the National Civil Fund. Both of them delegated some part of the government’s decision making power to private actors. They authorised taxpayers and elected civil society representatives to distribute a limited part of the budget support among nonprofit organisations. Thus the 1% system and the National Civil Fund enabled nonprofit organisations to get public support through intensive civil participation, in accordance with civil priorities and without endangering their independence from the state.

To be summarised, the legal and economic regulations have created a wide institutional framework and favourable (though not ideal) conditions for the development of civil initiatives and nonprofit service provision since 1989. As it is reflected in the statistical data, the potential actors have appreciated the encouragement and they have taken the opportunity. This has resulted in an impressive growth of the civil sector. A 1989 statistical survey found about 8,500 voluntary associations. The number of foundations was about 400 in the very same year.

2
Nowadays the number of nonprofit organisations is more than six times higher; it exceeded 58,000 in 2006 according to the latest available statistical figures. The growth was especially rapid in the first half of the 1990s. This is not really surprising since this was the period when the Hungarian civil society became finally free to create its institutions; the disappearance of state monopoly opened the floor for the nonprofit service provision; and the nonprofit sector enjoyed an exceptionally generous tax treatment.

After 1995, the growth not only slowed down, it also became more differentiated. The development paths followed by different parts of the nonprofit sector started diverging. As it is visible on Figure 1, the shapes of the curves let us identify – at the cost of some simplification – three different types of growth. The nonprofit organisations engaged in health care, education and research, economic development, human rights, and social care are characterised by a dynamic and steady growth throughout the whole period. The curves indicate a slowing growth in the field of culture, environment, sports and recreation, international relations, and nonprofit federations. A broken growth is a major feature of the economic and professional advocacy organisations and the voluntary fire brigades.

**Types of organisations**

There are two basic legal forms (voluntary associations, private foundations) of classical civil society organisations under Hungarian law. Two other kinds of organisations (public law associations, public law foundations) are intended to offer an institutional framework for government related nonprofit activities. The legal forms of nonprofit service provision are changing right now, public benefit companies are disappearing while the nonprofit companies and social cooperatives have just started to develop.

**Voluntary associations** are autonomous membership organisations formed voluntarily for a purpose agreed upon by their members and stated in their founding articles. Associations must have registered members who organise to actively pursue the associations’ aims. Although membership organisations are not necessarily called voluntary associations and special laws and government decrees may specify rules for some of them, the basic legal regulation of voluntary associations applies to all such organisations, including societies, clubs, self-help groups, federations, trade unions, mass organisations, social organisations, etc. These organisations can be formed around common interests, intentions, concerns, hobbies, personal problems, age, residence, profession, occupation, or support for particular institutions, ideas, actions.

**Public law associations** are self-governing membership organisations which can only be created by the Parliament through passing a specific law on their establishment. The Academy of Sciences, the chambers of commerce and the chambers of some professions (e.g. doctors, lawyers, architects, etc.) have been transformed into public law associations since the creation of this legal form. Although the legal regulation of voluntary associations generally applies to public law associations, the government may vest additional authority over their members in this kind of associations (e.g. official registration, quality control, the issue of licences, etc.).

**Foundations** are organisations with endowments established to pursue durable public purposes. Their founders can be either private persons or organisations with legal personalities. Unlike associations, foundations do not have members. They are managed by a board. Their founders are not allowed to have a significant influence on the decisions of this board. Private foundations can take several different forms, including operating foundations (e.g. foundations operating schools, nursing homes, health and cultural institutions; providing social services; publishing books and journals; managing local radio and television stations, etc.); grant seeking foundations exclusively supporting public institutions such as libraries, theatres, museums, schools, universities, hospitals, research institutes that established them or pursuing particular aims and projects such as the creation of monuments, organisation of festivals, or development
of art collections; grant-making foundations that support either projects or organisations; and corporate foundations mostly supporting present or former employees of the companies.

**Public law foundations** are foundations established to take over some government tasks (e.g., education, health care, public safety, etc.) which are defined in law as government responsibilities. Their founders can only be the Parliament, the Government and the municipalities. (This is the only kind of foundations these organisations can establish, they are not allowed to create private foundations, at all.) The public law foundations are kept financially accountable by the State Comptroller’s Office. The founders can initiate the dissolution of a public law foundation if they think its function can be more efficiently fulfilled by another type of organisation. The property of the dissolved public law foundation reverts to its founder. Apart from these special provisions, the basic legal regulation of private foundations applies to public law foundations, as well.

**Public benefit companies** and their successors, the **nonprofit companies** are private firms which generally produce public goods, thus they can get the public benefit status. Their occasional profit cannot be distributed among their owners, managers or employees; it must be used to pursue their public purposes. Apart from the non-distribution constraint, it is the basic economic regulation of the ordinary private firms which applies to them. This legal form best fits the nonprofit service providers which cannot reasonably be organised as either foundations or voluntary associations. In some sense, the newly emerging social cooperative is already an intermediate legal form, halfway between the nonprofit and the for-profit sector. The importance of their membership, their public purposes and their eligibility for the public benefit or even eminently public benefit status link social cooperatives to the voluntary sector, while the evaporating non-distribution constraint is a point of similarity with the private for-profit corporations.

The present Hungarian nonprofit sector consists mainly of **private foundations and voluntary associations**. These two groups account for nearly nine tenths of the 58,000 nonprofit organisations. The share of advocacy organizations (which are also registered as voluntary associations) is only 6 percent. The state-controlled public law foundations and public law associations and the ‘company-like’ nonprofit service providers altogether account for only 7 percent of the nonprofit sector. The institutional form most preferred by the civil society actors is the voluntary association. About half of the nonprofit organisations and more than 85 percent of the membership organisations are registered in this legal form. The share of the professional, economic advocacy organisations, employers’ federations and trade unions is meagre.

The very same factors also had a negative impact on the employees’ side. The ‘fragmentation’ of companies, the emergence of unemployment and the resulting uncertainties of job, the endangered existence prevented the employees from forming strong trade unions. It is all the more important, then, that a large number of private foundations were established despite the economic difficulties even if their endowment was usually very small. Their share, which had been less than 5 percent in 1989, reached 36 percent by 2006.

**Size, structure, and functions of the nonprofit organisations**

Not only the size and the composition by legal forms but also the activity structure of the nonprofit sector has fundamentally changed since 1989. None of the activity groups is dominant any longer; the structure has become nearly balanced. The 58,000 nonprofit organisations can be broken down into six categories of approximately similar size.

The largest group of the nonprofit sector consists of organisations engaged in **sports, recreation and leisure activities** of people belonging to specific social layers. The joint pastime activities are traditionally organised by voluntary associations.

A similar social integration role can also be played by the **cultural associations** which are usually organised around common cultural interest and taste, common ethnic and religious identity or in order to enlarge communication and exchange between different cultures.
The overwhelming majority of the nonprofit organisations active in the field of education are foundations which raise funds for public kindergartens, schools and universities. There is only one more type of institutions which is worth mentioning, namely the foundations running their own nonprofit kindergartens, schools, languages schools, adult education centres. The landscape is a bit more various in the field of research. Besides the foundations supporting state run scientific institutions and the nonprofit research institutes, there are also a large number of scientific societies which offer the researcher of specific disciplines an opportunity to meet, to exchange ideas and to develop co-operation.

The field of health is characterised again by the dominance of foundations raising funds for public institutions. However, it also happens that the application of alternative therapies and medical treatments requiring modern or simply special equipments is organised in a nonprofit legal form. By contrast, the set of nonprofit organisations engaged in social care is much more colourful and more ‘civil’, too. The most numerous and most characteristic are the voluntary associations organised around common problems. Their main purpose is mutual help. They want to find common solutions, some way out from the temporary crisis or permanently critical situation of their.

Very different and extremely various are the activities of nonprofit organisations working in the field of regional, local and economic development. Many of them attack the unemployment problem and try to promote community development, economic co-operation and development projects. Many others focus on public security and on the protection of the built and/or natural environment. Citizens and public authorities (especially the local governments) are equally active in this field. Finally, the smallest group of the Hungarian nonprofit sector is that of the advocacy and human rights organisations. The protection of human rights is especially underdeveloped.

Whatever is their actual field of activity, building democracy is one of the crucial roles of the Hungarian civil organisations. The majority of them try to express and actively address the needs of smaller or bigger groups of citizens. They usually share their efforts between meeting the socio-psychological and practical needs of their members and representing their interests. To some extent, the presence of a large and varied civil sector is a guarantee of pluralism and diversity in itself. Even voluntary groups performing ordinary activities embody some principles of civil society. In addition, numerous civil organisations have also been established with the specific aim to promote cultural, ethnic, religious and linguistic diversity, to educate citizens and to encourage social participation, to develop local information networks, and to actively influence policy making.

Civil organisations play several important roles in introducing, shaping and implementing policies. Sometimes they concentrate on solving problems through launching alternative or innovative service provision. In many other cases they try to shape public policy through providing the government with feedback on its ideas and proposals. It also happens that civil organisations take the initiative, develop their own policy alternatives and try to play the lead in the dialogue with government and political decision makers.

Service provision is also a function of growing importance in the Hungarian civil sector, a large number of new nonprofit ventures have emerged for the last couple of years. The initiative mainly comes from the potential clients and other stakeholders (e.g. unemployed people, parents of disabled children) or enthusiastic professionals (teachers, librarians, social workers, artists, etc.), but government authorities also appear among the founders (e.g. local governments establish nonprofit companies specialised in water supply, road maintenance or cultural services).

A series of foundations are vehicles of the voluntary redistribution of wealth. Though one can find some charitable foundations of the ‘classical’ type (e.g. poverty relief funds, organisations helping the disabled, homeless, refugees) among them, their most common
The majority of the state run service providers have set up foundations in order to solicit private contributions. The large grant-making (mainly public law) foundations have a different function. They are supposed to develop a less centralised and more participatory way of distributing public grants, to let stakeholders have a voice in the redistribution process. The social control over the redistribution process is guaranteed by the structure of the boards. They usually consist of experts and representatives of the target fields (e.g. culture, research, employment). They are expected to assure that the main flows of redistribution are consistent with the policy objectives and the actual grant making procedure still remain free from politicisation.

The above listed functions of the nonprofit sector are much too various to be fulfilled by a homogeneous set of organisations. Obviously, different roles must be performed by different actors: legal forms and organisational characteristics of the civil organisations must vary in accordance with their mission and activities. This relationship is important though only stochastic because institutional choice is always influenced by a series of factors (e.g. institutional environment, personal knowledge and preferences of decision makers) and considerations (e.g. the worry about independence, the financial requirements, the administrative burden of registration procedures, the tax treatment of different types of nonprofit organisations). Hungarian nonprofit organisations do not always follow the traditional pattern of specialisation. Foundations do not confine themselves to grant-making and grant-seeking; many of them are involved in service provision, as well. Moreover, a lot of the private foundations are also active in different types of advocacy activities and in building democracy. However, the prominent actors of advocacy are the public law associations, trade unions, business and professional associations, employers’ federations, while voluntary associations play the single most important role in building democracy and meeting the socio-psychological needs of their members. The public benefit companies are (and the newly emerging nonprofit companies and social cooperatives probably also will be) almost exclusively service providers. The public law foundations are equally present in service provision and in distributing government money.

The nature of the nonprofit activities has a strong influence on the size and structure of human resources needed by the civil organisations. According to the official statistical figures, more than half a million people performed some kind of work in the Hungarian nonprofit sector in 2006, but the number of paid employees was less than 100,000 and only 75,000 of them worked as full-time employees. About 16 percent of the nonprofit organisations could afford employing paid staff and only 13 percent had full-time employees.

Revenue structure and financial characteristics of the nonprofit sector

According to the latest available official statistical data, the revenue of the nonprofit sector was 896 billion HUF in 2006. This sum came from three major sources, namely private donations (126 billion HUF), state support (378 billion HUF) and earned income (392 billion HUF).

The share of the private donations was only 14 percent. More than half of it originated from the above already analysed corporate and individual giving. Its third important component was foreign support (mainly from European Union sources). The contribution of Hungarian foundations, churches and other nonprofit organisations remained negligible.

The private support being meagre, civil organisations had to rely on earned income which consisted of service fees, sales of products, membership dues, investment income and unrelated business income. In fact, their efforts to generate revenues through economic activities were quite successful. The earned income accounted for 44 percent of the nonprofit sector’s total revenue in 2006. This figure indicates that civil organisations are financially much more dependent on the market decisions of citizens as consumers than on the charitable behaviour of citizens as donors. The fees charged for mission-related services are the single most important element of the earned income. This reflects that the scope and variety of nonprofit services are large, the civil organisations supply what their members and clients need.
and they are flexible in satisfying consumer demand. This is why they can generate relatively high fee income even in a period when the market of welfare services is rather depressed and a large part of the potential consumers struggle with serious financial difficulties. The unrelated business income and the return on financial investments (interest and dividends) are less significant than the fees from mission-related activities but they still amount to one third of the earned income.

The public support which accounted for 42 percent of the nonprofit sector’s income in 2006 is only the second most important revenue source, and this is a big difference between the Hungarian and the Western European revenue structures. The actual forms of government support are manifold. Nonprofit organisations can receive state support in many different forms, through various mechanisms of distribution. If they deliver public services, they can get ‘normative’ (per capita) support which is closely related to their accomplishment (usually the number of their clients). For example, officially accredited nonprofit services (e.g. education, social care) are eligible for this per capita support. However, the term ‘normative support’ also has a more general meaning in common parlance in Hungary. The government support to civil organisations fulfilling some tasks of organising community activities (e.g. leisure or sports activities of children and students) is also distributed on a per capita basis, thus it is called normative support. Similarly, the number of members is the basis for subsidising some nonprofit organisations (e.g. vine growing communities) engaged in economic development and in self-regulation of economic activities.

Nevertheless, the overwhelming majority of the central and local government grants are project-related, thus they are distributed at the discretion of competent authorities. Their distribution is not governed by fixed rules; the preferences of the decision makers have an almost unlimited influence on it. There is not any guarantee in this process, the government grants can be increased, decreased or even stopped year by year. Not only the principles and directions but also the mechanisms of the distribution of state support can be freely changed. The decisions can be made by different public authorities (government, prime minister’s office, ministries, Parliament, etc.) but the decision making power can also be conferred to civil servants, committees or boards. Consequently, the size and distribution of government grants are equally influenced by personal attitudes and interests, political considerations, power relations, advocacy capacities, and – in an ideal case – by the concepts and intentions concerning the future of the civil sector.

This raises two important issues. One of them is the endangered independence of civil organisations; the other is the limited availability of public support. There have been developed two different financing schemes in order to alleviate these problems in Hungary for the last decade. These redistribution methods try to ensure that a large number of civil organisations have access to support from the central budget and they still remain independent from the benevolence of government decision makers. These two supporting techniques are the 1% system and the National Civil Fund.

The 1% system permits that taxpayers transfer one percent of their personal income tax to a civil organisation of their choice. The overwhelming majority of the registered nonprofit organisations are eligible for 1% designations if they perform public benefit activities, they are not related to political parties and they are no arrears of tax and duties. The 1% designation is part of the tax declaration. The financial transfer itself is made by the tax authority. If the taxpayer does not name a recipient organisation or makes some formal mistake when preparing the designation declaration, his/her whole tax remains part of the central budget.

The 1% scheme solves the independence/public support problem in a specific way. Since the government has no voice in the distribution of this special support, its beneficiaries can get some support from the state budget without becoming dependent on government authorities. The delegation of the distribution decision to the taxpayers also guarantees the general availability of this kind of budget support. The 1% scheme doubled the number of civil
organisations supported from the central budget in the very year of its introduction (in 1997) and this growth has continuously increased since then. Even the small grassroots organisations unable to find their way in the labyrinth of the state redistribution have their chance of persuading the taxpayers to select them as the recipient of their 1%.

Besides the 1% scheme which lets private citizens decide on the distribution of public support, another institution of decentralised funding decisions was also established in 2004. The National Civil Fund (NCF) involves knowledgeable civil society leaders in the distribution process. The NCF’s budget is linked to the actual size of the 1% designations. In a given year, the NCF receives from the state budget exactly the same amount of money of which the taxpayers’ designated the recipients in their tax declarations earlier that year.

The most important objectives of the National Civil Fund are to strengthen civil society, to help civil organisations taking an active role in social life and to promote partnership between government and civil society. Only voluntary associations and private foundations are eligible to get support from the Fund. Parties, trade unions, employers’ federations, mutual insurance associations, churches, public benefit companies, and public law foundations established by government authorities or municipalities are explicitly excluded. Under the provisions of the law, the National Civil Fund has to facilitate the institutionalisation and professionalisation of civil organisations mainly through covering some part of their running costs. At least 60 percent of the Fund must be spent on this purpose. 10 percent covers the administration costs of the NCF itself. The rest of the money may be devoted to a variety of projects that are likely to strengthen the sustainability of the nonprofit sector as a whole. Apart from these general provisions, the elected decision making bodies have the right to develop the grant making policy and practice of the National Civil Fund.

The civil sector leaders who are members of the NCF Council and Boards have to change their viewpoint; they are obliged to shift from representing their particular organisations to acting in favour of the voluntary sector as a whole. Involved either in developing the policy guidelines or in actual grant-making, they have to take enormous responsibility. Their efforts to live up to these expectations are likely to broaden their horizon, deepen their understanding of sector-wide challenges, and improve their co-operation skills. These skills are highly needed both within the civil sector and in the government/nonprofit relationships.

**Relationships between the government and the civil sector, the government’s civil strategy**

Several new fields and forms of the government/nonprofit co-operation have developed in Hungary since the systemic changes. They range from ad hoc joint actions focusing on a single issue or on a concrete project to contract relations and well established division of labour. The government/civil relations are not only multiform, their directions are also various. In these relationships the government bodies can be supporters or supportees, sources or recipients of information, they can play an active role or wait for civil initiatives.

*Social participation, social control:* The civil initiatives are manifold in the field of interest representation and expression of public opinion. Their methods include protest actions and proactive civil initiatives, advocacy activities full of conflicts and peaceful joint efforts in strategic thinking. It also happens that civil society representatives are elected or co-opted into public decision making bodies, thus their participation in policy making is officially acknowledged and institutionalised. The selection of the actually applied methods depends a lot on whether government authorities are ready to regard civil organisations as partners and provide them with all the necessary information. The behaviour of the Hungarian government has significantly improved in this respect. Besides the application of the more or less traditional techniques of consultations, negotiations, recommendations, bargaining, agreements, co-decisions, etc., it also happens that civil actors are authorised to make some public decisions. The proliferation of the national, regional and local consultative forums and civil roundtables seem to prove that both
government and civil organisations agree on the necessity for the social dialogue and make efforts in order to institutionalise it. Though the everyday practice is not always smooth, nobody questions that the open legislation, the civil participation in initiating, developing and discussing social and economic measures can help the national and local governments to make decisions which are professionally well-prepared and generally accepted. This civil participation is also an important condition for the further involvement of nonprofit organisations in the implementation of these decisions.

Support from civil organisations: As mentioned above, several Hungarian foundations raise donations for public institutions. In some cases, these donations serve the implementation of important investments (e.g. the purchase of hospital equipments), modernisation projects (e.g. computerisation) or outstanding programs (e.g. cultural festivals). In many other cases, they contribute to the ‘humanisation’ of public services or to the delivery of complementary psychological support (e.g. ‘clown-doctors’ visits to children hospitals). In addition, civil organisations also help government authorities and public institutions by sharing with them their specific knowledge on public issues and local circumstances. Their volunteers’ work is also a precious contribution. Not only its actual value is significant, the volunteers’ involvement in public projects is also useful because it improves these projects’ general legitimacy and thus their efficiency.

Dialogue, exchange of information: The dialogue with civil organisations has several functions in the work of government authorities. They receive important signals from the representatives of the civil sector. Besides the direct expression of the citizens’ problems, needs and opinions, the nonprofit organisations can also indicate possible solutions to these problems. Their initiatives and experimental projects may result in the development of innovative approaches also applicable in the public sector. When taking part in the debate on public projects, they frequently raise new professional aspects, which can significantly improve the quality of these projects and facilitate their implementation. The civil organisations also have an impact on the flow of information from the government towards the citizens. They can interpret and explain government initiatives, thus they influence their reception. The mutual willingness to co-operate is obviously a necessary condition for a constructive government/civil dialogue. In addition, some institutional infrastructure is also needed. This infrastructure has developed a lot for the last couple of years. There are special units and civil servants at all government levels whose task is to build relationships with civil organisations. The Parliament has its own Civil Bureau, departments and sections of civil relations have been established in the ministries. A growing number of local governments employ experts who are in charge of civil relations. The widening use of the internet facilitates a lot the exchange of information. The web pages of the government authorities are not only the vehicles of sharing information with the citizens; they can also be used for collecting civil reactions or as an interactive forum for public argument.

Joint bids for tenders: As a result of the accessibility of European funds through competitive tendering, the joint bids of civil organisations and government authorities (mainly local governments) have become widespread since Hungary’s EU accession. Joint applications for grants were already quite common before because they made accessible funds which would not have been otherwise available for either government or civil actors. The additional funds raised through these joint bids are not the only favourable outcome of this type of co-operation. Another positive impact can result from the very process of the preparation of joint applications. In the course of this work, the government and civil actors can discuss all kinds of matters and understand each other’s points. In an ideal case, they can also reach an agreement on the common interests and objectives of their community and they can develop joint actions and programs.

Contracting out services and government established nonprofit organisations: The closest co-operation between government and nonprofit organisations develops when government authorities decide to contract out the delivery of services which are traditionally
provided by state run institutions. In an extreme case they may even establish nonprofit organisations for the provision of public goods. Both the selection of the contractees and that of the legal form of a nonprofit organisation to be established depend on the nature of the actual services.

*Legal and economic regulations of the nonprofit sector:* Besides direct public support and other kinds of financing nonprofit organisations, there are other, not less important sources of state influence on the civil sector. Through modifying the legal and economic regulations, the state actors can significantly change the conditions for civil initiatives and nonprofit service provision. The administrative burden on civil organisations highly depends on the regulation and actual procedures of their registration and public scrutiny. The preferential tax treatment represents more than 10 billion HUF indirect public support, any change of it can result in considerable loss or gain, then. In addition, the tax advantages have an impact on the donors’ behaviour and on the economic activities of nonprofit organisations, too. The law on volunteering can create favourable conditions for the increase of voluntary work. A harmonisation of the numerous reports (balance sheet, tax declaration, statistical statement, report on the public benefit activities and on the use of the 1% income, etc.) could improve transparency and decrease reporting obligations at the same time. A consistent and transparent system of regulations could facilitate the development of mutual trust and partnership between the government and civil society.
Directions of the development of government’s relations with civil society

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<td><strong>The government’s civil strategy</strong></td>
<td><strong>Government resolution on the planned measures</strong></td>
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| – Increasing the share of government support within nonprofit sector revenues (reach at least 40 percent)*  
– Establishment of the National Civil Fund*  
– Preparation of the law on volunteering*  
– Civil participation in the preparation of bills, open legislation*  
– Support to nonprofit training and research*  
– Creation of a civil support centre in the Budapest region*  
– Simpler and more consistent legal regulation  
– Development of the official register of nonprofit organisations  
– Increasing the tax advantages of private donations  
– Readiness to develop a general agreement (a UK-style Compact) with civil society | – Creation of a civil information site where all kinds of bills, calls for applications, and data on financial support are available  
– Development of an official register of nonprofit organisations generally available through the internet  
– Facilitating the administrative duties of civil organisations through the computerisation of procedures  
– Stabilisation of the statistical survey of the nonprofit sector  
– Promoting the international relations and integration of civil organisations  
– Preparation of civil action plans at the level of ministries biannually  
– Terminating parallelism and increasing efficiency in state subsidised professional services to civil organisations |

* Implemented

The efforts to develop such a partnership are not only detectable in the actual policy toward the nonprofit sector. Since 2002, the government’s intentions and objectives have also been written down in a document discussed with civil society representatives. As it is displayed in Box 3, the objectives are not always fully achieved. There are also aims that must be temporarily or definitively given up. Nevertheless, the emergence of strategic thinking about government/nonprofit partnership is an important development. It will hopefully help the potential partners to collectively and thus successfully face the challenges of the transition period, including those of the EU accession.

(Adapted and fragmented from “Civil Europe” by Éva Kuti)