

Corruption risk and the crony system in Hungary

A brief analysis of EU funded contracts in Hungarian public procurement 2005-2021

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Main Findings

(1) The EU has a significant role in Hungarian public procurement. Data on public procurement contracts show that the EU is at least as an important player as the Hungarian state in the financing and control of Hungarian public tenders (see Fig. 1a-d). The share of contracts financed by the EU was between 50 and 80 percent from 2008 to 2015. The EU's role declined from 2019 to 2021: the EU financed only 24-30 percent of all public contracts. The share of the total net value of EU-financed contracts fluctuated from 11 to 53 percent in total net contract value from 2009 to 2021. This relatively high proportion also indicates the substantive role of the EU.

(2) 2015 is a milestone in the trend of corruption risk in Hungarian public procurement. In 2015 the Hungarian government and the EU Commission received the results of the OLAF investigation on the Elios case. The OLAF investigation uncovered significant anomalies (collusion, conspiracy to commit budget fraud) in the public procurement contracts won by ELIOS ltd (the company of Viktor Orbán's son-in-law)¹. This case is the so-called Elios case, to which the Hungarian government reacted spectacularly: after 2015, the traditional corruption risk indicator (share of the single bidder) for EU-funded public procurement decreased significantly, while the corruption risk increased substantively for contracts funded by Hungarian taxpayers (see Fig. 2a-b). We call these break-in trends the "Elios effect". The Elios effect may be both a formal adaptation to EU standards (the EU considers a single bidder rate below 10% desirable) and an actual reduction in corruption risk. In the first case, we cannot speak of a reduction in corruption risk, only of the Hungarian authorities circumventing the single bidder indicator. In a corrupt system, as the Orbán regime, it is easy for one contracting authority and three bidders to collude. In such a case, one of the three bidders is the political beneficiary, and two bids only play the role of the fake application. In this case, the single bidder indicator (since there were formally three bidders) shows a low risk of corruption, while actually, it is a corrupt transaction.

The high corruption risk is indicated by the fact that the proportion of contracts with more than three bidders in 2020-2021 for EU-funded contracts was only 29 and 33 percent, respectively.

(3) The significant players in Hungarian public procurement are the companies of the so-called Fidesz-affiliated business owners (*crony companies*) having close friendly relations with Viktor Orbán and his inner circle of friends. There are 12 business owners and 42 companies that are included in this group for the analysis. Of course, this group can be extended, but these actors belong to the inner circle of the Fidesz. According to preliminary data from the CRCB, more than 3,300 firms won approximately 80 percent of the total contract value from 2005 to 2021.

The weight of crony companies in Hungarian public procurement has increased dramatically under the Orbán regime compared to the years 2005-2010, and this share has been increasing since 2011 (see Fig. 3a-f). This trend in itself is evidence that the Orbán regime can be

¹ See: Tóth I. J. 2022. Two tendencies in the Hungarian public procurement. CRCB Research Notes: 2022:1, Budapest: CRCB

considered a crony system, where firms with political connections benefit through these connections.

Political favoritism is also evident in the use of EU funds. From 2011 to 2021, in the Orbán Regime, the crony companies benefited from a large and increasing share of EU subsidies. These 42 companies owned by politically connected owners are among of the most important beneficiaries of EU subsidies. These 42 firms alone won 21 percent of the net value of EU-funded contracts from 2011 to 2021 (without framework agreements) and 12 percent with framework agreements.

(4) The odds of winning are the ratio of winning bids to losing bids (number of winning bids/number of losing bids). This indicator is well suited when a country is characterized by systemic corruption, and the collusion between the contracting authority and the bidders is common. This feature renders the usual indicator of corruption risk (single bidder) useless because corrupt actors can circumvent it. They can also carry out corrupt transactions in cases of more than one bidder. Therefore, it is worth looking at the odds of winning in the public procurement of the Orbán Regime.

The analysis of public contracts shows that the odds of winning are much higher for the crony companies than for the firms without political ties and operating under competitive market. Between 2005 and 2010, i. e. before the Orbán Regime, the odds of winning for crony companies were, obviously, no different from those of firms operating in the competitive market, because even then the former was operating under market conditions. This situation changed radically under the Orbán Regime, and by 2021, crony companies had an average odds of 3.2, compared to around 0.5 for firms without political ties (see Fig. 4a-b).

This phenomenon is observed both for all contracts and EU-funded contracts. In EU-funded contracts, although to a lesser extent than in all contracts, it can be seen that the Hungarian authorities discriminate positively against the crony companies. Their odds of winning are significantly higher (0.85-1.22) than those of firms with no political connections throughout the Orbán Regime.

These results point out the existence of political favoritism in EU-funded contracts from 2011 to 2021. The crony companies have a higher chance to access EU funds compared to other firms.

Figures

Fig. 1a-d: Share of EU funded contracts in all contracts by number and net value of contracts, percent, 2005-2021

Data source: CRCB database. The pieces of data downloaded from website of the Hungarian Public Procurement Authority (<https://bit.ly/35yuxkd>)

Fig. 1a: Share of EU by number of contracts with framework agreements

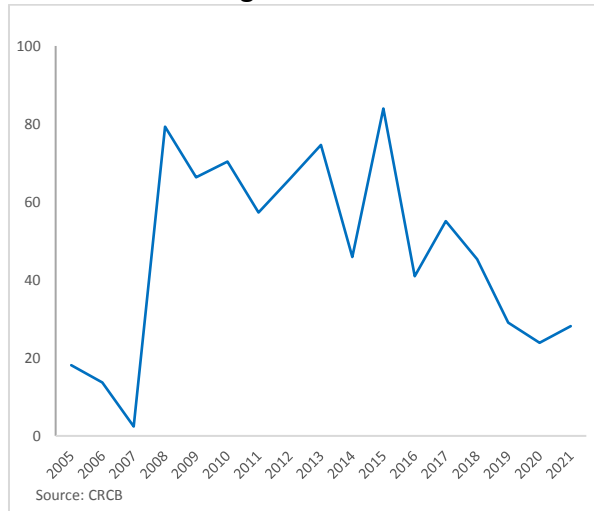


Fig. 1b: Share of EU by net value of contracts with framework agreements

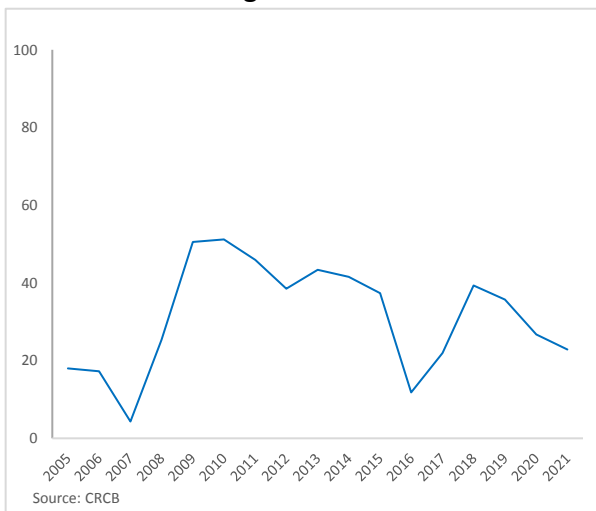


Fig. 1c: Share of EU by number of contracts without framework agreements

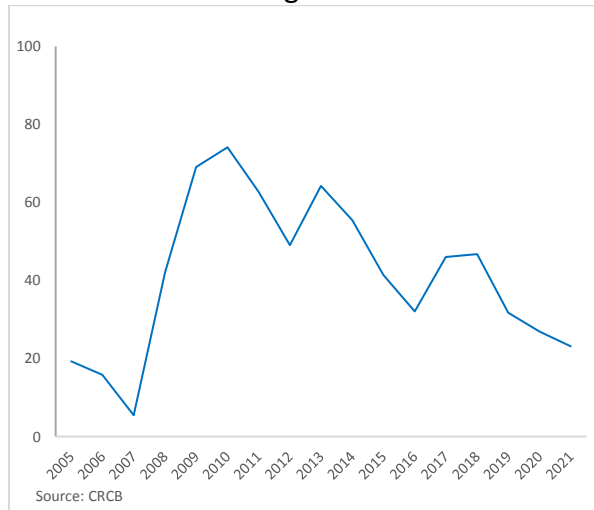


Fig. 1d: Share of EU by net value of contracts without framework agreements

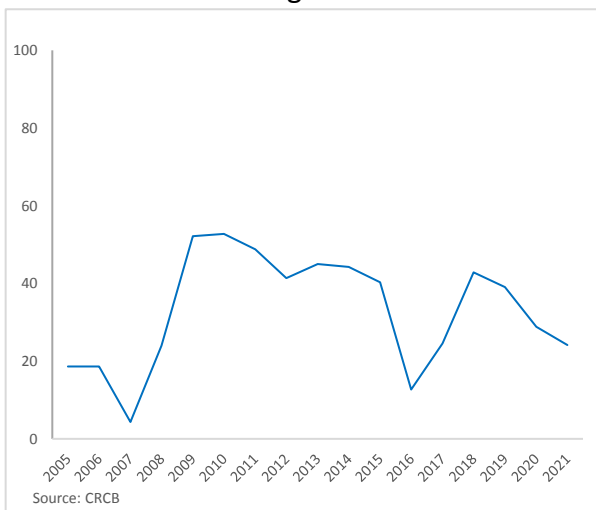


Fig. 2a-b: Corruption risk (single bidder) and control of corruption risk (more than three bidders) at contracts financed by Hungarian taxpayers and EU subsidies in Hungary 2005-2021

Data source: CRCB database. The pieces of data downloaded from website of the Hungarian Public Procurement Authority (<https://bit.ly/35yuxkd>)

Fig. 2a: Single bidder

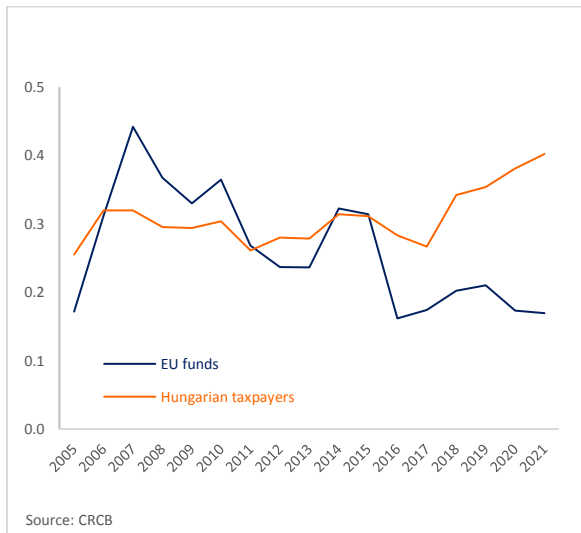


Fig. 2b: More than three bidders

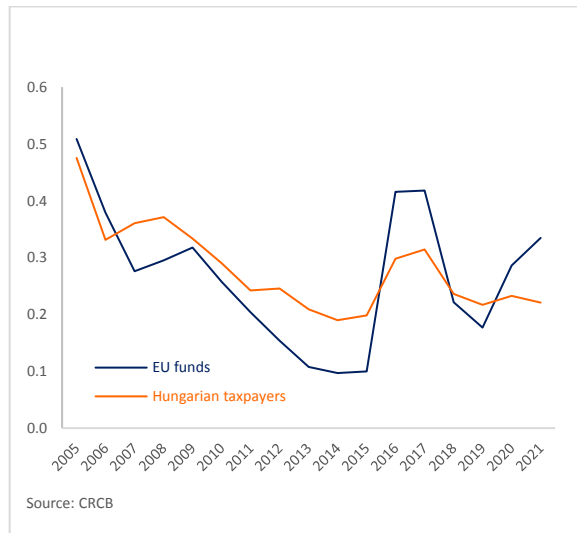


Fig. 3a-f: Share of number and total net value of contracts won by crony companies in all contracts and only EU funded contracts, percent, 2005-2021

Data from the CRCB database, the pieces of data downloaded from website of the Hungarian Public Procurement Authority (<https://kozbeszerzes.hu/adatbazis/keres/hirdetmeny/>)

Fig. 3a: All contracts

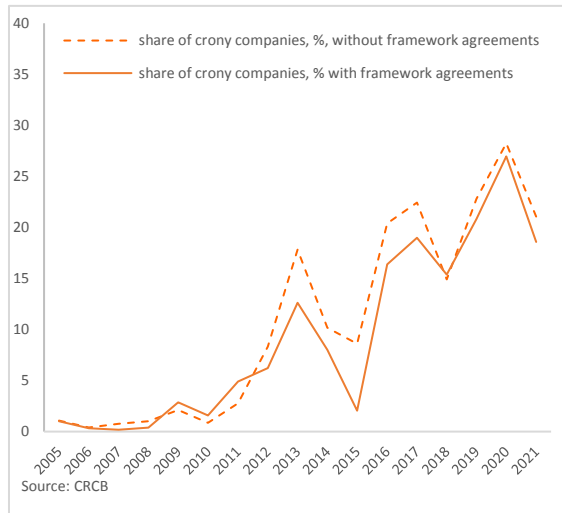


Fig. 3b: Only EU funded contracts

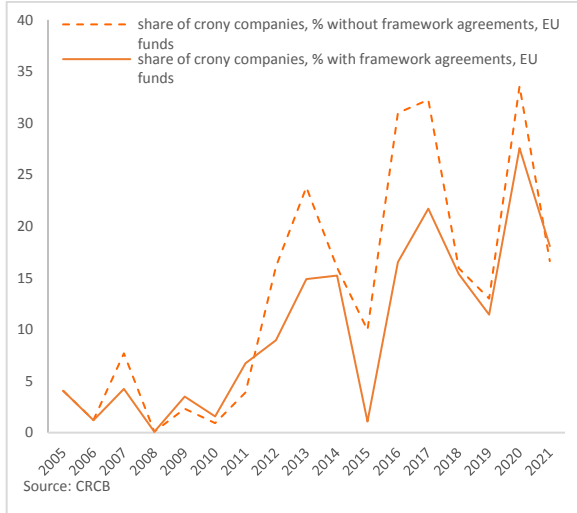


Fig. 3c: All contracts
Share of crony companies
without framework agreements

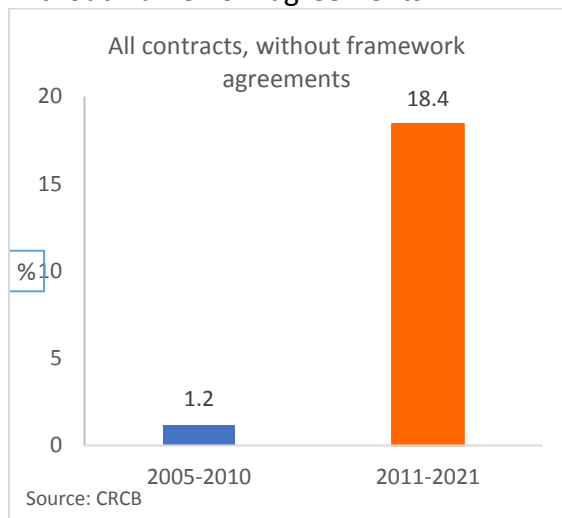


Fig. 3d: All contracts
Share of crony companies
with framework agreements

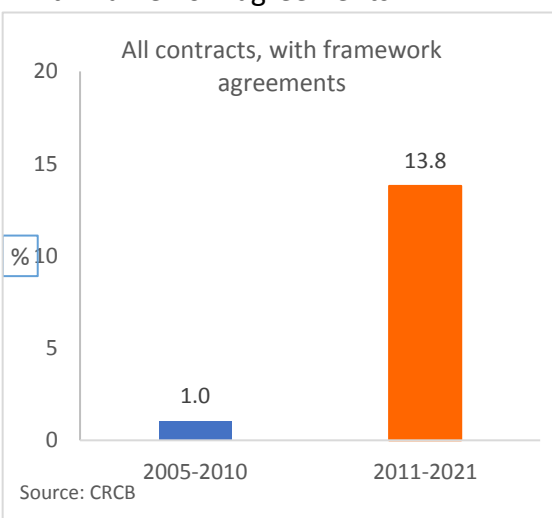


Fig. 3e: Only EU funded contracts
Share of crony companies
without framework agreements

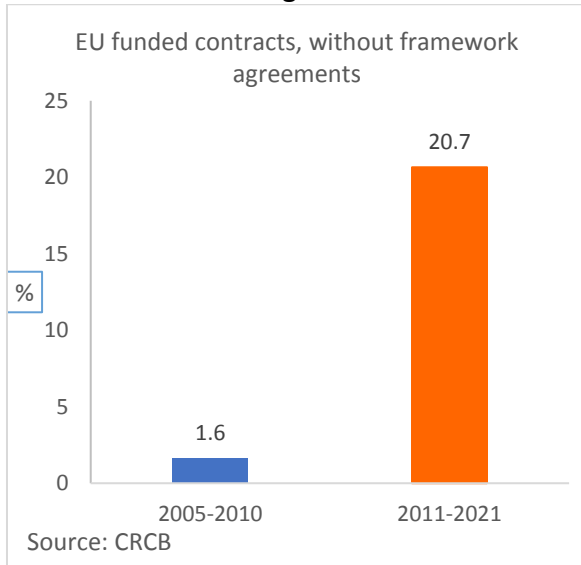


Fig. 3f: Only EU funded contracts
Share of crony companies
with framework agreements

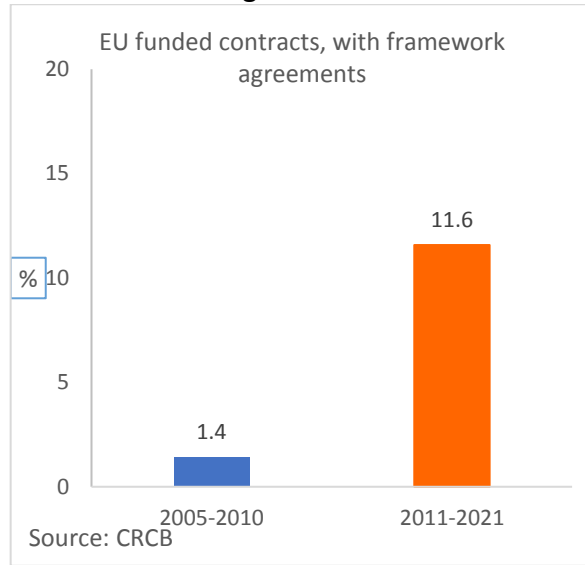


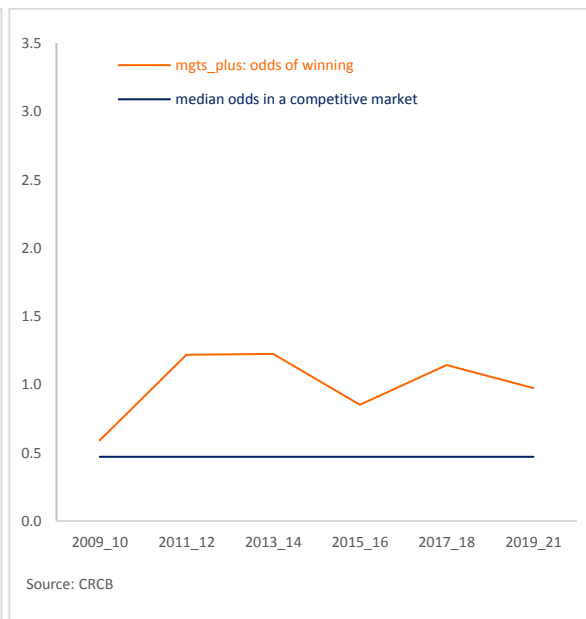
Fig. 4a-b: Odds of winning (number of contracts won / number of applications lost) of crony companies in all contracts and only EU funded contracts by crony companies [companies close to the Fidesz (mgts_plus)] and companies of competitive market without political ties in Hungary 2009-2021

Data from the CRCB database, the pieces of data downloaded from website of the Hungarian Public Procurement Authority (<https://kozbeszerzes.hu/adatbazis/keres/hirdetmeny/>)

Fig. 4a: All contracts



Fig. 4b: Only EU funded contracts



Annex: The list of crony companies [companies close to the Fidesz]

	company name [owner/front with political ties]
1	4iG Ltd. [Lőrinc Mészáros (since 2019)]
2	CLH Hűtés- és Klimatechnikai Ltd. [Lőrinc Mészáros, László Szíjj, Károly Varga (from June 2015 to September 2018), Attila Paár (from September 2018)]
3	Euro General Ltd. [Lőrinc Mészáros and his family (since March 2015)]
4	Europublicity Ltd. [Lajos Simicska (2011-2019), Lőrinc Mészáros (2019-2020)]
5	Fejér B.A.L. Ltd. [Lőrinc Mészáros and his family]
6	Mediaworks Ltd. [Lőrinc Mészáros (since 2017)]
7	Mészáros és Mészáros Ltd. [Lőrinc Mészáros]
8	Publimont Ltd. [Lajos Simicska (2011-2019), Lőrinc Mészáros (2019-2020)]
9	R-Kord Ltd. [Lőrinc Mészáros]
10	V-Híd Ltd. [Lőrinc Mészáros and Zsolt Homlok (since 2018)]
11	Vivienvíz Ltd. [Lőrinc Mészáros]
12	ZAEV Ltd. [Lőrinc Mészáros (since 2019)]
13	Market Építő Ltd. [István Garancsi]
14	Market Épületszervíz Ltd. [István Garancsi]
15	MET Magyarország Ltd. [István Garancsi]
16	Mobil Adat Ltd. [István Garancsi]
17	Visual Europe Ltd. [István Garancsi]
18	Elios Ltd. [István Tiborcz, son-in-law of Viktor Orbán]
19	PBE Energiamenedzsment Ltd. [István Tiborcz and Endre Hamar]
20	PBE Építő Ltd. [István Tiborcz and Attila Paár]
21	E-OS Energiakereskedő Ltd. [Lajos Simicska (2011-2018)]
22	Közgép Ltd. [Lajos Simicska (2011-2019), László Szíjj (since 2020)]
23	Közüghéhidkorr Ltd. [Lajos Simicska (2011-2018)]
24	Mahir Cityposter kft. [Lajos Simicska (2011-2018)]
25	Mahir Kiallítás kft. [Lajos Simicska (2011-2018)]
26	Nemzeti Lapkiadó Ltd. [Lajos Simicska (2011-2018)]
27	Lounge Design Ltd. [Gyula Balásy]
28	New Land Media Ltd. [Gyula Balásy]
29	Network 360 Ltd. [Csaba Csetényi]
30	Sistrade Ltd. [Endre Hamar]
31	EUPRO Projektmenedzsment Ltd. [Endre Hamar]
32	Homlok Építő Ltd. [Zsolt Homlok, son-in-law of Lőrinc Mészáros]
33	Vasútvill Ltd. [Zsolt Homlok, son-in-law of Lőrinc Mészáros]
34	West Hungária Bau Ltd. [Attila Paár]
35	Magyar Építő Ltd. [László Szíjj (from 2015 to June 2017) Attila Paár (since June 2017)]
36	Duna Aszfalt Ltd. [László Szíjj]
37	Hódút Ltd. [Károly Varga and László Szíjj]
38	Vakond Via Ltd. [Károly Varga and László Szíjj]
39	Vakond Ltd. [Károly Varga and László Szíjj]
40	Magyar Vakond Ltd. [Károly Varga and László Szíjj]
41	Trinity International Communications Ltd. [Tibor Kuna]
42	Young & Partners Ltd. [Tibor Kuna]