

## **Demnet Hungary Summary of Research**

During the preparation process of our workshop on „Emerging Actors of Financial Markets”, Demnet conducted a research describing the relationship between actors of the civil and the financial sector. Considering Full Cost Recovery (FCR) has gained large emphasis in our research, as it may enhance long term organizational sustainability. Our report analyses the potential causes, which explain non-profit civil organizations’ unwillingness/ incapability to rely on financial sector when setting up a multi level planning focused on recovering full cost of their operation.

Demnet’s experience in civil sector oriented development since 1996 led us to the conclusion that income resources of civil organizations are not diverse enough. Their dependence on one single resource, in particular state resources, implies the increased influence of calls for grants and, as a result, project based financing methods on civil organizations. We experienced that accounting and covering costs loosely connected to the exact calls cause difficulties for several organizations. Besides, organizations often need to search for credits and alternative financing possibilities in order to deliver their activities that they were contracted for. However, costs of these credits cannot be accounted in call for applications that require significant pre-financing from the beneficiary. Although, current tender structure received numerous critiques form actors of the financial sector (for suspensions or delays in payments), the interviews that we conducted in our research reflected a slightly different opinion in this aspect. Someone suggests that providing bank guarantee to own contributions of organizations and credits (enabling pre-financing tenders that had already been submitted) may facilitate further cooperation between the civil and financial sectors. It is considered an important condition of future cooperation that parties should be better informed on each others’ modes of operation. In other words, improving financial knowledge of civil society actors would enhance effective communication between the two sectors.

Financial institutions’ key dilemma towards civil sector may be connected to commercial banks’ commitment to profit making and efficiency. In this approach, they find it easier to distinguish their core business interests from services to civil organizations while considering corporate social responsibility (CSR) as an additional program to their core business. Therefore, returns on investments and credits provided for actors of civil sector can hardly be analyzed and calculated. For commercial banks in Hungary, civil sector is not emerging as a potential market, which by its volume would necessitate the development of new financial constructions. First of all, civil partners are beneficiaries of CSR programs.

In the framework of our research we also touch the introduction of special systems of quality assurance that would increase trust in this relation. As this solution may not necessarily guarantee civil organizations increased creditability, its efficiency is often doubted. Indeed it may have a significant effect on improving self evaluation of civil organizations, increase their self estimation, and enable them to perform more self confidently towards banks and other partners being able to show its transparent structure of its operation.

The national network of credit cooperatives seems to be the most easily accessible for civil sector actors. Interviews done by foundations and cooperatives show, that most of them received credits for covering liquidity from its account runner credit cooperative branch. Besides an other important player in this field is the MagNet Community Bank, that was created on the basis of the HBW Express credit cooperative. The bank intends to find the place for nonprofits in its profit making operations. The bank perceives civil society actors (considering them clients) as one of its legs securing additional economic stability. (Community Funding Programs, Promotional Civil Services)