Cronyism in Hungary

Empirical analysis of public tenders 2010-2018

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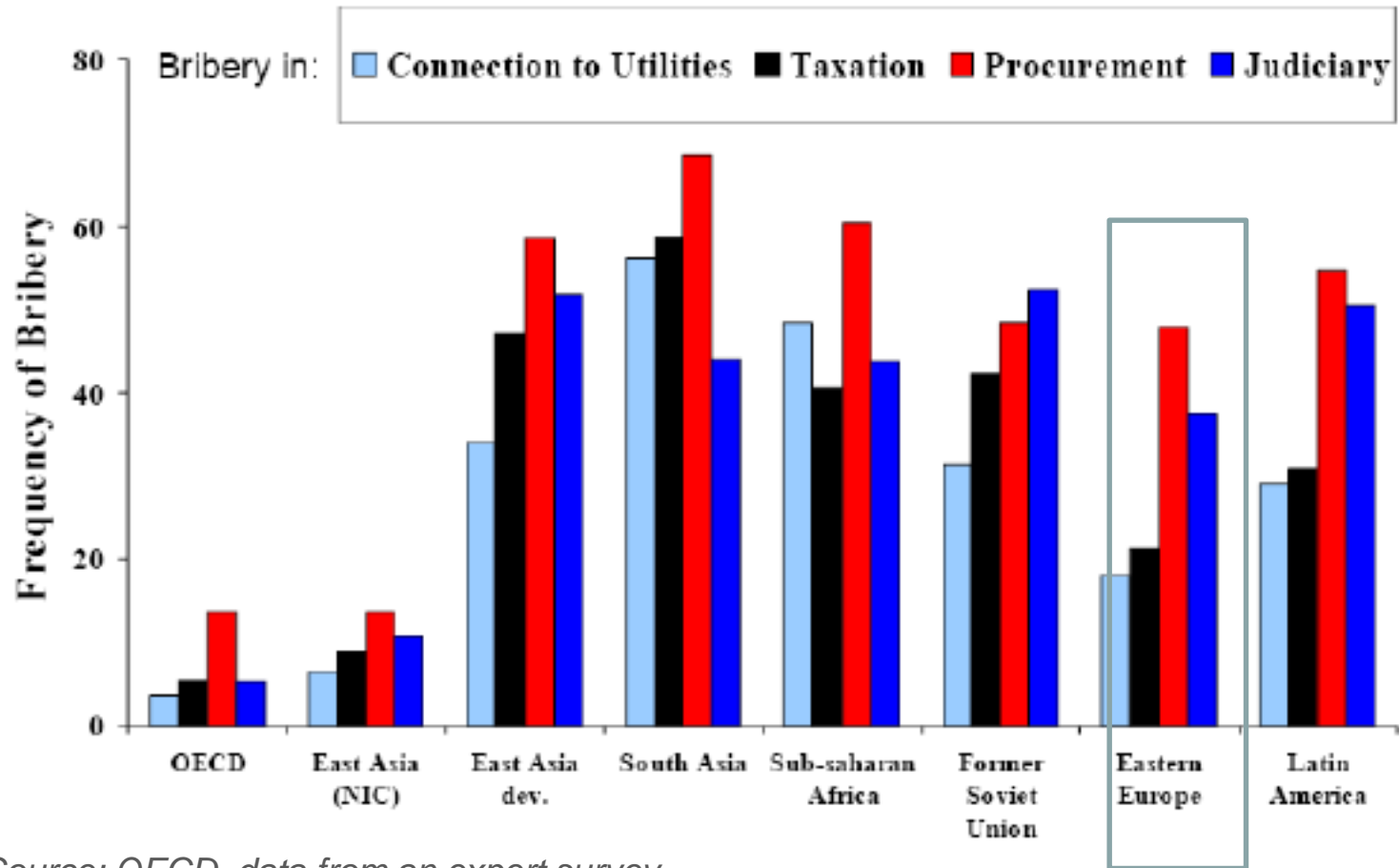IWE workshop, Budapest, September 12, 2019

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Motivations

Motivations

- Empirical investigation of cronyism in Hungary based on objective data

- Using big data approach

- In the public procurement (one of the main field of possible corrupt activities)

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Fields of corruption

Source: OECD, data from an expert survey

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Share of EU funded PP in total number of PP in European countries, 2009-13, N = 1,777,955
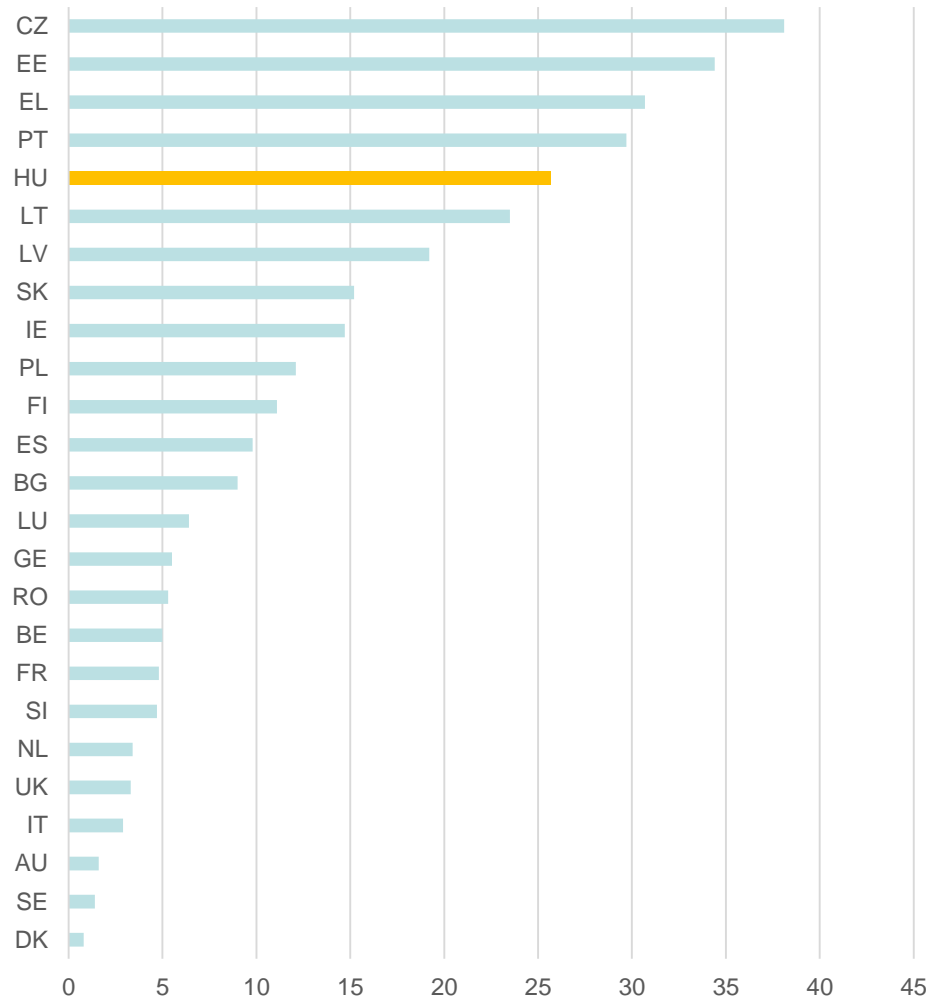
Source: TED, calculation by CRCB

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Theoretical background & literature

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Background

- *Cronyism and kleptocratic system / state*

cronyism: when the state allocates its resources to the individuals and groups closely related to its leader
(Haber, 2002).

The extreme case of the cronyism is the *kleptocratic system* when par excellence the political leaders, their fronts and their families will be the beneficiaries the state then becomes an extortionary or kleptocratic state
(Rose-Ackerman, 1999).

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Empirical evidences on crony systems

- From Africa,

- Latin-America

- Asia

(Harm and Charap, 1999; Haber, 2002; Kang, 2002; Diwan, Keefer and Schiffbauer, 2015;
Nucifora, Churchill and Rijkers, 2015; Rijkers, Freund and Nucifora, 2017)

- Hungary

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Indicators & data

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Indicators: corruption risks

1. Single bidder *(SB); [0,1]:*

the tender is competitive or non-competitive

(Coviello & Gagliarducci, 2010; OCDS, 2017; Heggstad et al. 2010; Fazekas et al. 2013b; Fazekas et al. 2016; Tóth-Hajdu, 2017).

SB = 1 if the tender was conducted with only one bid

SB = 0 if there were more than one bid

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Indicators: intensity of competition

3. *ICI (index of competition intensity):*

The ICI is related to the number of bids (NB). ICI has missing value if NB=1, because we assume that if there is only one bid, then there was no competition that could be measured.
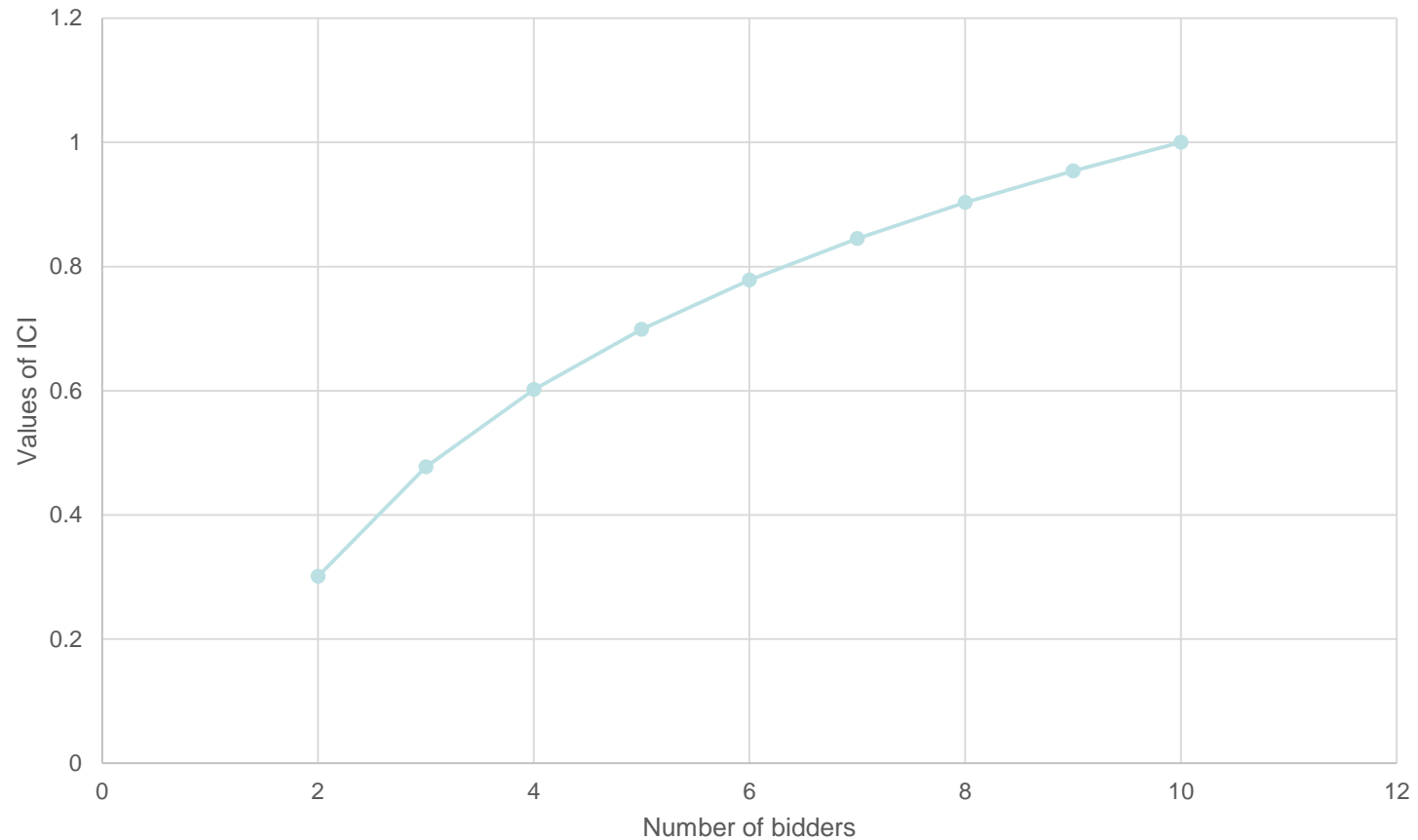
$$ICI = lgNB \qquad\qquad if\ 1 < NB \leq 10$$

$$ICI = 1 \qquad\qquad if\ 10 < NB$$

$$0.301 \leq ICI \leq 1$$
(Tóth – Hajdu, 2016; Tóth-Hajdu, 2017).

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Values if ICI by number of bidders (NB)

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Crony companies: the MGTS group

4. MGTS [0,1]: the companies owned by Orban's cronies

Lőrincz **M**észáros

A close childhood friend of the Hungarian Prime Minister; a gas fitter; the mayor of Felcsút (the village where Viktor Orbán spent his childhood). A Hungarian billionaire since 2013 (http://bit.ly/1nKficQ). Many experts assume that he serves as a front (straw man) for Viktor Orban's business dealings (http://on.ft.com/2BSL2qp and http://bit.ly/2Dy7R09). While he was an ordinary citizen without any considerable wealth in 2009, according to estimates by Forbes Hungary in 2017, his wealth had reached $392 million (http://bit.ly/2DBEeLq, http://bit.ly/2DAnk05 , http://bit.ly/2E7pEMZ and http://bit.ly/2GeKF97).

Istvan **G**arancsi

Hungarian businessman, owner of the Videoton FC football team, president of the Hungarian Association of Hikers; close friend of Viktor Orbán's (http://bit.ly/2DIKt3p). Many assume that he serves as a front for Viktor Orban's business dealings (http://bit.ly/2DMIprv and http://bit.ly/2Bs57jc).

István **T**iborcz

Hungarian lawyer and businessman; son-in-law of Viktor Orbán, Hungary's prime minister (http://bit.ly/2DxhgoN).

Lajos **S**imicska

Hungarian businessman, owner of Hungarian TV news channel Hír TV and one of Hungary's leading dailies, Magyar Nemzet; Hungary's 11th richest person estimated by napi.hu on its list of the 100 richest Hungarians; Viktor Orbán's dormitory roommate. Later, he held several positions: Fidesz treasurer, President of the Hungarian Tax Office, and general manager and CEO of Mahir, one of the market leaders in advertising in Hungary. He fell out with Viktor Orbán on 6th February 2015 (http://politi.co/2rBxFap and http://bit.ly/2dY2TA4).

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Data

- Public Procurement Database built by CRCB

- Period of time: 2005-2018

- 201,831 contracts (without framework agreements)

- Dates, CPV codes, contract value, estimated contract value, number of bidders, name of winners, EU funds [0,1]

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Share of contracts with single bidder, 2005-2018, %, N=197,857

Mean: 0.297
St.dev. 0.457

N: 197,857
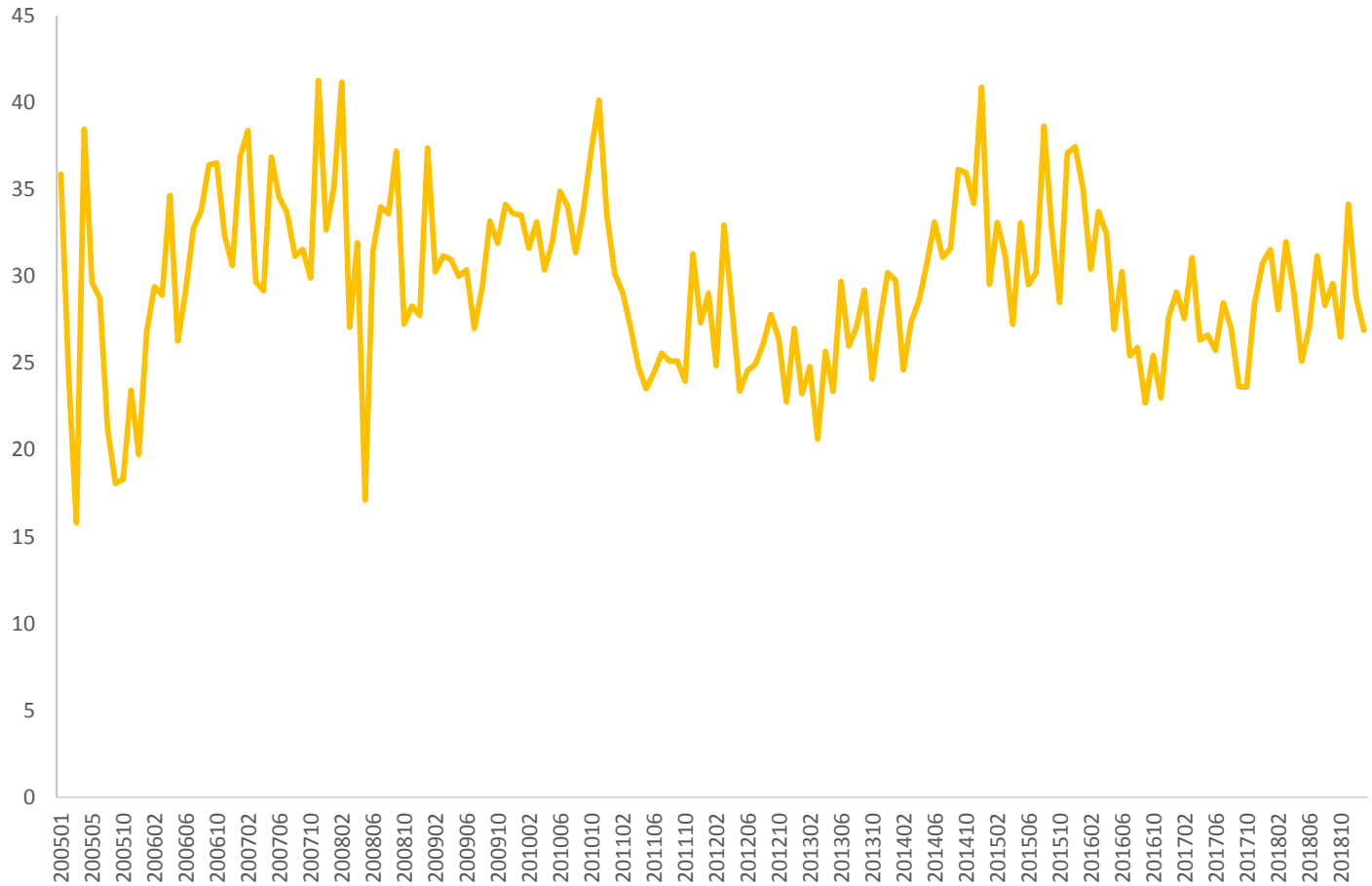
source: CRCB

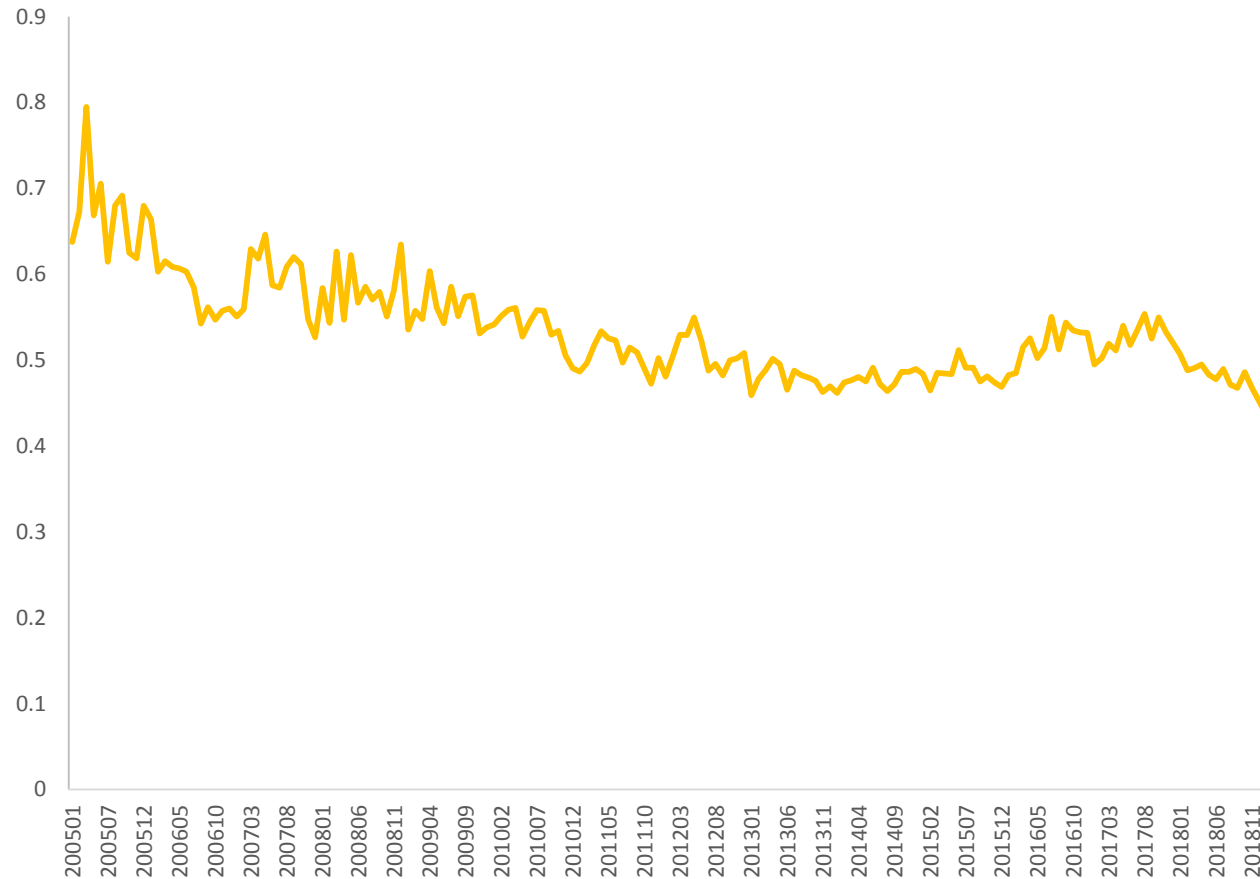# Histogram of ICI, 2005-2018, N = 138,168

Median: 0.477
Mean: 0.512
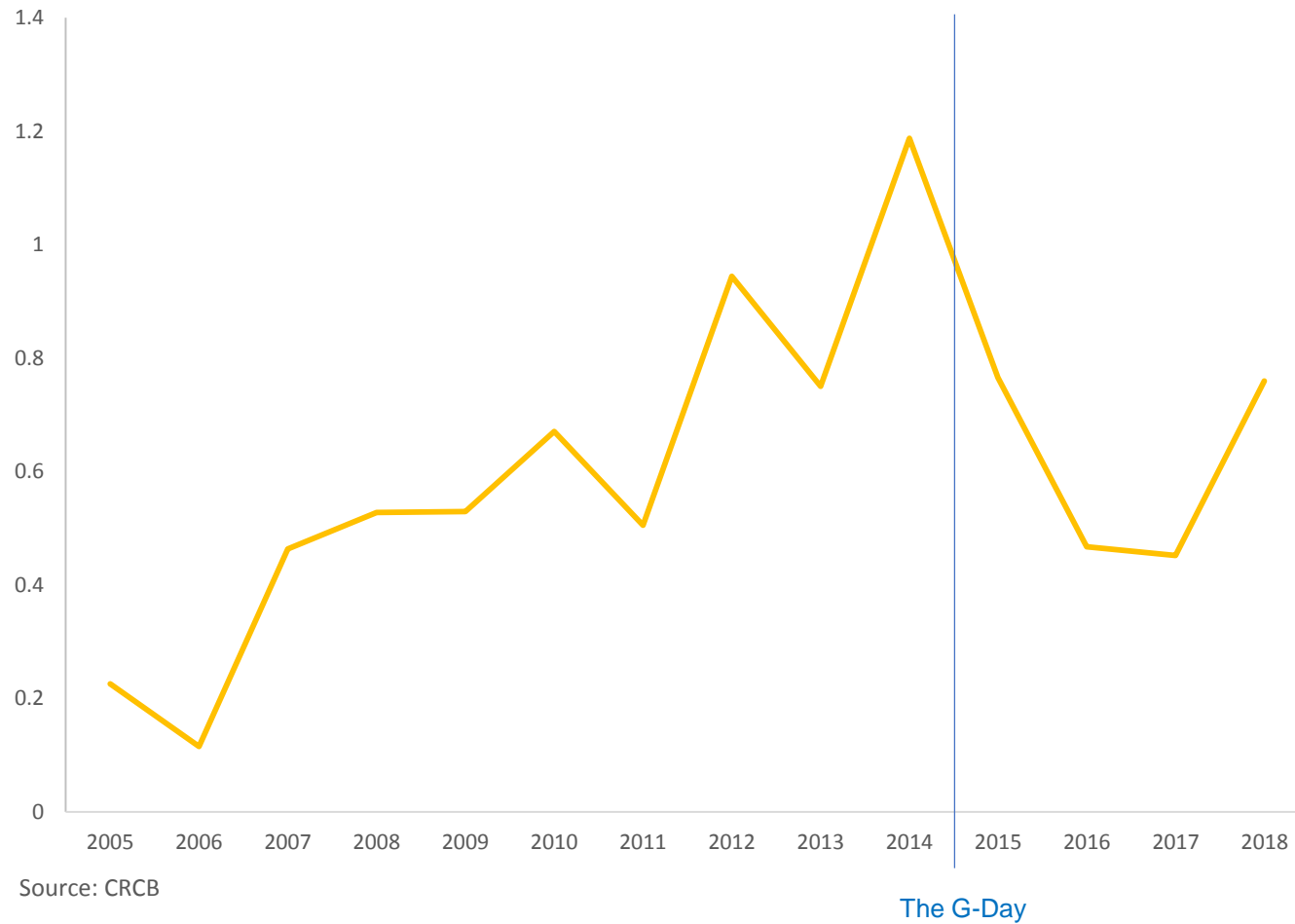St.dev. 0.194

N: 138,168

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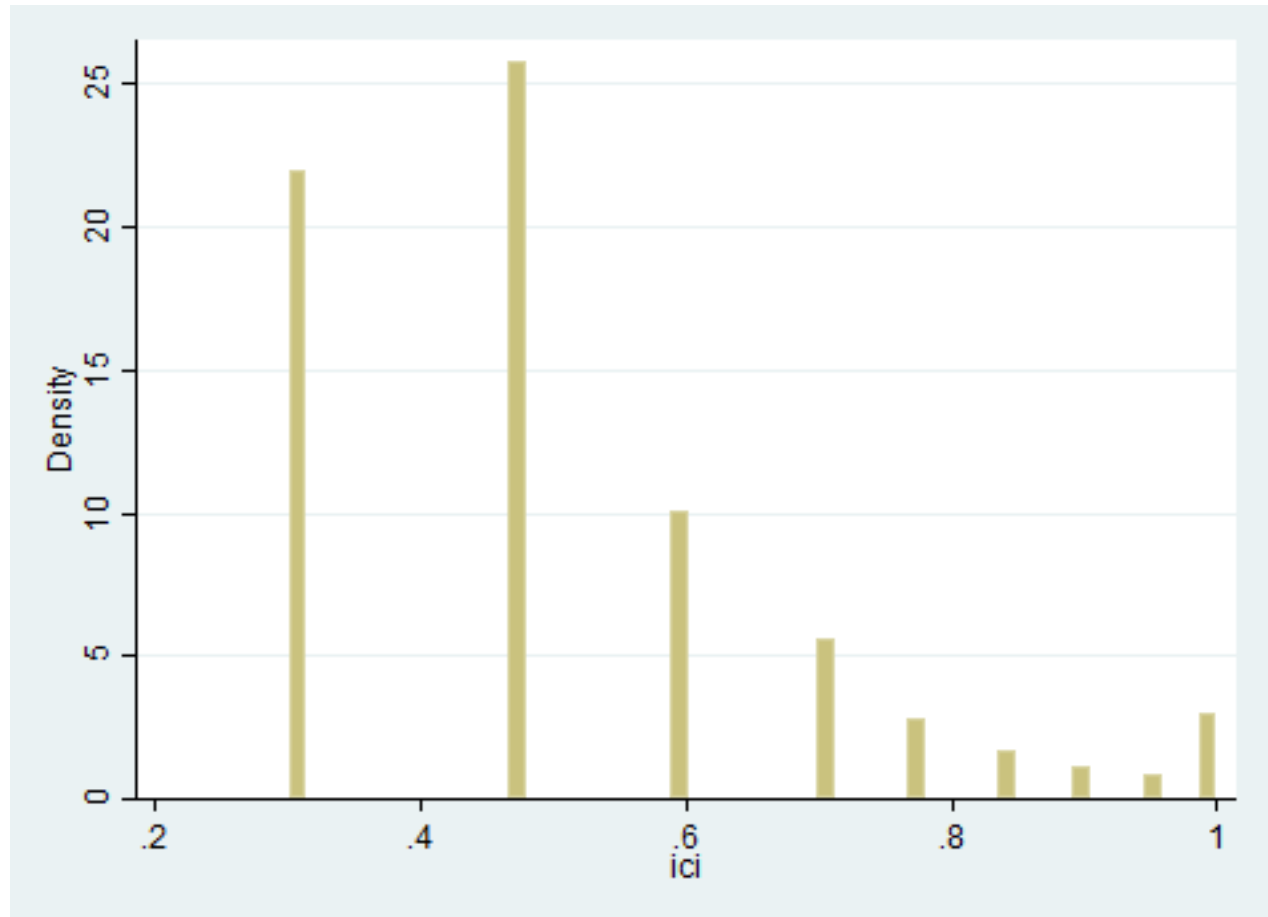
The mean values of ICI by months, 2005-2018, N = 138,168

Source: CRCB

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Share of tenders won by companies owned by MGTS group, 2005-2018, %, N = 100,932

Source: CRCB

The G-Day

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Models

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Hypothesis

H0: There are no significant differences among tenders won by MGTS and other ordinary Hungarian companies concerning

Corruption risks (SB)

Intensity of competition (ICI)

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Hypothesis

H1: The MGTS' companies won tenders with highest corruption risks and lower competitive intensity and than the ordinary Hungarian companies

→ evidence of political favouritism & cronyism
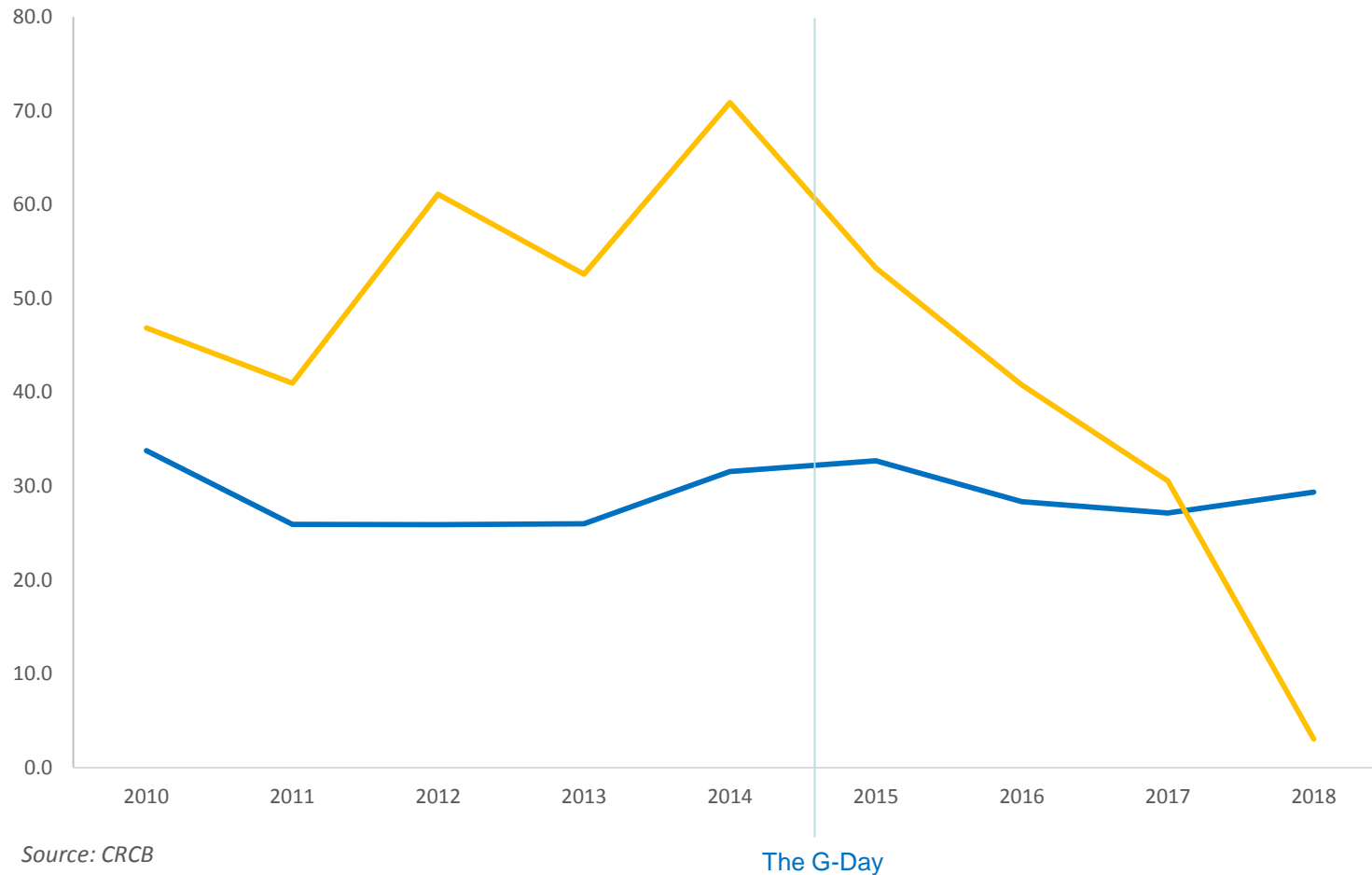
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Models

$$SB = \beta_0 + \beta_1 MGTS + \beta_2 YEAR + \beta_3 EU + \beta_4 lnCV + \beta_5 S$$

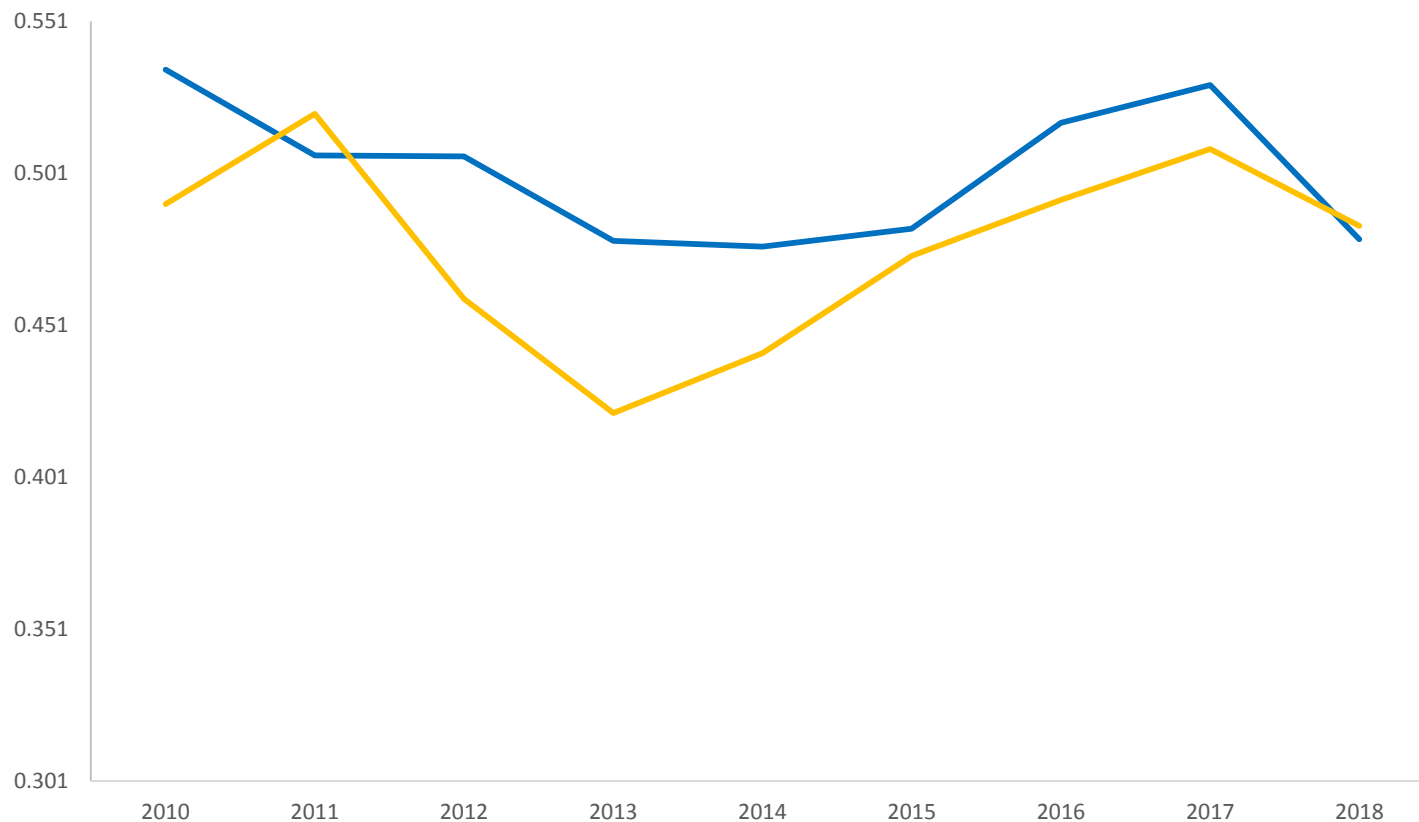$$ICI = \beta_0 + \beta_1 MGTS + \beta_2 YEAR + \beta_3 EU + \beta_4 lnCV + \beta_5 S$$

The controls are: YEAR; EU [0,1]: EU funding; lnCV: logarithm of contract value; S: sectors

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Results

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Corruption risks by MGTS (SB), 2010-2018,%

Source: CRCB

The G-Day

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Intensity of competition (ICI) by MGTS, 2010-18, mean values

Source: CRCB

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The results of estimations, 2010-2018

	Corruption risks (SB) (logit, odds ratio)	Intensity of competition (ICI) (rreg) marginal effect
MGTS	3.368***	-0.033***
Sector	Y	Y
EU	Y	Y
LNNCV	Y	Y
YEAR	Y	Y
N	158,406	111,387

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Discussion

Empirical evidence on cronyism in Hungary in the public procurement from 2010 to 2018

The tenders won by crony winners have

– Higher corruption risks

– Lower intensity of competition

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Thank you for your attention!

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