

E-GOVERNMENT IN HUNGARY – ANNUAL REPORT – 2006

E-Government in Hungary Annual Report 2006






ITTK Group

E-Government in Hungary

Annual report

2006



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Budapest, February 2007

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About ITTK

The BUTE-UNESCO Information Society and Trend Research Centre (ITTK) was established in January 1998. Today the Centre is an internationally recognised national institute for information society studies in Hungary.

According to its mission statement, ITTK conducts *high-level, independent interdisciplinary research* to explore various aspects of the information society, including recent trends of the information technology revolution and its social, economic, cultural, and political effects.

ITTK's research is conducted over a wide spectrum, concentrating mainly on the information society, social use of information technology and on the internet. Among other methods, the institute utilises desk-research, deep interview, focus group, online and traditional surveys, secondary analyses, content analysis, online research, data mining, data hunting, and bulletin making based on the above as well as trend analysis.

From the year 2005 on, the main outputs of ITTK, which are decisive of its profile, have been its *annual reports*, published regularly at the beginning of each year, reporting on the most important events and trends of the previous year in the global information society (*Information Society World Progress Report*), in the field of e-government (*E-Government Annual Report*), and in Hungarian development programs (*Hungarian Information Society Annual Report*).

In 1999 ITTK launched its characteristic professional periodical still in full operation, which have made its name well-known and reputed in Hungarian professional circles: the weekly online newsletter “*INFINIT*” (INFormációs Társadalom–INternet–INformációTechnológia – meaning Information Society–Internet–Information Technology)

In 2001, on the initiative of ITTK, a ten-year long survey program for collecting Hungarian data in the frames of the *World Internet Project (WIP)* was launched, in which ITTK has been participating from the very beginning. Since the WIP is *a most reliable source of reporting on the diffusion of Internet culture in Hungarian society*, the findings of annual surveys have become standard points of orientation and frames of reference regarding up-to-date knowledge about Internet access and use.

By the end of 2001 the *new quarterly, social theory professional periodical “Information Society”* was launched dealing with information society studies, and in a *book publication program* was initiated covering the history (including classics) and key issues of the field.

ITTK's most characteristic activities are the following:

- providing professional support for government projects concerning the information society;
- conducting investigations sponsored mostly by innovation allowances given to companies which are present in the ICT-market (in close co-operation with the companies involved);
- doing basic research typically financed by national and international funds; and
- managing the publication program mentioned above (professional journal, books, etc.).

Over the years the Institute underwent several structural changes, and the ITTK Group was formed.

The INFONIA Foundation was established to take over editorial and publishing work, and, later, all research activities of non-academic character. INFONIA, with its fellowship program, works on a non-profit basis, perfectly complementing ITTK's academic activities. Also in the process leading to clearer specialization, smaller research enterprises have been detached from ITTK, which found opportunities to continue their activities originally started within the Institute, now autonomously providing services demanded by the market. The "INFINIT Market" has specialized in online market research, the "INFINIT Workshop" is doing applied empirical investigations, the "INFI-Net" has specialized in web content providing, the "INFINIT Intelligence" has developed into a renowned specialist of news-hunting and newsletter editing, while the work of "INFINIT Incubator" is targeted at incubation processes.

Among the 21 colleagues of the Institute there are researchers, project managers and editors who are connected to the Institute within various organisational forms:

The turnover of the ITTK group is about 1 million Euro annually.

Research programs, networks and institutions linked to the ITTK Group

Information Society Teaching and Research Groups (ITOK)

ITOK is a teacher and researcher network which operates in 18 Hungarian Higher Education Institutions. Its tasks include research and an advisory role as well as teaching and training students about the information society at the highest level.

Palestra Program – Emerging scholars network

The professional programs and the commissioned (usually short term) researches often require additional resources. Since the organization of the ITTK could hardly be extended any more, Palestra aims to build up a network of young scholars, people who have proved their research skills at various short term projects and therefore their involvement makes it possible to run even urgent surveys without any risk.

Information Society Professional Clubs

7 years ago The Information Society and Trend Research Institute (ITTK) started a talk series at the Technical University teachers' club. These Professional events, organised about 7- 8 times annually, discuss topics related to the various (sometimes controversial) facets of information society.

The Information Society's Specialised Library

The Information Society's Specialised Library was established by BME ITTK and BME OMIKK at the end of 2003, by the financial support of IHM.

National and International relations

Establishing links with international research institutes and participating in international projects was among the major activities of ITTK from the beginning. It is our strategic aim to become one of Europe's best known and recognised information society research institute where qualified young researchers study basic and applied strands of relevant topics.

In 2006 ITTK won leadership of an international project to teach about information society. NETIS (Network for Teaching Information Society) started in November 2006, with the involvement of another 7 consortium partners, professionally led by ITTK and aided by the Leonardo Programme.

In 2006 the institute joined COST, (European Cooperation in the field of Scientific and Technical Research) a European Union programme. ITTK has taken part in COST activity no 298 (<http://www.cost298.org/>), since summer 2006, which addresses the questions of broadband society. The activity will run until 2010.

In 2006 „Future of Identity in Information Society” (FIDIS, <http://www.fidis.net>) Network of Excellence continued its operations within the framework of the 6th research and technology programme of the EU. This network currently includes 24 consortium members (mainly University research

institutes and companies). FIDIS is interested in the technological side of the identity question (databases, data handling) and the impact of these on society. ITTK's scholars are involved in a number of work groups of this project.

Since 2003 ITTK's academic director represents Hungary at IFIP (International Federation for Information Processing, <http://www.ifip.org>), in Technical Committee no 9: Relationship between Computers and Society.

Among other partners our Institute keeps in close contact with the Zentrum für Soziale Innovation in Vienna (<http://www.zsi.at/>), and the Center for Advanced Studies and Research in Information and Communication Technologies & Society (<http://www.icts.sbg.ac.at/>) at Salzburg University in Austria.

While achieving an increasing international presence our Institute also has very strong connections with major partners researching the information society in Hungary such as Algonon Research Institute (ELTE), E-business Research Institute (Corvinus University), ITHAKA (ELTE), Janos NEUMANN Computing Society, Hungarian Content Industry Association, Association for Computer Related Businesses, IMEH group at ZMNE Department of Informatics, or the Media Teaching and Research Centre (BME).

Executive summary

Although the development of the Hungarian information society is generally slow, 2006 brought significant achievements in international comparative analyses for Hungary in regard to the development of e-government front office services; however, our research team believes that the maintenance of these results - which were primarily the product of Hungary having satisfied the compulsory EU directives - is not possible without starting the modernization and simplification of back-office procedures and administrative processes in 2007.

The first, foundation phase in e-government was concluded in Hungary by 2006. The systems of the basic infrastructure as well as the basic services required for the implementation and operation of e-government were successfully developed, however, more thorough developments facilitating the modernization of the internal processes of e-government are needed in order to provide more comprehensive and higher level services to users.

According to the Hungarian figures of the World Internet Project (WIP) in 2006, 48 percent of Internet users contacted public administration institutions through the Internet. These users typically looked for information, but 16 percent downloaded forms while 40 percent searched for information on the home page of the given institution. What is more surprising than these figures is the sociological characteristics of those interested in e-government: those who use e-government services tend to come from the middle age groups, many of whom live in small towns and settlements, as opposed to the still typically young, urban and better-off Internet users.

From 2007 a fifth level of online sophistication called *targetisation* will be added to the currently existing four levels. The term denotes a targeted level providing proactive, automated services. The New Public Administration Procedures and Services Act (Ket.), passed last year, will provide an excellent basis to reach this level, since for example in the case of frequently used services, such as tax return and social security, it is unnecessary for citizens to enter data over and over again which is already recorded by public administration. For now only the twenty obligatory online services need to be developed to the fifth level.

It can be perceived that Hungary's good results might be in danger soon unless the so far steady pace of progress is maintained and the next step is taken. It is clear that infrastructural developments alone will not generate higher indexes of use either in the area of simple ICT tools or that of e-services. Therefore, sources must be urgently focused on areas that facilitate the acceptance of or even create a need for the use of e-government by citizens.

Further highlighted areas to consider in the near future include the extent to which the progressive Ket. and the Act on the Freedom of Information by Electronic Means are actually implemented and observed, as well as the rate at which the public access network will be developed into endpoints directly available for citizens, and the level of availability of experts, such as IT-mentors, who can act (also) as social intermediaries.

Important figures from 2006:

- 30 percent of the world's financial expenses are in the government sector, i.e. increasing the efficiency of public administration by even just a few percentage points can mean a significant gain in savings.
- Thanks to research- and development projects, the GDP of the EU 25 between 2005 and 2010 may increase by as much as 1.54 percent, i.e. 166 billion euros.
- In the European Union 55 percent of those who used e-government services expressed a positive opinion about these services.
- In the EU's e-readiness ranking (Capgemini) Hungary moved up from the 23rd to the 14th place in 2006.
- In 2003 the readiness level of electronic services was only at 15 percent but this figure rose to 80 percent by 2006, while the percentage of services that are fully available online increased to 50 percent, thus Hungary reached the EU average in both indicators.
- In 2006 48 percent of Hungarian Internet users contacted some kind of institution of public administration via the Internet.
- As a result of the introduction of compulsory online tax returns, over 400 thousand people registered in the Client Gate (Ügyfélkapu) by the end of 2006.
- Since its launch on 1st April in 2005 the Client Gate has had over 2 million transactions.
- As many as 1.2 million businesses will have to submit their tax- and contributions declarations online in 2007.
- 80 percent of local governments decided on the general exclusion of e-administration, thus people living in these areas may be severely disadvantaged since they will be deprived of one of the main instruments of e-equality.

Trends and new challenges in e-government

Now that the global competitiveness of the EU has weakened, ICT means as an engine of growth need to be increasingly emphasized. Bearing this in mind, the European Commission put forward its “i2010: European Information Society for Growth and Employment” initiative [COM(2005) 229], the first conclusions of which were summed up at the end of 2006. The third pillar of this initiative urging member states to take more powerful action promotes the facilitation of social integration through the development of better electronic public services and their application to improve social inclusion, among other things. The significance of this topic area is indicated by the fact that according to certain scenarios the GDP of EU 25 may increase by 1.54 percent (i.e. about 166 billion euros) between 2005 and 2010 as a result of e-government research and development projects. There is a strong chance for this increase to be realized since according to estimates the EU member states – among them the Scandinavian states and Great Britain being in leading positions – spend nearly 12 billion euros annually on the development of e-government.¹ Thierry Drillon, the vice president of CISCO’s European division expressed his opinion at a conference² saying that 30 percent of the world’s monetary expenses are in the government sphere, meaning that increasing its efficiency by even just a few percentage points might represent significant savings.

The pace of development and the shift in attitudes are both outstanding. For example, when the number one government portal in the United States was launched 12 years ago it provided nothing more but some static information, whereas today’s online e-services need to face up to far different challenges, such as making the government operations transparent and accountable, increasing the level of satisfaction of users and citizens, and alleviating the bureaucratic burden on tax payers while ensuring the accessibility of office services on multiple channels.

The European Commission clearly sets out that by 2010 all EU citizens (regardless of age, sex, and financial standing) must be able to have easy access to reliable, secure and interoperable electronic services as well as a wide range of modern technological means.

EU citizens show a definite need to have *online* access to e-government and other public services, since 55 percent of those using e-public services in the

1 See: <http://ec.europa.eu/idabc/en/document/5664/194>

2 See Mihály Csótó: Electronic Government – World e-Gov Forum (<http://www.worldegovforum.com/>). Információs Társadalom [Information Society], 2007/1.

EU expressed a positive opinion about these services. At the same time, one third (33%) of users have come across some kind of an obstacle when they attempted to use an e-government service, according to a survey conducted as part of the *eUser* project³ funded by the EU. Another interesting finding of this survey is that although users welcome the opportunity of online access and administration, they often feel that this form does not bring them tangible benefits when compared with using administrative services in person or via the telephone. It is generally true in Europe that among non-Internet users who otherwise would like to use e-government services one out of three is unable to do so as a result of inadequate computer skills. Even though they would like to, a significant proportion of citizens are unable to even try e-government services due to the lack of these skills and experience.

This problem is even more relevant in Hungary since the sociological composition of Internet users as well as the number of PC and Internet connections of households hardly changed in the last two years. According to the estimates made by the researchers of the World Internet Project⁴, 64 percent of the adult population in Hungary cannot be regarded as Internet users, and 53 percent of the Hungarian population did not use computers at all in 2006. In regard to PC use at workplaces, at 29 percent Hungary is among the last in the EU 25.

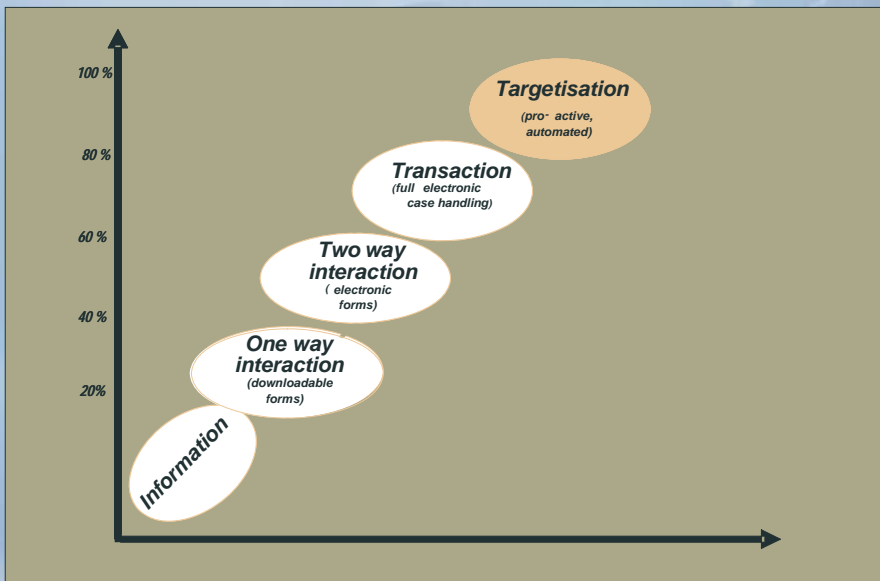
What is of even greater cause for concern is that within Internet and PC non-users there is a dominance of those without any direct, personal experience in regard to the basic means of the information society and no such relationship with people who use the Internet or e-government services for example. The main social challenge today is the extension of the cultural framework of the information society in an everyday context to include those that are currently isolated from it.

E-government services could provide an excellent opportunity for these people, even more so since a surprisingly great interest and openness can be seen in Hungarian society even in groups whose socio-economic characteristics are at variance with those of current users. In regard to development projects in addition to the development of the twenty online e-government services currently prescribed by the EU, a serious problem is caused by the lack of information about the needs and expectations of users and non-users, the latter representing a great majority at the present, as well as by the fact that the expansion of e-government services are not accompanied by sufficient informative marketing campaigns, which we feel was missing especially in the launch of e-taxation in Hungary.

3 See <http://www.euser-eu.org/>

4 See: <http://www.itk.hu/web/wip.html> and <http://www.tarki.hu/research/wip/index.html>

International experience shows that the state may have a major role in increasing the demand for digital literacy and e-government services. For example, the use of e-government services is not an option but an obligation in Denmark, since during certain administrative processes citizens are required to name an account they use to conduct their financial transactions with state institutions. The now obligatory e-taxation in Hungary may similarly exert a beneficial influence on the overall use of e-government services, which is reflected by the number of private individuals that registered via the Client Gate having reached 500 thousand by the end of December 2006. As stated in the previously quoted research, the launch of new services should be accompanied by more efficient marketing and advertising activities enhancing the popularity of e-government services. Unfortunately, the amount of attention and funds devoted to these activities in Hungary leaves much to be desired.



Source: Capgemini, 2006

The survey conducted by Capgemini⁵ this year indicates the pace of development in the area of e-government in Hungary. According to the survey Hungary experienced the greatest degree of development in the past year, moving up from 23 to 14 in the European ranking. In 2003 the readiness level of electronic services was 15 percent, which jumped to 80 percent by 2006 with the percentage of online services made fully available *online* having

5 http://europa.eu.int/information_society/eeurope/i2010/docs/benchmarking/online_availability_2006.pdf

reached 50 percent, thus Hungary reached the EU average in both indicators. From 2007 a fifth level of online sophistication called *targetisation* will be added to the currently existing four levels. The term denotes a targeted level providing proactive, automated services. The New Public Administration Procedures and Services Act (Ket.), passed last year, will provide an excellent basis to reach this level, since for example in the case of frequently used services, such as tax return and social security, it is unnecessary for citizens to enter data over and over again which is already recorded by public administration. For now only the twenty obligatory *online* services need to be developed to the fifth level.

It can be perceived that Hungary's good results might be in danger soon unless the so far steady pace of progress is maintained and the next step is taken. It is clear that infrastructural developments alone will not generate higher indexes of use either in the area of simple ICT tools or in that of e-services. Therefore, resources must be urgently focused on areas that facilitate the acceptance of or even create a need for the use of e-government by citizens. In order to achieve this citizens' needs in regard to administration should be surveyed and out of the hundreds of services planned to go online those in the greatest demand should be identified. Unfortunately, no attempts were made in this regard in 2006.

The planned new development projects set out the construction of a so-called "citizen access utility" in e-government, which will most probably be accessible with the help of a social security number-based chip card. Thousands of card readers will be installed at access points in various institutions (e.g. surgeries, schools, cultural centres, mayor's offices) from where inexperienced citizens will also be able to access the Client Gate. It is important to pay attention to the development of human infrastructure in these projects, since it was overlooked when e-Hungary points were set up and thus the social and community development effects of previous development projects cannot be regarded at all as significant. It is well known in sociology that the proliferation of innovation and new opportunities is greatly influenced by the proliferation of information about them and whether advice or assistance can possibly be obtained from acquaintances or experts. According to the surveys of the *eUser* project, nearly half of those citizens that use e-government services also act as social mediators, i.e. every second user helps friends, acquaintances or relatives to use *online* services that they would otherwise not utilise.

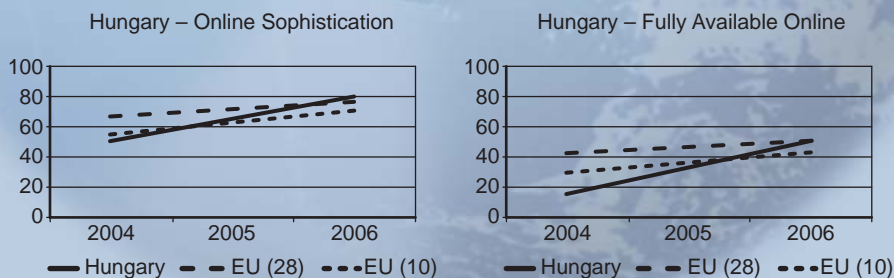
The favourable picture of Hungary outlined by an international comparison might be somewhat deceptive since the surveys it is based on regularly take only the *front-office* services into consideration and pay less emphasis

in their study on the development level of *back-office* procedures. Thus it often happens that even analysts are unaware of the fundamental challenges and necessary reforms in connection with the back-office that are essential for the longer term sustainability of the positive front-office results. It is an especially sore point that the implementation of e-government services did not extend beyond simple IT development in the majority of local governments that receive a total amount of 11 billion forints, mostly from EU funding, and that the projects did not include the elements of rationalising structures and procedures by utilising knowledge management, *outsourcing*, etc. Never before was there a greater need to co-ordinate central and local government development projects and information-sharing between these two different administrative levels than in these years.

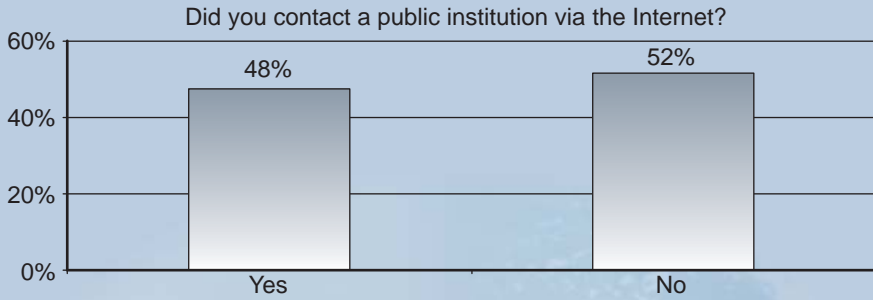
The results of e-government in Hungary

1. Increasing social demand

The pace in the development of e-government is shown by the previously quoted Capgemini survey, which – using the same method each year – examines the level of readiness at which the 20 public services suggested by the EU are accessible. In the course of one year Hungary has moved up from 23rd place to 14th in the European ranking. In 2006 the level of readiness in electronic services in Hungary reached 80 percent, while the proportion of services fully available online jumped to 50 percent.

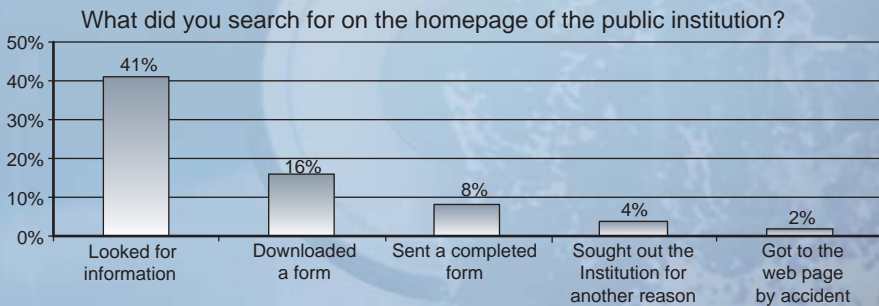


The demand for e-government services in Hungary is supported by other research too. According to the 2006 data of the *World Internet Project*, in the period of three months prior to the survey 48 percent of citizens contacted some kind of public institution through the Internet.



Source: WIP, 2006

In most cases the *online* connection was aimed at searching for information (41%) but a significant proportion of users (16%) downloaded some kind of form, and approximately a tenth of those who logged on sent a completed form. A smaller group of Internet users (4%) sought out some kind of public institution on the Internet for other reasons, and there were others (2%) who contacted public institutions through the Internet for no particular reason or simply got to these homepages accidentally.



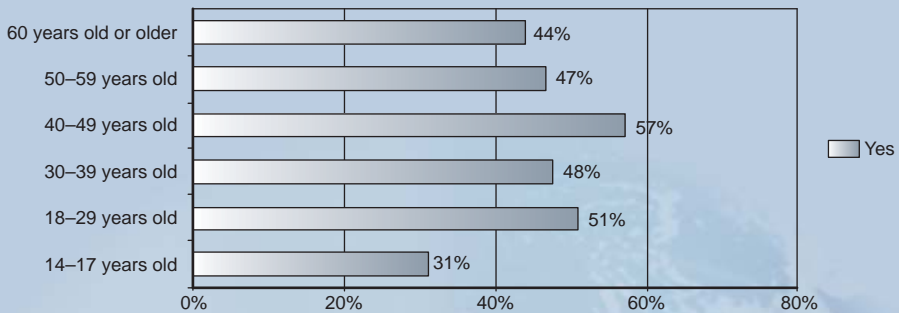
Source: WIP, 2006

The majority of those who have already sought out some kind of public institution on the Internet are female, middle-aged and typically resident outside the capital.

Over half (52%) of women who use the Internet had contacted public institutions online. In the case of men this proportion is 44%, which is interesting because overall the use of the Internet is still somewhat more widespread among men than among women.

Although in many respects young people are usually at the vanguard of technological advancement, when it comes to initiating *online* connection with public institutions – it appears – that it is rather the older age groups, and more specifically those aged 40-49, who are the most interested; more than half (57%) of this age group already had online contact with institutions of public administration over the Internet.

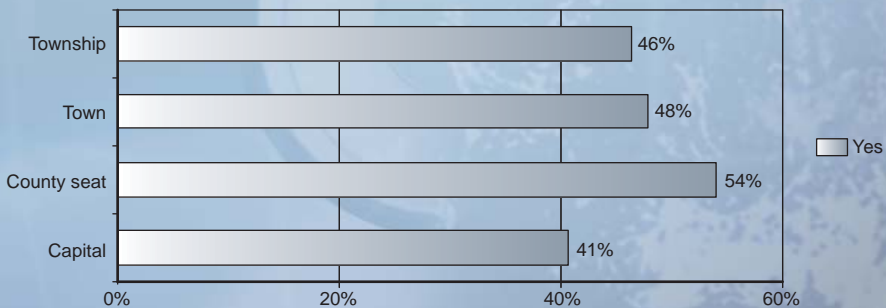
Have you had contact with institutions of public administration over the Internet?



Sources: WIP, 2006

In studying the distribution according to settlement type an interesting phenomenon can be observed: the so-called “settlement slope” (growing regional inequalities accompanying decreasing settlement size) is not applicable, i.e. as compared to Internet users in Budapest there are not fewer Internet users in small settlements but rather a higher proportion that already had *online* contact with public institutions.

Have you had contact with public institutions over the Internet?



Source: WIP, 2006

All of this means that the traditional “developmental” differences are not present in the use of electronic public administration services, i.e. if somebody is already a “Internet citizen”, other factors play a role in whether or not that individual makes use of these services or not, and these are not the traditional inequalities.

2. *The year of electronic declaration of taxes and contributions*

One of the most important projects of the Hungarian e-government is the introduction of electronic tax- and contributions declaration, in the process of which the year 2006 played a prominent role. The concept and the implementation underwent numerous tests, and the compliance to deadlines that the government fixed for this year – which can be regarded as milestones – will function as an indicator showing where the modernization of Hungarian public administration is at a given time. The process which started in 2002 reached a crucial phase in 2006: by the end of this year every Hungarian employer had to register themselves in the system, and since January 31st 2007 it has been obligatory for them to use the electronic system through the Client Gate.

Expectations, facts, experience

In the late autumn of 2006 Iván Futó, the former IT vice president of APEH (the Hungarian tax authority), estimated that every business that would stop filling out its tax declaration forms on paper could save some 10 to 50 thousand forints, while for the state treasury this could mean a saving of 300-400 million forints. By the end of May 75-80 thousand companies, i.e. close to two thirds of those obliged, used the Client Gate to arrange their tax affairs, meaning that a great many companies chose this process voluntarily.

On May 12th, on the day of the system's first real test, declarations arrived from approximately 25,000 businesses until noon, but problems in the system's performance did crop up.

Changes in the number of registered tax-payers and the electronic declarations submitted by them in the last five years

2002	2003	2004	2005	2006	2006
Number of registered tax-payers	610	860	3,000	40,000	600,000
Electronically submitted declarations (piece)	8 thousand	40 thousand	150 thousand	520 thousand	2,800,000 (estimate)

Source: APEH, Pillér Ltd., 2006

In 2007 1.2 million businesses must submit their tax- and contributions declaration electronically, out of which approximately half a million are companies and 700 thousand are individual enterprises. The government has now also accepted the tax package draft bill which brings some general allowances as well as monetary advantages for companies if they utilize the opportunities offered by the electronic means of declaration, and if they can encourage their book-keepers to help deal with their administrative affairs electronically in the future.

Client Gate

International experience demonstrates that the state can play an important role in increasing both the level of digital literacy and the interest regarding e-government services. For example, in Denmark the utilization of e-government services is not just an opportunity but an obligation since the measures taken by the governmental authorities demand, among other things, from their citizens that they nominate a bank account through which any movement of money connected to the state should take place. The introduction in Hungary of electronic tax declaration is similarly obligatory, and it is thanks to this that the number of private individuals registered through the Client Gate increased exponentially in 2006.

Since the opening of the Client Gate, i.e. since April 1st, over two million transactions have been registered in the Hungarian e-government system, and in the meantime – and this is important to note – up to now serious problems in relation to security have not arisen. Over 400 services can be accessed through the Client Gate and according to EU experts the 20 (in Hungary 27) services that can be regarded as the most frequently accessed amount to 80 percent of the entire state administrative communications that take place. At present in Hungary 33 domestic governmental institutions, 26 EU organizations and eight public service companies provide e-services. The success of the Client Gate is demonstrated by the fact that since May 1st 2006 some kind of e-service offered by the Client Gate was utilized 11.5 million times, while the number of visitors to the portal during the course of half a year was 48 million.

Almost 80 kinds of administrative functions can be initiated in the virtual document office, with the most frequently employed of these being the making of document office appointments, which took place on 150,000 occasions in 2006. The number of documents that can be electronically downloaded and then printed exceeds two thousand. The collection of effective legal statutes available *online* continues to be very popular, as well as the approximately 800 bulletins containing descriptions of administrative issues.

The Public Administration Procedures and Services Act (Ket.) placed *on-line* administration on a par with the traditional methods, prepared the executive orders, and at the same time the legislator left a loophole for local governments: local decrees can be used to evade the obligatory introduction on e-government. Presumably local governments lacking the necessary expertise or sufficient resources will take the opportunity and use this loophole, thus the inhabitants of the many settlements affected will be placed at a significant disadvantage: 80 percent of local governments have decided to generally exclude electronic administration in 2006.

Contact information:

Should you have any comments in regard to the report or would like to contact us, please do so at the BUTE-UNESCO Information Society Research Institute.



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