

## **NONPROFIT SECTOR IN HUNGARY IN THE EARLY 1990s**

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A striking upsurge has taken place in voluntary activity in Hungary after 1989. The nonprofit organizations have mushroomed, their social importance and economic strength have soared, the number of donors and the amount of charitable donations have multiplied for the last couple of years. This sudden growth is puzzling even in the context of the “global associational revolution”.<sup>1</sup> The scope and scale of the phenomenon suggest that something really exceptional is happening in the Hungarian economy and society. The proliferation of voluntary organizations is a clear sign of the citizens’ intention to actively and directly influence the transition process. The emergence of nonprofit organizations in many fields of the economy, their behaviour and actual activities are obviously an expression of the society’s attitudes and aspirations, and in the same time they are, of course, more or less important factors and also indicators of the development process.

The statistical analysis of such a complex phenomenon must be obviously manifold. We have to find the answers to several different, though interrelated, questions: what happens in the Hungarian nonprofit sector, and what are its impacts on the social and economic development in Hungary? How large is the nonprofit sector, how is its share in the national economy? How many voluntary organizations do exist in different fields? What are their activities? How much and what kind of services do they deliver? How extensive are their advocacy activities? How much money do they spend? Who has established and who is financing the thousands of new voluntary organizations? What are the sources of third sector revenues? Who are their clients, how large is their contribution to the solution of social problems?

To answer these questions, to fill the glaring information gap, to replace vague personal impressions by internationally comparable statistical estimates in the analysis of the roles, size, structure and finances of the Hungarian nonprofit sector: this was the very challenge the statistical system had to face in the beginning of the 1990s.

Though the Hungarian Central Statistical Office was among the very first statistical agencies which had surveyed the voluntary organizations (surveys of voluntary

<sup>1</sup> *Salamon, Lester M.*: The global associational revolution. The rise of the third sector on the world scene. Occasional Paper No. 15. The Johns Hopkins University. Institute for Policy Studies. Baltimore. 1993.

associations had been carried out in 1862, 1878, 1932, 1970, 1982 and 1989), the results of these surveys became completely outdated by 1992. They could not any longer be used as proxies to represent the whole nonprofit sector. The extremely rapid growth could be monitored only by an annual survey of voluntary organizations. This is why a general survey of the nonprofit sector and a set of “satellite surveys” have been developed which constitute a solid base for the analysis of the above listed problems. The definition and classification of nonprofit organizations used for statistical purposes are compatible with the ones which were developed by the Johns Hopkins Comparative Nonprofit Sector Project and are accepted now in most of the developed countries.<sup>2</sup>

### *Definition*

In order to establish the boundaries of the nonprofit sector the definition states that organizations can be considered as part of the nonprofit sector if they meet the following criteria:

1. *Formal*, i.e. the nonprofit organizations are institutionalized to some extent, they have some formal character. Groups without legal personality are not regarded as nonprofit organizations.

2. *Private*, i. e. the organizations are institutionally separate from government though they can get significant state support.

3. *Non profit-distributing*, i.e. the organizations can have profitable business activities, but they do not distribute profits to their owners, members and managers.

4. *Self-governing*, i.e. the organizations have their own internal decision-making structures and internal procedures for governance, they are not controlled by outside entities.

5. *Voluntary*, i.e. the organizations have some meaningful degree of voluntary citizen involvement, either in the actual conduct of their activities or in the management of their affairs.

6. *Non-religious*, i.e. the organizations are not involved in the promotion of religious worship, they are not churches, congregations or other primarily religious institutions. Nevertheless, religiously affiliated nonprofit service organizations are part of the nonprofit sector.

7. *Non-political*, i.e. political parties are not considered to be nonprofit organizations.

The above – internationally accepted – definition is, by and large, applicable to the Hungarian nonprofit sector. Operationally, its use is quite easy because the Hungarian legal system is very clear about institutional forms.

### *Legal forms of nonprofit organizations*

Originally, there were only two legal forms available for the nonprofit organizations: those of the foundations and voluntary associations. The actual activities of these two kinds of nonprofits are not necessarily different, but they significantly differ in their organizational structure, nature, legal and tax regulations.

*Foundations* are organizations governed by a voluntary board (mostly named by the founders). They must have an endowment and cannot have members. Once registered, their endowment cannot be withdrawn by the founders. They can be grant-making bodies, grant-seeking, fund-raising organizations, and also service providing, operating foundations.

<sup>2</sup> Defining the nonprofit sector. A cross-national analysis. Ed.: *Salamon, Lester M. – Anheier, Helmut K.* Manchester University Press. Manchester. 1997.

*Voluntary associations* are membership organizations with officers elected by their members. They can be both member-serving and public-serving organizations; lobbying and advocacy are also among their usual activities.

An amendment to the Civil Code has introduced three new types of nonprofit organizations since 1994, namely the public law foundation, the public law association and the public benefit company.

*Public law foundations* are foundations established to take over some government tasks, i.e. tasks which are defined in law as government responsibilities (e.g. education, health care, public safety, etc.). Their founders can only be the Parliament, the Government and the municipalities. (These latter are not allowed to create private foundations.) The public law foundations are kept financially accountable by the State Controller'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 organization. The property of the dissolved public law foundation reverts to its founder. Apart from the above special provisions, the basic legal regulation of private foundations applies to public law foundations, as well.

*Public law associations* are self-governing membership organizations 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. The government may let public law associations exercise some authority over their members (e.g. official registration, quality control, the issue of licenses, etc.). Otherwise the legal regulation of voluntary associations applies to them.

*Public benefit companies* are not-for-profit organizations established in order to produce public goods and to meet public needs. The profit of their occasional unrelated business activities must also be used to pursue their public purposes. They are not allowed to distribute profit to their owners. They can be established by either private persons or organizations. In addition to the non-distribution constraint imposed by the Civil Code, it is the basic economic regulation of the for-profit limited liability companies which applies to the public benefit companies.

Both foundations and voluntary associations are registered by the court, while public benefit companies must register with the tribunal. Basic information from the court is a starting point in the development of the regularly updated statistical register of nonprofit organizations.

#### *The size of the nonprofit sector*

At the beginning of its renaissance, in 1990 the Hungarian nonprofit sector was much smaller than that of the developed countries, but its size was still significant. The relatively liberal Hungarian version of state socialism had let "politically innocent" voluntary associations exist. Some services had been provided by state-supported voluntary organizations. Consequently, the development of the politically free nonprofit sector did not start from zero. Nevertheless, its rapid growth was unexpected and needs explanation.

Table 1

*Number of nonprofit organizations in Hungary, 1862-1994*

Year	Foundations and public law foundations	Voluntary associations and other nonprofit organizations	Total
1862	.	319	.
1878	.	1 917	.
1932	.	14 365	.
1970	–	8 886	8 886
1982	–	6 570	6 570
1989	400	8 396	8 796
1990	1 865	14 080	15 945
1991	6 182	17 869	24 051
1992	9 703	21 528	31 231
1993	12 064	23 851	35 915
1994	14 216	25 943	40 159

Source: Here and at the following tables and figures see Bocz, János – Kuti, Éva – Locherné Kelédi, Ildikó – Mészáros, Geyza – Sebestény István: Nonprofit szervezetek Magyarországon, 1994. Központi Statisztikai Hivatal. Budapest. 1996.

The striking development of the Hungarian nonprofit sector has come about for many reasons, but two factors have been of crucial importance.

– The first is the long-standing tradition of voluntary activities, including both independent citizen action and the high adaptability, the “take all the opportunities, use all the institutional forms in order to survive” attitude of the Hungarian society.

– The other factor is the facilitation and encouragement from the part of government. The results are really impressive, and the sector still does not seem to stop growing.

This growth of the nonprofit sector is all the more impressive because the economy itself was clearly declining in the early 1990s. The emergence of a flourishing nonprofit sector in a declining economy can only be explained by the fact that the patterns of problem solving offered by nonprofits are equally acceptable and attractive for citizens and government. The nonprofit institutional form is generally considered to be an appropriate means of facing the social and economic challenges of the transition period.

*The structure of the nonprofit sector*

About two thirds of the nonprofit organizations are voluntary associations with 5.5 million members. Although more than half of these associations have been created since 1989, the structure of the sector is still marked by the “heritage” of the state socialist period. In the same time, the differences between the composition of the partly old voluntary associations and the structure of the completely new foundation sector herald significant changes in the composition of the nonprofit sector as a whole. The fields (education and research, health, social care, development and housing, international activities), which were definitely underdeveloped in Hungary compared to the developed, democratic countries, represent much higher shares in the foundation sector than among voluntary associations. This can be interpreted as a sign that the structural

changes of the Hungarian nonprofit sector began to decrease the differences between the Hungarian and the foreign nonprofit sectors.

The most striking of these differences is the relatively low share of the Hungarian voluntary organizations in health and education, which are the most important fields of activities of nonprofit organizations in the developed countries. This difference is explained by the state monopoly of education and health care under state socialism. While voluntary organizations as service providers were tolerated in culture and even promoted in sports, recreation and emergency prevention, they were not allowed to establish schools or hospitals. Although this state monopoly was broken in 1989, the nonprofit service provision could not rapidly develop because it would have needed a lot of investment and there was very little capital available for the possible nonprofit entrepreneurs.

Similarly, the state monopoly of housing and urban services prevented Hungarian nonprofits to play a more active role in development and housing, and thus contributed to keep their share relatively low in this field compared to other countries.

Mostly political reasons are responsible for the petty share of international and advocacy organizations among Hungarian nonprofits. The state socialist regime tried to fully control international assistance and discouraged open advocacy activities by voluntary organizations. Since the establishment of such organizations became free, more and more voluntary groups decide to specialize in international and advocacy activities.

Table 2

*Structure of the nonprofit sector in Hungary in 1994*

Fields of activity	Foundations and public law foundations	Voluntary associations and other nonprofit organizations	Total
Culture	2 452	1 708	4 160
Sports, recreation	1 270	12 244	13 514
Education, research	4 321	638	4 959
Health	1 265	309	1 574
Social services	2 178	857	3 035
Environment	348	519	867
Development and housing	971	869	1 840
Civil and advocacy associations, crime prevention	358	1 042	1 400
Emergency prevention and relief	50	1 164	1 214
Philanthropic intermediaries	39	640	679
International activities	209	304	513
Business and professional associations, trade unions	51	5 155	5 206
Other	704	494	1 198
<i>Total</i>	<i>14 216</i>	<i>25 943</i>	<i>40 159</i>

The expenditure data (see Table 3) suggest that the economic importance of the Hungarian nonprofit sector is definitely larger than it is generally presumed to be. Its service-providing role deserves far more attention than it attracted in the first years of the

transition period. The newly emerging nonprofit organizations represent the society's response to the new challenges. Their large scale emergence in the fields of education and health care express the government's and citizens' willingness to increase the supply and quality of services which were previously monopolized by the state. The mushrooming of advocacy organizations suggests, on the one hand, that citizens are determined to take matters into their own hands and to develop institutional guarantees of their participation in decision making at all levels. On the other hand, the proliferation of these nonprofits may partly be an organizational expression and consequence of the degree of upheaval, upward and downward social mobility, and instability of Hungarian society under the conditions of the transition from state socialism to a market economy.

Table 3

*Structure of the nonprofit sector in Hungary in 1994*

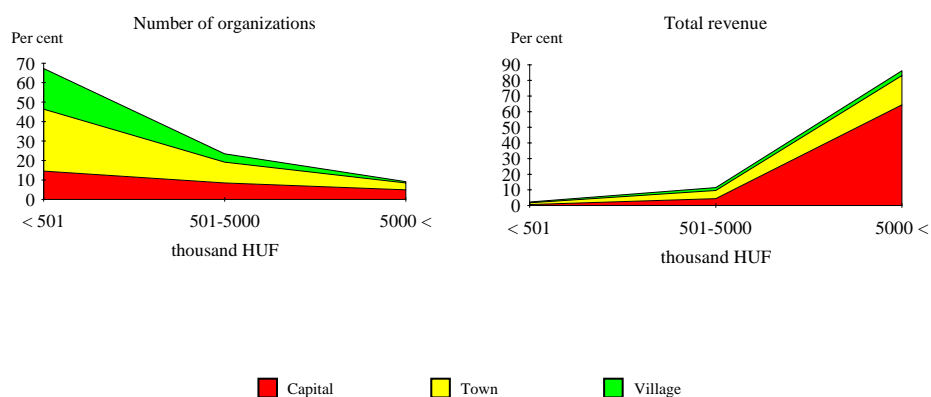
Fields of activity	Expenditures (million HUF)	Expenditures	Number of organizations
		per cent	
Culture	16 559.6	13.2	10.4
Sports, recreation	29 366.6	23.4	33.6
Education, research	12 384.4	9.9	12.3
Health	4 967.8	4.0	3.9
Social services	16 115.5	12.8	7.6
Environment	1 572.5	1.3	2.2
Development and housing	8 103.1	6.5	4.6
Civil and advocacy associations, crime prevention	1 428.0	1.1	3.5
Emergency prevention and relief	310.0	0.2	3.0
Philanthropic intermediaries	10 237.2	8.2	1.7
International activities	798.9	0.6	1.3
Business and professional associations, trade unions	23 118.5	18.4	12.9
Other	514.3	0.4	3.0
<i>Total</i>	<i>125 476.4</i>	<i>100.0</i>	<i>100.0</i>

Promising as it is, the development of the nonprofit sector is far from equal. Less than one third of the nonprofit organizations are located in Budapest, the capital, but these Non Governmental Organizations (NGOs) own more than two thirds of the total income of the nonprofit sector (see Figure 1). The smaller is a community, the scarcer and poorer are its voluntary organizations, which also means that their problem-solving capacity is probably much smaller in the less developed regions.

The Hungarian nonprofit sector employs about 33.4 thousand full-time and 15.5 thousand other (part-time, second job, employment of retired persons) employees.

These relatively low figures show that the growth of nonprofit employment could not keep pace with the general development of the sector. Very few of the voluntary organizations have well-trained and well-paid employees, thus the need for professionalization is a very important challenge for Hungarian NGOs.

Figure 1. Concentration of organizations and revenues  
by the size of organizations and types of communities in the nonprofit sector in 1994



### Income sources

The composition of the third sector revenues (see Table 4) is quite surprising, especially in an international comparison (see Figure 2 and Table 5).

Table 4

Nonprofit sector revenues by revenue sources, 1994

Revenue source	Revenue million HUF	Per cent
Support from the central government	23 588.6	16.3
Support from the local governments	6 171.4	4.3
<i>Government support</i>	<i>29 760.0</i>	<i>20.6</i>
Corporate donations	11 484.1	8.0
Individual donations	3 428.4	2.4
Foreign donations	8 997.1	6.2
Donations from nonprofit organizations	6 677.6	4.6
<i>Private donations</i>	<i>30 587.2</i>	<i>21.2</i>
Membership fees from private individuals	6 696.8	4.7
Membership fees from organizations	7 243.2	5.0
Sales and dues related to the charitable activities	19 943.8	13.8
<i>Revenues from the basic activities</i>	<i>33 883.8</i>	<i>23.5</i>
Investment income	13 353.8	9.3
Unrelated business income	29 797.2	20.7
<i>Revenues from for-profit activities</i>	<i>43 151.0</i>	<i>30.0</i>
Other	6 749.9	4.7
<i>Total</i>	<i>144 131.9</i>	<i>100.0</i>

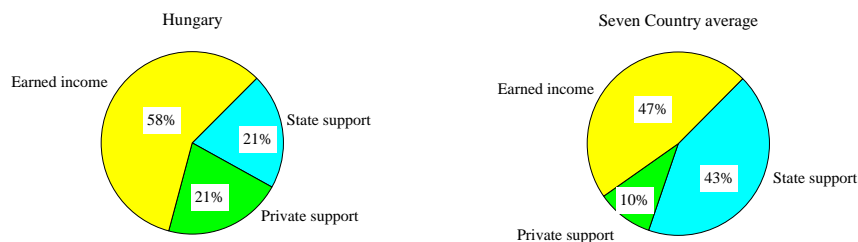
The revenue structure of the Hungarian nonprofit sector is dramatically different from that of the developed countries. Our data seem to prove the importance of private initiatives in the striking development of the nonprofit sector. The direct government support to nonprofit organizations is rather parsimonious in Hungary. Its share (21 per cent of the total nonprofit income in 1994) is much lower than in Western Europe. (The breakdown of the revenues is surprisingly stable. The share of state support was 23 per cent in 1990.)

The relatively low government support is all the more surprising because it does not seem to be consistent with the official ideology. What politicians said about the importance of civil society and the possible role of voluntary organizations in the denationalization and decentralization of service provision did not correspond with what they actually did (or rather did not do) in order to help the nonprofit sector in the early 1990s. While the legal regulation and the indirect support of the sector mirrored that the government favoured the sector, nonprofit organizations were not treated really generously in terms of direct state support.

Nevertheless, the role of the state was probably more important in financing nonprofit organizations than it is suggested by our data. Some of the large enterprises and banks were still state-owned in 1994. Consequently, their expenditures on supporting voluntary organizations decreased the revenues of the state budget, thus their donations represented semi-private contributions. The Hungarian government created several foundations, which actually distributed government money. The decision-making is more or less private in these cases, but the money itself comes mainly from government sources. Even the really private donations of individuals and private companies include indirect state support through tax-deductibility of individual and corporate donations to foundations. (This indirect state support is naturally present in other countries' figures for private giving, as well.)

For lack of state support, Hungarian nonprofit organizations relied on earned income even more than their Western European and American counterparts. The largest share (58 per cent) of the total nonprofit income originated from private earnings, i.e. sales, investment and business activities of the nonprofit organizations themselves in 1994. Remarkably, the most important source of earned income was not the sale of the products or the fees charged for services (they represented only 13.8 per cent of the revenues), but the unrelated business income (20.7 per cent). The constantly high rate of business income suggests that the Hungarian nonprofit sector is more entrepreneurial than those of the developed countries.<sup>3</sup> This entrepreneurial character of the voluntary organizations is probably a consequence of their serious financial problems.

Figure 2. Revenue structure



Remark. The seven countries are: France, Germany, Hungary, Italy, Japan, the United Kingdom, the USA.  
Source: See Note 3.

<sup>3</sup> Salamon, Lester M. – Anheier, Helmut K.: The emerging sector. The nonprofit sector in comparative perspective – An overview. The Johns Hopkins University. Institute for Policy Studies. Baltimore. 1994.



Table 5

*Revenue sources of the nonprofit sector in an international perspective*  
Per cent

Country	Government	Private contribution	Earned income
France, 1990	59	7	34
Germany, 1990	68	4	28
<i>Hungary, 1990</i>	23	20	57
<i>Hungary, 1994</i>	21	21	58
Italy, 1990	43	4	52
Japan, 1990	38	1	60
U.K., 1990	40	12	48
USA, 1990	30	19	51
7 country average	43	10	47

Source: Kuti, É.: The nonprofit sector in Hungary. Manchester University Press. Manchester. 1996.

The income from private charitable giving (including gifts from individuals, corporations, churches, unions, foundations and other voluntary organizations) accounted for about 21 per cent of the total nonprofit income in 1994, which is much higher than the average share of private donations among the revenues of the nonprofit sector in Western Europe. At first glance, the figures in Table 6 don't look conceivable, but on closer examination we can find some explanation for this strange phenomenon. No doubt, private giving operates from a much smaller base in Hungary than in the developed countries, but relative poverty does not necessarily prevent people from philanthropy. Having more personal experience of struggling with financial difficulties and being more endangered themselves, Hungarians seem to be sensitive to other people's need for help. On the other hand, under the circumstances of denationalization and shrinking public services they can be sure that their problems won't be solved by the government, so they must contribute both work and money if they want to increase the consumption of collective goods. Also, the relatively high share of private donations may have to do with the tax treatment of nonprofit organizations which was relatively generous in the early 1990s.

In order to confirm or reject these tentative explanations, we carried out a representative survey of giving and volunteering. The results obtained from 14 833 in-home personal interviews with private individuals aged 18 and over are as follows.

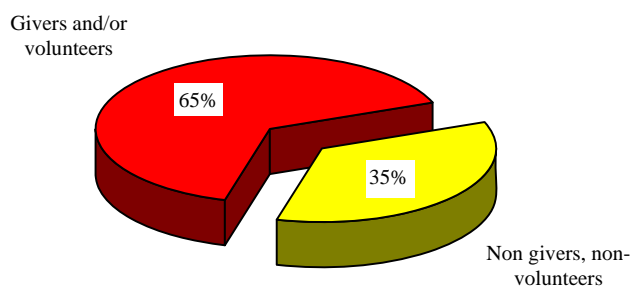
#### *Individual giving and volunteering*

The survey of charitable behaviour has shown that almost two thirds of the adult population voluntarily helped other people, charitable organizations, or contributed to the solution of social problems emerging either at a local or national level in 1993.

The direct individual financial support to foundations, voluntary associations, churches and public institutions reached about 0.3 per cent of the total disposable income. The indirect budget support provided through the tax deductibility of donations was negligible compared to the citizens' contribution. The majority of donors did not

deduct their donations at all, thus the lost budget revenues represented less than 10 per cent of the sum of money individual citizens gave up in order to support nonprofit organizations.

Figure 3. The share of donors and volunteers in the adult population, 1993



Church institutions are among the salient supportees of both donors and volunteers. Most of the support provided to the lay nonprofit organizations goes to four fields, namely to social care, culture, education and assistance to Hungarians living abroad, but the target fields significantly vary according to the types of support. Nonprofit organizations delivering social services can firmly rely on in-kind donors and volunteers to help them. The main supporters of the cultural field are the cash donors and volunteers, though the number one supportee of cash donors is education. The nonprofit organizations which support Hungarians living abroad mainly receive in-kind donations.

Citizens' charitable behaviour is closely bound up with their socio-demographic characteristics, with their social embeddedness. Women are better donors, but they volunteer less than men do. The best givers are those well educated, highly positioned people aged between 30 and 60, who live in large cities with consolidated (2 children) families, have a relatively high income from various sources, and are connected to voluntary organizations not only as supporters but also as members.

The answers to the questions about the motivations of donations and voluntary work seem to suggest that solidarity is a basic value of the Hungarian society. While citizens feel obliged to take part in the solution of social problems, they think that the government also has a responsibility. Trust in the supported organization and clarity of the organizational aims to be achieved play an important role in the selection of supportees. Donors and volunteers are much better informed than people who neither give nor volunteer. The majority of non-givers do not know or get only limited information about the organizations seeking funds or assistance. Very few Hungarian nonprofit organizations know and apply the really sophisticated techniques of raising funds, recruiting volunteers and building steady relationships with supporters. This implies that there are some opportunities to increase individual donations and voluntary work, and to advance citizens' participation in Hungary in the near future.

The rapid growth of the Hungarian nonprofit sector since 1989 is a complex phenomenon which has its origins in the efforts of various economic actors. These efforts are obviously diverse, consequently the nonprofit organizations and the social functions they fulfill are also different. There exist grassroots organizations of the civil society and large foundations established by the government, grant-makers and grant-seekers, advocacy groups and service providers, very small and extremely big organizations side by side within the sector.

Without wishing to deny the importance of facilitation and encouragement from the part of government and from some Western foundations and official aid agencies, we can state that the renaissance of the Hungarian voluntary sector started in the 1990s mostly as a result of private initiatives. 60 per cent of the nonprofit organizations were established exclusively by private individuals, the share of government-created organizations is about 6 per cent. People, who wanted to act as citizens established nonprofit organizations in order to exercise some control over social processes, decision making and the provision of welfare services. Many of these voluntary organizations were born as the institutions of civil society and act as alternative policy-makers directly expressing the interests and aims of social actors.

After a flying start, the further development of the sector has been possible because the patterns of problem solving offered by nonprofits have been also acceptable, in some fields even attractive for the government. The nonprofit institutional form is generally considered to be an appropriate means of facing the social and economic challenges of the transition period.

After decades or even centuries of mutual distrust and either latent or manifest conflicts, co-operation has become the leading principle in the government/nonprofit relationship. To put this principle into practice, to stabilize, institutionalize the mechanisms of co-operation and still preserve the independence of the voluntary sector, this is one of the key issues facing the nonprofit sector in Hungary in the years immediately ahead.