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## Distribution of the EU Funds in Hungary: Challenges and Anomalies

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## Abstract

The study seeks to identify the underlying intentions and behavioral patterns that characterize local governments and local entrepreneurs in Hungary in their access to and use of EU funds. The research focuses on the 2014–2020 programming period, examining how Hungarian local authorities allocated and spent EU financial resources. We employed document analysis and fieldwork. We conducted semi-structured interviews with public procurement experts and practitioners, mayors and local government officials from twelve municipalities, entrepreneurs participating in municipal procurement tenders, officials from the European Commission, professionals from the Hungarian managing authorities responsible for EU funds, and members of county assemblies. The fieldwork was carried out in 2022 and 2023.

The findings underscore the complex interplay among institutional arrangements, political incentives, and resource allocation within the EU cohesion policy framework. The ad hoc nature of institutional structures governing EU funds, combined with their significant spatial and temporal variability, reflects a lack of stable governance mechanisms. This institutional fluidity has important implications for both efficiency and equity in resource distribution. As municipal and county governments have seen their competencies curtailed, the influence of national-level actors—particularly members of parliament—has grown, shaping the allocation of funds in ways that often reflect political aspirations rather than developmental priorities.

One of the most striking outcomes is the persistence of unequal access to EU resources. Municipalities with greater administrative capacity and foresight can prepare competitive applications in advance, thereby increasing their chances of securing funding. In contrast, others—often smaller or politically marginalized—are excluded, sometimes for explicitly political reasons. This dynamic resonates with theories of kleptocracy and clientelism, in which resource allocation serves to consolidate political power rather than foster inclusive development. The short-term orientation of many EU-funded projects further reinforces this interpretation. Initiatives frequently align with electoral cycles and campaign agendas, such as family-friendly programs, rather than long-term structural improvements. This pattern suggests that cohesion policy, intended to reduce disparities, may inadvertently reproduce or even exacerbate existing inequalities when filtered through politicized governance structures.

# Introduction

## 1.1 Aim of the analysis

In this study—conducted as part of an empirical research project<sup>1</sup>—we seek to identify the underlying intentions and behavioral patterns that characterize local governments and local entrepreneurs in Hungary in their access to and use of EU funds. The research focuses on the 2014–2020 programming period, examining how Hungarian local authorities allocated and spent EU financial resources.

The study employs document analysis and fieldwork. We conducted 24 semi-structured interviews with public procurement experts and practitioners, mayors and local government officials from twelve municipalities, entrepreneurs participating in municipal procurement tenders, officials from the European Commission, professionals from the Hungarian managing authorities responsible for EU funds, and members of county assemblies. The fieldwork was carried out in 2022 and 2023.

The purpose of the interviews was to explore the relationship between the actual needs of local governments and the EU-funded projects they applied for; to uncover the motivations and behavioral drivers of actors involved in the distribution of EU-funded resources; and to analyze the role of political favoritism and clientelism in the allocation and spending of EU funds.

The study constitutes the first systematic effort to identify the underlying drivers and mechanisms behind the anomalies observed in the allocation and use of EU subsidies.

Naturally, the research methods applied—document analysis and fieldwork—do not allow for statistically supported conclusions. Nonetheless, we contend that, as an initial step, this study can make a meaningful contribution to examining the issue at hand and uncovering key insights. By revealing the motivations of the actors involved, it also enhances our understanding of the mechanisms that generate anomalies in the use of EU subsidies. In this sense, it may serve as a foundation for more systematic, data-driven research in the future.

In the first section of the study, we summarize the literature on the problems of foreign aid distribution and spending relevant to our topic.

In the second section, we provide a concise overview of the key factors influencing the allocation of EU subsidies and examine the institutional

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<sup>1</sup> We would like to thank the comments and suggestions received at the 2025 conference of the Hungarian Society of Economics (December 18-19, 2025; Budapest) in particular the constructive criticism and suggestions of György Molnár. The research was supported by the German Marshall Fund of the United States, Hungarian citizens, and companies.

framework governing their distribution. We then analyze the motivations of the various actors. After that we summarize the experiences of actors involved in the utilization of EU subsidies, focusing on their insights into the mechanisms of resource allocation and the functioning of the institutional framework. Our conclusions are based on a series of interviews, through which we sought to reconstruct and present the actual mechanisms governing the distribution of European funds. In doing so, we primarily analyzed the narratives and perspectives of beneficiaries, particularly those of local governments.

In the third section of the study, we summarize our research findings.

## **1.2 Literature: The Effect of Foreign Aid on Institutional Quality and Corruption**

The question of foreign aid effectiveness is extensively discussed in the political economy literature (Dreher & Lohmann, 2015; Feeny, 2005; Galiani et al., 2017; Hansen & Tarp, 2001; Kosack & Tobin, 2006; Tarp, 2015). According to this vast literature, determining the drivers of aid effectiveness requires special attention be paid to institutional quality in recipient countries. In this paper, we focus on this relationship in the context of EU Cohesion Policy in Hungary.

One strand of the foreign aid literature argues that poor institutional quality in recipient countries undermines aid effectiveness (Boone, 1996; Dalgaard et al., 2004; Kosack, 2003; Sharma & Bhattarai, 2013). The causal mechanisms here are: low institutional quality generally implies (i) reduced bureaucratic capacity, which negatively affects the absorption of aid, and (ii) a higher propensity for rent seeking directly affects aid effectiveness.

Certain econometric studies shed light on these causal mechanisms. One common characteristic of countries with poor institutional quality is a self-interested local elite. Using the percentage of European colonial settlers as a proxy for the disinterestedness of local elite, one study finds a negative correlation between this variable and aid effectiveness over a large set of developing countries (Angeles & Neanidis, 2009). Analogously, another study finds that aid increases bank deposits in offshore accounts, presumably held by local elites, with an average leakage rate of 7.5% among highly aid-dependent countries (Andersen et al., 2022).

Another variable to look at for countries with poor institutional quality is the time horizon its regime expects (Magaloni, 2008). Using multiple predictors of regime failure as an explanatory variable, one study finds that the shorter the time horizon an autocrat faces, the lower the effectiveness of foreign aid given to that country (Wright, 2008).

Lastly, a negative causal relationship is found between social fragmentation and aid effectiveness. In his preliminary empirical study of 66 aid dependent countries, Svensson marked 'degree of social fragmentation' by the probability

of two randomly chosen citizens being from different ethnic groups (Svensson, 1999). The higher the fragmentation found, the lower the effectiveness of foreign aid because competing social groups are more likely to capture windfall gains.

Another body of literature argues that foreign aid can worsen the institutional quality of recipient countries (Ali et al., 2019; Askarov & Doucouliagos, 2013; Asongu, 2015; Brazys, 2016; Djankov et al., 2008; Isaksson & Kotsadam, 2018; Knack, 2001). Multiple studies question whether a general conclusion that aid causes corruption can be drawn (Goldsmith, 2001; Okada & Samreth, 2012; Tavares, 2003). But the claim that under certain circumstances, aid can have pervasive negative effects on institutions can hardly be disputed. The causal mechanism is the following: foreign aid can reduce institutional quality by (i) decreasing the accountability of recipient governments as they become less dependent on tax revenues from their own citizens, and (ii) increasing the popularity of otherwise corrupt or inefficient recipient governments as citizens associate the positive impacts of aid with them (Eubank, 2012; Olson, 1993).

These causal mechanisms have been verified in numerous empirical studies. One study confirms that health aid is often used as a substitute for government spending by recipient governments (Farag et al., 2009). Another study adds that this substitution effect holds in more sectors and is stronger in countries with poor institutional quality (Kaya & Kaya, 2020). Franco-Rodriguez, et. al. found that foreign aid in Pakistan had a negative impact on tax effort (1998). There is survey-based evidence from Bangladesh that shows that if citizens are uncertain of the source of funding, they tend to associate the positive effects of foreign aid with the recipient government (Guiteras & Mobarak, 2015). Data from Nigeria, Senegal, and Uganda also suggest that foreign aid can decrease trust in democratic institutions (Watkins, 2022). Lastly, a set of papers from 2014 finds a potential undesirable impact of aid on the occurrence and duration of civil conflicts in recipient countries (Crost et al., 2014; Qian & Nunn, 2014).

Given these potential side effects of aid, how should donors respond? A strand of literature argues that if aid is tied to conditions of institutional quality, its impact on institutions in recipient states improves. Some studies assume that during the Cold War, Western donors provided aid for strategic reasons. As those aims vanished, the enforcement of conditions on aid became more credible. Using pre- and post-Cold War aid as a dummy variable indicating the credibility of enforcement of conditions, these studies suggest that when credibility increases, foreign aid is more likely to contribute to democratization (Dunning, 2004) and economic reform (Bearce & Tirone, 2010) in recipient countries. A recent study using public procurement data pointed out that greater donor oversight and accessibility of tenders can significantly decrease corruption risk – measured as the share of contracts won by a single bidder – in aid-funded tenders (Dávid-Barrett et al., 2020). However, one paper warns that recipient governments tend to comply with conditions in sectors where compliance is cheap (Dietrich, 2011). Moreover, theorists suggest that conditions on

institutions often result in a “good governance façade,” where recipient governments implement formal institutional improvements to satisfy the donors’ demands but continue to engage in severe rent-seeking (Moene & Søreide, 2015; Rose-Ackerman & Lagunes, 2015).

Other authors suggest that when aid is better targeted, its negative impact on institutions is mitigated. One such paper finds that aid to certain sectors (economic infrastructure, multi-sector and program assistance) decreases corruption, while to others (social infrastructure and debt relief) it increases it (Efobi et al., 2019). Others argue that aid is more effective when given to countries that experience an unexpected negative shock on their economies (Guillaumont & Chauvet, 2010). A study finds that whereas foreign aid channeled through government expenditure increases corruption, when it targets private investment directly, it decreases it (Asongu & Jellal, 2013). Consistently, another paper suggests that in countries with poor institutional quality, donors tend to bypass the state and give to non-state actors instead (Dietrich, 2013). A study from Bangladesh suggests that if the source of aid is well advertised, it does not increase the popularity of local governments (Giteras & Mobarak, 2015). Research using survey data from aid-dependent Uganda finds that government resources in general are more prone to rent-seeking than foreign aid (Findley et al., 2017).

Our research contributes to the literature on foreign aid effectiveness in two ways. First, the impact of foreign aid on institutions has mainly been studied in developing countries. In contrast, we study this phenomenon within the European Union. Considering EU subsidies as a form of foreign aid, we study the impact of EU Cohesion Funds on corruption in public procurements in Hungary. To our knowledge, only a few studies have touched on these anomalies regarding the EU Cohesion Policy. One study found that EU Cohesion Funds allocated to member states with better institutional quality tended to be more effective (Ederveen et al., 2006). Another paper found that member states with worse institutional quality tend to have lower absorption rates of EU Cohesion Funds (Incaltarau et al., 2020). A micro-level analysis in Hungary also found that EU subsidies led to more investment, but little upgrade in technology (Muraközy & Telegdy, 2023). Lastly, analysis of public procurement data suggests that EU Cohesion Funds increased corruption risk in certain member states (Fazekas et al., 2013; Fazekas & Tóth, 2016).

Second, when measuring the level of corruption, or institutional quality, most of the above-cited literature relies on perception or survey-based indicators of institutional quality and corruption. These include the World Governance Indicators of the World Bank (World Bank, 2023), the International Country Risk Guide of the PRS Group (PRS Group, 2023), the Governance Matters Project (Kraay et al., 2013), the Freedom House Index (Freedom House, 2023), the Quality of Government Institute database (University of Gothenburg, 2023) and the Polity IV project (Center for Systematic Peace, 2013). Multiple concerns have been raised regarding perception-based indicators pointing to weak correlations

between perception- and experience-based indices (Donchev & Ujhelyi, 2014; Gutman et al., 2020; Razafindrakoto & Roubaud, 2010), and with objective indicators (Olken A., 2009). While admitting that in macro-level comparative studies, perception-based indicators could be the only resource at hand (Goel & Nelson, 2011), our paper contributes to the study of the effect of foreign aid on corruption by using objective indicators of corruption risk, taken from public procurement data in line with Fazekas & Kocsis (2017), Fazekas & Tóth (2016), Tóth & Hajdu (2021) and Tóth & Palócz (2022).

In addition to its empirical analysis, our paper offers a case study to illustrate the micro-mechanisms accounting for the pervasive effects of foreign aid. To our knowledge, such narrative case-studies are rare in the literature on foreign aid and corruption. A recent doctoral dissertation used interviews to uncover how EU Cohesion Funds in Hungary end up as white elephants (Hajdu, 2022), investment projects with zero or negative return (Robinson & Torvik, 2005). A case-study on Lebanon found that foreign aid helped its corrupt elite to stay in power (Finckenstein, 2021). Another paper on Somaliland argues that dependency on tax revenues is necessary for building good institutions, and consequently, foreign aid undermines this process (Eubank, 2012). Lack of absorption capacity and government inefficiency were also blamed in a case-study explaining foreign aid failure in Haiti (Buss & Gardner, 2013).

## 2 Procedures, Challenges, and Anomalies

### 2.1 The logic behind the distribution of EU funds

Since joining the EU on 1 May 2004, Hungary has received an average of HUF 2-3 billion per day in EU grants, excluding agricultural subsidies. Hungary has paid less than a third of this amount as a membership fee to the EU budget. In other words, based on EU transfers, the Hungarian government is a net beneficiary of membership<sup>2</sup>.

The amount of aid Hungary is entitled to is set every seven years when the current EU budget is adopted. However, the value of the aid Hungary is entitled to has remained unchanged since we joined, although rising from around €2 billion a day to around €3 billion a day in nominal terms, mainly because of inflation and the weakening of the Forint. This amount has not always been fully absorbed. At the time of this study, the European Commission did not authorize the payment of cohesion funds to Hungary because the government had not fulfilled some horizontal enabling conditions<sup>3</sup>. However, the system is still functioning in principle.

In this study, a research group of the CRCB seeks to answer how these funds were spent in Hungary for strikingly pointless purposes in the 2014-2020 budget cycle (the EU operates with seven-year budget cycles). To do this, we briefly review the political intentions behind the transfers of EU funds and then present the institutional structure of how the money was spent in the 2014-2020 budget cycle.

#### *Reason for EU subsidies and the political role of their transfers*

The main objective of EU co-financing is to even out differences in development between Member States by supporting regions lagging behind the EU average. However, in practice, the terms of the aid scheme have been shaped by the essentially political deals struck when new Member States joined the EU. In this sense, the system's primary purpose is to settle accounts between individual Member States and the common institutions rather than to finance specific investments. If we want to simplify it, the basic logic of the EU is that subsidies are reimbursements and compensations pledged as development funds, so the common institutions are slow to see and still have a limited say in how and where the national institutions spend the subsidies. The need for more severe monitoring of this only emerged with the creation of the RRF (Recovery and Resilience Facility) in 2021, but this is a one-off form of EU transfer funding

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<sup>2</sup> See: [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_7801](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7801)

<sup>3</sup> See: <https://www.reuters.com/world/europe/eu-holds-back-all-hungarys-cohesion-funds-over-rights-concerns-2022-12-22/>

unrelated to our study's timing. It is essential to mention it here, however, because the need for increased control of RRF disbursements was prompted by the experience of net contributor Member States, who found that there was a serious risk of corruption in the case of cohesion funding in the 2014-2020 cycle when Member States were essentially free to spend common funds as they saw fit. Partly as a result of the same experience, the regular budget (MFF) was also made subject to enabling conditions, which made it possible that at the time of this study, two Member States - Poland and Hungary - would not have access to the 2021-2027 cycle.

The Treaty of Rome<sup>4</sup>, which created the EU's predecessor, only mentions support for less developed regions in its preamble and does not give it an institutional form. It was only in 1975 that the organization (then known as the EEC) began to devote common institutions and funds specifically to catching up. The accession of Great Britain justified the system. Not because of the country's underdevelopment but because, at that time, EU transfers were predominantly agricultural subsidies. British agriculture was so insignificant that it seemed necessary to build a support system from which the UK could benefit. London wanted to avoid becoming a net contributor with almost no entitlement to subsidies from the EU budget. In the end, Member States found a case for developing the backward regions to meet the UK's compensation needs. It came in handy that the Italian government, seeing the potential of the subsidies that could be raised for its southern regions, strongly supported introducing the new system. So did Ireland, which was also joining at the time and was relatively poor compared to the founding states.

Under the new structure, the governments of the member states were given the power to decide how to distribute the subsidies they received to help compensate for regional disparities. The only restrictions were that the funds could be spent primarily on infrastructure development and business support, but the design and implementation of programs remained a national responsibility. This logic, which dates back to the beginning of the grant scheme, still determines how the money is spent today. It is one explanation for the fact that the Commission sees the spending of subsidies as a financial operation and not a development program in its own right. After all, the primary purpose of setting up the system was to redistribute payments back to the Member States to redress the imbalances. The same logic was applied in the 1995 enlargement round, when all the rich countries (Sweden, Finland and Austria) joined, and the aid scheme was extended to the development of low-population density regions so that Finland and Sweden had a legal basis for calling on resources.

Following the enlargement rounds of the 1980s (Greece, Spain, and Portugal), i.e., the inclusion of poorer countries, there was a greater need for the common institutions to exercise greater control over development funds. From then on, the weight of this grant in the EU budget increased considerably. However, this

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<sup>4</sup> See: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A11957E%2FTXT>

control was only put into practice through the coordination of Member States' development programs, i.e., there was an expectation as to how the money should be spent. This principle led to the transfer of decisions on grants from the Council to the Commission from 1989 onwards, in parallel with increased control and coordination of the funds' objectives.

With the advent of the single market and the entry into force of the Maastricht Treaty<sup>5</sup>, the logic behind subsidies has changed: the declared aim is to compensate poorer regions for having to open their markets to more competitive firms from wealthier regions.

For the first time in the 2000-2006 financial cycle, this led to the principle, still in force today, that the bulk of subsidies should go to regions with a GDP below 75% of the EU average. In the middle of this cycle came the big wave of enlargement to 12 countries (2004), when several countries, including Hungary, which were poorer than the old members, were included. However, the basic logic remains the same. Cohesion payments are compensatory payments, and how they are used is a matter for national authorities, with the EU's main task being to ensure the transfer rather than to identify the projects that benefit from them or determine their usefulness.

It is partly this principle that the Hungarian government still invokes today when it claims that EU subsidies are not donations but payments for market opening. *"In my understanding, there is no such thing as EU money. It is our money. It is the money of the Hungarians. The EU pays it, but it is our money,"*<sup>6</sup> Viktor Orbán said at his annual international press conference in January 2020. Orbán justified this by saying that EU subsidies compensate for the vast sums of money that Western investors take out of the country year after year as dividends.

On the other hand, he also recalled the logic of the 1970s, when he said that, proportionately, Hungarian membership fees are a more significant burden on the domestic budget than, for example, Dutch membership fees: *"Moreover, in terms of payments to the EU, we pay more than the Dutch in terms of GDP per capita. Not in absolute terms, of course, but in that respect,"* he said. This line of thinking follows the EU logic behind introducing subsidies and thus also reflects the argument that the Brussels institutions should not have a say in how the money is distributed. According to this logic, spending money should be a purely national responsibility.

According to this logic, spending money should be a purely national responsibility. The Member States first challenged this logic at the December 2020 European Council, when the new budget was adopted<sup>7</sup>. New mechanisms and conditions for disbursing grants were attached, particularly to the RRF adopted then. In the case of the 2014-2020 MFF that we are now examining, however, the original

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<sup>5</sup> See: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:11992M/TXT>

<sup>6</sup> See: [https://www.youtube.com/watch?v=hCf\\_cg0xE3s](https://www.youtube.com/watch?v=hCf_cg0xE3s)

<sup>7</sup> See: <https://www.consilium.europa.eu/media/47296/1011-12-20-euco-conclusions-en.pdf>

EU logic of the common institutions needing more to do with how the Member States spend the funds still needed to be fully in place.

### *Institutional background of the 2014-2020 subsidies in Hungary*

The projects examined in this research were funded by the EU budget 2014-2020. While the funding frameworks are broadly similar in each cycle, they are always different, especially as the institutional and regulatory framework of the recipient countries varies from cycle to cycle, in addition to the framework set by the EU institutions. So, it is worth going into how the planning and control of the money spent in Hungary has evolved along the main principles in the given cycle.

The basis of the system was the so-called Partnership Agreement<sup>8</sup>, which defined how much the cohesion funds the Hungarian government wanted to spend. The plans were set at the national level, and the European Commission acknowledged them by signing the Partnership Agreement. Here, the Commission only checked that the plan did not contradict the EU's strategic objectives, as set out in the Europe 2020 strategy adopted by the Council.

The Hungarian government set out the spending plan when it drew up the so-called National Development and Spatial Development Concept<sup>9</sup>. The logic behind the system is as follows: the member state figures out what it needs to help the country's poorer regions catch up with the more developed parts of the EU, and this development program is co-financed by the EU. This co-financing often means paying 85% of the cost, or even more, for some programs. However, the EU only formally helps deliver projects locally devised and funded by the national government.

The Hungarian plan ('Széchenyi 2020') identified five main objectives for the cycle<sup>10</sup>:

1. To improve economic actors' competitiveness and enhance their international role.
2. To increase employment (through economic development, employment, education, social inclusion policies, considering territorial disparities).
3. Increasing energy and resource efficiency.
4. Addressing social inclusion and demographic challenges.
5. Delivering local and regional development for economic growth.

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<sup>8</sup> See: [https://commission.europa.eu/publications/partnership-agreement-hungary-2014-20\\_en](https://commission.europa.eu/publications/partnership-agreement-hungary-2014-20_en)

<sup>9</sup> See: [https://njt.hu/document/24/243920144130000001\\_1.PDF](https://njt.hu/document/24/243920144130000001_1.PDF)

<sup>10</sup> See: 'Hungary Partnership Agreement for the development period 2014-2020' [in Hungarian: 'Magyarország Partnerségi Megállapodása a 2014–2020-as fejlesztési időszakra'] [https://archive.palyazat.gov.hu/szchenyi\\_2020](https://archive.palyazat.gov.hu/szchenyi_2020)

These have been split into nine operational programs, each with its own budget and development priorities set within each program. When the Partnership Agreement was adopted, the Commission did not check the Hungarian plan in deep detail, only to ensure that there was no overlap between the different envelopes for each objective. In other words, money should not be allocated to the same thing twice.

These plans are a long way from defining concrete projects. For example, if we are looking for a plan for a 40-centimetre-high observation tower, there has yet to be a sign of it. At most, the sub-objective 'improving the competitiveness of economic operators' includes 'strengthening tourism' in one of its sub-objectives and 'creating attractions' as a necessary instrument, as a priority within one of the operational programs.

In other words, when the Hungarian plan is adopted, the Commission can see how much will be spent roughly in total on tourist attractions, but they cannot know how many and what type of attractions they will be spending on. In fact, at this point, even the Hungarians do not know.

From this point on, preparing more detailed plans and their translation into concrete proposals and projects is entirely a national responsibility.

From then on, the more detailed plans for each operational program will be drawn up by a committee set up by the government (the name and government supervisor, which will change from cycle to cycle). In contrast, the 2014-2020 plans were put together by the ITM (Ministry of Justice and Regional Development), overseen by Minister Tibor Navracsics. In preparing the plan, the ITM had to consider the opinions of other ministries and larger local government units.

The plans are monitored by the Monitoring Committee, which meets a few times a year. In addition to government representatives, this body also includes delegates from NGOs and delegates from the European Commission but only monitors the progress of the work. In other words, the EU now only monitors whether the plans are ready on time. The content is entirely the responsibility of the national government.

When the actual allocation of money starts, it is handled by the so-called Managing Authorities. These bodies are responsible for implementing each operational program, launching the program's calls for proposals, and monitoring the winners. In the 2014-2020 cycle, these authorities have operated under different ministries. In some cases, the Managing Authorities' work is outsourced, in which case they are called Intermediate Organizations. There were few such cases in the 2014-20 cycle, and in all cases, the Hungarian State Treasury was the host of these.

To sum up, the allocation of funds is the responsibility and competence of the government, so it had to be decided at the government level how to create tourist attractions for steel and how to achieve it through tendering. It is up to

the Managing Authority to decide whether or not to rely on the proposals of regional or local authorities. However, the final responsibility for spending the money still lies with these organizations.

The next time the European Commission will see grant-funded projects is when they have been completed. However, even then, it does not examine them individually.

The Hungarian state lends money to the winning proposals selected by the Managing Authority. Then, when the projects are completed, it submits a quarterly invoice to the European Commission, i.e., it pays the amount that represents the EU funding for the completed proposals (in most cases, this was 85 percent of the cost of the projects in the 2014-2020 cycle). The Certifying Authority, which the Hungarian State Treasury supervised, did this work. The Certifying Authority did not conduct in-depth checks on individual payments but only verified that the bureaucratic rules made payments. More detailed checks can be carried out by the so-called Audit Authority, which can carry out spot checks on specific grants at the request of the European Commission. However, this body also monitors the spending of grant money at a more strategic level. This authority operates under the budget of the Ministry of Finance but with autonomous management under the name of the Directorate-General for Auditing European Aid (or EUTAF<sup>11</sup> by its Hungarian name).

In other words, no department in the system scrutinizes the content of each application, i.e., that specifically checks whether this or that investment makes sense. Typically, the checks are on compliance with the formal criteria (whether there was indeed a tender, whether a contract was concluded with the winner, whether the grant was invoiced correctly).

While the Commission can check specific projects in any depth, this is different in practice. The Commission's auditors visit each Member State every few years and can select from all the tender documents. However, they randomly check the formal requirements for a tiny fraction of all tenders. They cannot check the usefulness of the money spent, only that the projects implemented align with the objectives in the call for proposals.

The spending of EU funds is the responsibility of national governments, and this was the case for the 2014-2020 cycle of cohesion money in Hungary. Moreover, the concrete projects' content is never checked by anyone. There is neither a legal mandate nor an institution on the EU side, and there has been no demand from the national side to set up such an organization.

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<sup>11</sup> See: <https://eutaf.kormany.hu/>

## 2.2 Spend it!

*"Spend it!"* - that was often the only message from Brussels.

As we have already made clear in the previous part of this paper, spending the cohesion funds from the EU is the national administration's responsibility and right. As explained, the grant system is inherently a financial compensation to the Member States, partly as a reimbursement of the money paid as membership fees and partly to compensate for differences in competitiveness within the common market.

This logic has led to the fact that, except for OLAF, no EU institution can investigate how cohesion funds are spent in a given Member State. OLAF only investigates irregularities, but there is no institutional investigation into the usefulness of cohesion projects for the Member State concerned.

If there is an audit, it is only of a formal, technical nature. Our interviewees confirmed this evidence from EU rules and history.

*"There is a national development program, which we co-finance,"* summarized the logic of cohesion funding, said a European Commission official involved in the Hungarian development programs for the 2014-20 financial cycle. In the cycle under review, the Hungarian development program was contained in a so-called Partnership Document, and this text was entirely the product of the Hungarian government. The document *"reflects the strategic intentions of the Hungarian government,"* the source said. *"We are allocating money in a legal and administrative system that is written by the member states."*

How much does the Commission foresee that, for example, a 40-centimetre-high observation tower could be built with the grant it sends? According to our source, nothing:

*"To give you a concrete example, you can see in the preliminary planning that the government is interested in developing tourism, and one of the ways of achieving this is by creating tourist attractions. In this case, the only thing monitored is that only one operational program can be used for a certain type of attraction, i.e., the government clearly defines which chapters of which programs can be used to fund the creation of attractions."*

However, the European Commission only goes as deep as this when it approves the spending plan. According to our sources, this approval system has mainly been a formality for the review cycle. The preparation and implementation of the Hungarian spending plan was monitored from Brussels through a so-called Monitoring Committee, as the European Commission was allowed to delegate experts to this committee. According to our sources with insight into the organization's workings, new proposals were always brought to the committee by people from one of the Hungarian ministries, the so-called policy officers, and the members of the Monitoring Committee, who could then vote yes or no to the

proposal. *"Nobody votes no here in reality,"* our source recalled the body's working methods, indicating that the Monitoring Committee's work was formal, with its most important role being to check that deadlines were met. *"We no longer even see the concrete call for tender. We only see large systems,"* we learned from the knowledge of the committee delegates.

The Council does not expect the Commission to check how cohesion policy beneficiaries spend their money until 2022.

*"From the point of view of net contributors, the EU budget is a sunk cost. They say, 'We put in 0.X percent of GDP, and we get a break'. They never asked, and still do not ask very much, what happens to it. If they are asked about it, of course, they don't say 'I don't care', but in the day-to-day running of the business, we are never pressed by finance ministers, but only by institutions that are themselves spenders, such as development policy organizations."*

said a former staff member of the Commission, indicating that they have only ever received requests from the beneficiaries, but that the funders have never been interested in what happens to cohesion money.

According to another Commission source, even if there were a need for a substantive assessment of individual projects, the Brussels institution would not be able to intervene under the current rules:

*"We operate within a legal, administrative framework. We have no legal basis for looking at whether, for example, it makes sense to build a lookout here or there; we cannot legally assess that we cannot take that into account."*

He added that there could be severe consequences if the people in the Commission started to tease the Hungarians about problems with the content of specific tenders. *"We have no legal basis for that; if the member state sued us, we would lose the case in the EU's court in Luxembourg."* He says member states have the right to waste cohesion money.

*"Free countries are allowed to be stupid, even at the government level. We cannot take action against pointless projects. The system is based on the assumption that there is no state capture. If there is, the system cannot deal with it."*

A Hungarian official closely following the negotiations between the Commission and the Hungarian government told us that work could have been faster at the beginning of the 2014-2020 cycle.

*"The Commission monitored the Hungarian implementation system, and in 2016, they found that our institutions were inefficient, that money was being allocated too slowly. However, this was not unique; it was the case in almost all the eastern member states. The criticism was not that the*

*institutional system needed to be reformed, but rather that there was an urgent need to find a way to disburse the funds."*

The latter highlights a more general problem, as a senior Commission official in charge of policy coordination said in a deep background press briefing in the mid-2010s:

*"The Commission aims to ensure that as much of the grants as possible is spent so that Member States can call it up. When the next budget is drawn up, the net contributors would argue that they don't give as much to cohesion if a lot of money is stuck. Therefore, it is not in the Commission's interest to make it more difficult to call up funds through controls because it is only successful if as much money as possible goes out."*

This phenomenon is also known as "*absorption constraints*" in Brussels.

According to a Hungarian expert, this aspect also appeared in the Monitoring Committee, when the European Commission delegates generously looked the other way even when they saw serious corruption risks in the system. For example, when the Monitoring Committee did monitor some programs during implementation,

*"the Brussels delegates tended to let the calls for proposals go through without a word because they had no interest in the money stuck in the system."*

Although Commission staff feel that they have no fundamental role in planning, the planning experts working for the Hungarian government felt that they did not always get enough help from the Commission when preparing the 2014-2020 plans. *"When we asked questions, they were often slow to respond, contributing to impossible deadlines."* According to our source, who has insight into the planning process from the Hungarian side, there are two main reasons for the poor content of calls for proposals at the structural level, where the responsibility of the central institutions is concerned: haste and sloppiness in assessing needs.

*"In the planning process, we were very slow to come up with concrete ideas, and by then, there was hardly any time to come up with them."* By the time the decision-makers had listed specific projects within the overall objectives, there was no time for any meaningful technical foresight. In the case of tourism development, he explained this with the following example:

*"Sometimes things are presented as project opportunities in the planning stage because someone wants to do something good and brings up a good example from abroad that they have seen somewhere and liked. For example, he has seen a canopy walkway somewhere, and in a meeting, he suggests that such a walkway could be built. Everybody is happy to have an idea, and with the difficulty of government funding, it gets put into the tender. Ultimately, no one remembers when or why it seemed like a good idea and who came up with it. It is written up, no one disputes it,*

*it goes into the system, and everyone is happy that another item has been ticked off. It is hard enough to figure out where the money should go; there is always not enough time to plan, and everyone is always late, so the bureaucracy clamps down on every idea without anyone meaning any harm."*

In the 2007-2013 cycle (the first complete cycle of Hungary's EU membership), the Hungarian government essentially outsourced the planning of territorial development proposals to lower levels by setting up development councils in each of the seven Hungarian regions and entrusting the work to them. These councils were abolished in 2014, and the decision was taken at a higher governmental level. The extent to which a region could lobby in its interests depended from then on the ambition, organization, and political embeddedness of the local people.

For this research, we spoke to local government leaders who said that the county council had done a thorough job and represented local interests well in discussions with government planners, but some said that they had not been able to have meaningful input into central plans. It also made a difference in how much a Fidesz MP for a constituency was willing or able to have a say in the work and how much he or she tried to lobby based on actual needs or instead to work to put a business community in a position.

While government planners are obliged to hold public consultations, i.e., to ask local people about their needs, there is no straightforward procedure for how much of these grassroots initiatives and ideas they should incorporate into the final plan submitted to the Commission.

*"In the 14-20 cycle, some county councils had a meaningful say in the spatial development operational program, but some did not achieve anything. This was partly a question of ambition, but I think it was mostly a question of political lobbying power and who had informal government contacts,"* recalled a source involved in the planning process. *"There are examples of everything,"* said another expert from the Hungarian side who was involved in planning the allocation of funds. *"There are comprehensive needs assessments, good professional cooperation with local actors, and the fact that important issues are decided on a political basis, according to friends' interests. It is a case of personalities, how meaningful the calls for proposals are for land development programs."*

According to our latter source, the most critical decisions were always ultimately taken at the top, at the government level, but this is not just because the government wanted to allocate the money on political grounds. In the experience of this source, this was also driven by the administration's high level of professional mistrust of the local government's abilities. *"In the 2010s, experts from the Hungarian State Treasury, in particular, lobbied to minimize the role of local governments, fearing that they would mess up the*

*administration, plan poorly, not get the money, and end up losing sources because of their professional mistakes."*

Precisely because of the insecurities, haste, and unimaginativeness of those involved in central planning, the system has been open to certain entrepreneurial circles to invent tasks for themselves and push them through the system from below. A source with inside knowledge of government planning described it this way:

*"For example, whether the construction of a viewing platform can go ahead. They also try to put forward these ideas in a way that other entrepreneurs do not realize what they are really trying to achieve, so these are ambiguous, over-complicated questions and proposals."*

Once the Commission approved the Operational Programmes, the Managing Authorities no longer cared about the usefulness and relevance of each call for proposals and projects. From then on, the Managing Authority only carried out technical controls: it checked deadlines, the accounts' accuracy, and the existence of the necessary documents.

*"I believe that projects should be monitored during the implementation process, that trends should be monitored, and that there should be procedures in place to allow the Managing Authority to intervene during the implementation process. However, certain groups of entrepreneurs are capable of misleading projects."*

Another source, who worked until 2015 on the development of the government's institutional system for managing the allocation of EU funds, pointed out that an essential aim of the administration during the cycle that started in 2014 was to simplify and speed up the application process. The aim was to widen the beneficiaries' range and ensure that applications could not be made only through professional companies. Simplification also meant that calls for proposals became more general and schematic and that specific content could be dealt with more flexibly at the local level. The reform could have both a limiting and a reinforcing effect on the potential for corruption. By simplifying access to tenders, the potential for corruption was reduced as more people could apply, and competition was increased. On the other hand, the more generalized criteria have allowed politically entrenched actors to create poorly justified projects that are sometimes irrational because the system has become more flexible in terms of what it can tolerate and implement.

The mentioned absorption constraints have also contributed to relaxing the conditions for applications, making the institutional system more generous on both the Hungarian and the Commission sides, thus allowing funding to be channeled to irrational purposes.

*"When the drawdowns are slow and the years go by without anything happening, then in the middle of the cycle, the eligibility criteria for specific calls are loosened: the target group is broadened, the filters that were still*

*"there in the original plan are weakened because there is still much money to spend. In such cases, the Commission and the Hungarian authorities also become soft. And some people can exploit these situations to get money without normal projects,"* said a former Hungarian administration official.

*"It is in the interest of both the Brussels and Hungarian institutions that the money is used, and if a lot of it gets stuck, it will be a failure for both sides. If you do not spend it, you have misdesigned the system; that's the message on both sides. So they legitimize each other's decisions, even if they know on both sides that some of the funding will go to the wrong side,"* he added. *"Spend it! Call it off!"* was often the only message from Brussels.

One mayor expressed in an interview for our research that Brussels institutions are not interested in exploring the problems in Hungary:

*"The EU will not be bothered; it has 600,000 things to do (...) We had people from the European Union come here to investigate; we told them our grievances, and they said, 'We know everything,' but they won't go into them because they don't have the power. They say, 'You decide, you fight about it,' that's it."*

A Commission expert explained the phenomenon on the Commission side:

*"We are talking about much money, thousands of projects, and yet only around ten people are working on Hungarian cohesion programs in the Commission. There are tens of thousands of projects, and the system was not set up to monitor them in detail. We see aggregated data and only learn about problems afterward, largely from the press."*

He says there are spot checks, but they are more of an audit, checking the formality of the accounts rather than the substance of individual projects. In the Commission's experience, the auditors usually announce which projects they will audit in advance and are met by trained lawyers who *"tell them everything is in order."* In the past, when projects were randomly audited, they would not receive the documentation of the specific proposal but would have to dig it out of boxes in a warehouse. The Commission's reaction was that it would instead give weeks' notice of what it was looking for.

According to our Commission source, for a long time, there was no political will on the part of the institution's management to interfere in the Hungarian tendering system. *"We have seen how many one-way tenders there are. We laughed in embarrassment that after Orbán and Simicska had a falling out, we could see the change in tenders immediately<sup>12</sup>. However, the bosses did not take*

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<sup>12</sup> 'Orbán' is Viktor Orbán, Hungary's Prime Minister, and 'Simicska' is Lajos Simicska his former college roommate, a very influential businessman between 2010 and 2014. Several

*our signals seriously. The political will to control the Hungarian subsidy system gradually emerged in the current cycle.*" This required not only a change in the attitude of the Commission's leaders but also a change in the rules by the Council, with the introduction of the conditionality mechanism and horizontal eligibility criteria - which the Commission could not yet use in the 2014-2020 cycle.

In the same way, the Hungarian authorities are not interested in finding a mistake on the way or afterward. A mayor who was involved in EU tenders during the period under review summed up his experience as follows:

*"In principle, they come to check projects according to a strict timetable, but in practice, they are often late. However, they tend to find everything basically in order. If, for example, there is a quality objection to implementing a project, this should, in principle, be foreseen in the contracts, just as bizarre solutions are foreseen. So the Authority is usually forced to accept many odd projects without blinking an eye so as not to have to face the fact that it has let a problematic design through".*

From the interviews conducted for our research, it is clear that there was neither a legal possibility nor a political demand from the European Commission to control the content of the Hungarian grant funding for the 2014-2020 cycle. The Hungarian administration in charge of allocating the money rushed through the planning process, often haphazardly, after a cursory assessment of actual needs. With sufficient ambition and political connections, some actors could easily influence the individual calls for proposals to suit their own interests. In Budapest and Brussels, absorption pressures on both sides led bureaucrats to relax controls and procedures. The implementation of individual projects was not monitored from a substantive point of view by either institution: Brussels was not prepared for this from the outset, and there was no political will on the Hungarian side.

## 2.3 Actual Mechanisms for using EU funds in Hungary

In the present section we summarize the experiences of the actors dealing with the European funds on the field regarding the mechanisms of their distribution and the institutional framework. The conclusions below are drawn according to what we have heard during the interviews – our strategy for reconstructing and introducing the reality of the distribution of the European funds is to collect and analyze the own anecdotes, stories, opinions mostly of its beneficiaries, mainly the local governments, but we extended our scope with the inclusion of some further actors to our study.

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ministers worked under him, and his companies were the main beneficiaries of public procurements.

Firstly, we deal with the way how the tenders and the needs of the municipalities are reconciled. Then we discuss the actors competent in the distribution of the European funds among the municipalities what shows a considerable variation between different parts of the country. Furthermore, we indicate those mechanisms how political or fraudulent intentions might affect the distribution of the funds, and present the channels how the municipalities can indicate their needs or how they are surveyed. Finally, we summarize the experiences with the audits.

### *Assessment of needs versus tailoring existing plans to tenders*

Most of the mayors agreed that the county local governments assessed or at least discussed the needs of the settlements during the planning stage of the operative programs, furthermore, from the perspective of the county local governments, certain mayors tend to have a strong say in the distribution of the funds. However, the relationship between the managing authorities and the local administrative units – be it the county local governments or the municipalities – is not consistent around the country, their potential influence shows a considerable variation (and also the role of the local MP, as it is introduced in the next section), even if most of the actors expect the managing authorities to be more reactive to their needs.

*'The county local government had very close and direct consultations with the municipalities. The chairman of the county assembly and his staff visited the mayors around the county and during the programming period they already discussed what was needed locally. They tried to ensure that the programs were not become personalized to certain municipalities, but the county did a very careful assessment of what was needed.'*

(Representative of a county local government in Southern Hungary)

*'Organizational development is greatly needed at the managing authorities: they should monitor the project proposals and tenders received, pay attention to the trends and intervene in time if necessary. So that the call for proposals can be amended in good time if it turns out that there is what I call "viewpointization"'.*

(Head of a public procurement consultancy company in Pest County,  
external consultant to the managing authority)

It should be added that municipalities tend to report a kind of over-demand when they are asked about their needs, at least from the perspective of the county local governments.

*'There was no enough money when the county local government investigated the requests of the municipal leaders'*

(Representative of a county local government in Southern Hungary)

Consequently, most of the mayors reported about projects that had to be tailored to the tenders announced. Typically, mayors present and agree on economic program-plans with the representatives at the beginning of each cycle, which show what investments are expected and what the municipality will try to fund from tenders

*'If an investment is included in the program-plan and the municipality later wins money for it by a kind of sleight of hand, this can hardly be considered an abuse, the local government has to adapt to the calls for proposals.'*

(Mayor of a town in south-east Hungary)

Instances were also cited during the interviews, when existing plans had to be tailored to the actual calls for proposals:

- A municipality owns an old building in need of renovation, and a special type of new health center is needed, but actually only existing consulting rooms can apply for building renovation. The municipality will apply for this, renovate the building, move the GP and the nurses there, and when the five-year maintenance period expires, they will be moved back to their original location and the local government will try to set up the new specialized clinic in the renovated building.
- Another municipality applied for EU funding for a tourist visitor center even without anything to show and the intention of developing tourism – the plan was that after the five years maintenance period, the visitor center would be replaced by a family support service, as there are no resources to accommodate the social services.

*'In the end, the application didn't win – I was fucking relieved.'*

(Mayor of a town in central Hungary)

- More expensive type of stormwater drainage is built, which is largely technically justified, but mostly because there is grant money for it, the cheaper variant would not be supported.
- A town was intended to pave a street in a segregated area and found funding in terms of an EU desegregation project. Upon the construction works, the municipality also had to provide training for dozens of people living in the segregation to comply with the project. No one in the segregated area was interested in the training.
- The windows in the office building of the municipality need replacing, the rain already leaks through the closed windows, which can eventually be solved with a tender for a complete energy modernization, so insulation and heating system replacement will also be necessary, even though the building is relatively modern in this respect.
- There are plenty of tenders for industrial parks nowadays, the paving of dirt roads can be funded by the establishment of such areas.

Due to the short deadlines related to the tenders, local governments cannot launch projects instantly, so they mostly prepare plans far in advance, but have great expertise in the quick refinement of them to comply with the tenders.

*'You need plans in the drawer, otherwise you can't apply to tenders.'*

(Mayor of a town in Eastern Hungary)

*'Plans and the documents related to the projects are always prepared, so when we see a potential call for proposals that suits to our needs even in a small extent, we align the prepared materials to the tender in a few hours and submit.'*

(Mayor of a town in south-east Hungary)

Some interviewees claimed that they have no idea about the philosophy behind the distribution of the tenders.

*'I do not know anything about the objectives of the Managing Authority or the president of the county local government when projects are formulated and EU funding is allocated. I assume that the motivation is to make improvements possible in places where they would certainly not be possible based only on own resources. This is my bona fide version, but of course I cannot rule out the possibility that simply those who are pushing hard will get funding.'*

(Mayor of a village in Western Hungary)

#### *The role of the members of parliament (MPs) and the county local governments*

The distribution of the European funds compensating regional disparities, developing infrastructure, support local businesses is a national responsibility since the introduction of the aid system of European Union. Thus, the allocation of the financial aid is the responsibility and power of the government; it has to be decided at governmental level how to achieve the regional goals, e.g., the creation of tourist attractions. The managing authorities cooperate with the European Commission and organize the tendering procedures from the Hungarian side, and these institutions used to belong to the National Development Agency between 2006 and 2013 and after that they began to operate within the Prime Minister's Office, as the National Development Agency ceased to exist in the January 2014.

During the interviews it turned that there is a considerable variation how funds are channeled to the municipalities between the different counties or in some cases, electoral constituencies. In certain parts of the country the local MP has omnipotence in the spread of the European and the national funds, but in some other counties the county governments – which have largely lost their former competencies during the Fidesz-era – still have a say in the fund-allocation and in the local development plans. This is mostly due to the fact that the profession of regional development was high-quality and also highly respected, so in many

cases the MPs and the county local governments still find it important to preserve this valuable expertise, however, there are some exceptions. Nonetheless, the management of the European funds is originally the competence of the county local governments, what is sometimes taken over by the MP.

*'During the planning period, in 2012 and 2013, we had to submit our project proposals to the county local government, and its president told us which tenders we can apply for. But in a few years, we noticed that the local MP's family business gets involved to all tenders, thus he gathered stronger and stronger control over them. Actually, the MP decides between life and death and he lobbies for the funds. The territorial developments are now organized within the electoral constituency in agreement with the county local government. The MP acts like a kind of supervisory authority, he takes it the wrong way if anything happens without his confirmation.'*

(Mayor of a village in Eastern Hungary)

The most extreme example regarding the role of the county local governments distributing the European funds was cited by an entrepreneur claiming that its leadership decides everything, even they have a say in the planning stage and they tend the 'send' contractors too for carrying out the projects, so the local governments have no influence on who is awarded the projects, furthermore, they tend to be informed retrospectively that 'this is what will happen', what is not unprecedented according to other interviewees too.

*'Once I had a conversation with a mayor independent from political parties about an EU tender that the municipality had won. He referred to the project's contractor as "the contractor they sent." This was a reference to the fact that they had no influence on who was awarded the projects funded by the program, as this was decided at the county assembly, what is more, they were only informed after the decision was made. The leaders of the county local government decide everything, even they figure out who will do the plans and the preparations.'*

(Entrepreneur in Western Hungary)

He added that the Fidesz chairman of the county local government, whose nickname is 'The Fidesz', is the 'lord of the county' and a local entrepreneur, is considered to be his foreman, as his company performs well in public procurement, having won contracts for various construction works from the renovation of a medical clinic through the reinforcement of dirt roads. It is also known that intentionally loser companies are involved in the tendering to ensure the success of this particular entrepreneur – companies that 'cannot lose public tenders' are present in other counties too, another interviewee thinks that

*'The Fidesz president is in many respects really driven by the development of the county's municipalities, but it is also important that Fidesz's preferred contractors participate in the winning projects. Public*

*procurement in the county clearly shows that there are companies that cannot lose a public tender.'*

(Representative of a county local government in Southern Hungary)

But in the regions where the county local government has a role in spreading the European funds, they mostly tend to be considered as more constructive actors. A former representative of a county local government said that they are in close and direct relationship with the municipalities, the president and his staff visit the mayors and discuss what is needed locally during the programming periods. The county local government also tried to ensure that the money is not taken away by the larger towns, but goes to the smaller settlements too. Furthermore, the interviewed representatives of county local governments agreed that as this institution lost its competencies during the changes in the administration during the Fidesz era, they tried to find their new role, and strengthened themselves by employing the local regional development professionals, who are not engaged to the Fidesz – their work can be also paid by EU funds.

*'The county local government created two non-profit companies, one specifically for economic development and the other for tourism development. These two companies have virtually absorbed local professionals, partly involved in writing tenders, partly in project management and monitoring, and act as a kind of county service center. In practice, this has become the county local government's main task, rural development, precisely in connection with TOP funds. But the county has also recognized the market potential of this and has contacted hundreds of experts in recent years, whose work can also be paid for by EU funds.'*

(Representative of a county local government in Southern Hungary)

Nonetheless most of the interviewees said that MPs have the key role in the distribution of the European funds, and the electoral constituencies are the basic territorial units of the regional development policies, what is not even concealed. In such parts of Hungary, the county local governments receive the development plans from the managing authority for revision but they 'do not have that much room for maneuvers', as the presidents – who are members of the Fidesz – does not decide anything, but only the party's instructions are passed on to them by the MP of the region. In such cases the county local governments mostly have a kind of formal approving role.

*'What is said in the castle<sup>13</sup>, they do, but the main dictator is the MP, who says that money can be distributed only through me'.*

(Mayor of a town in Eastern Hungary)

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<sup>13</sup> The 'castle' is the Buda Castle. The speaker is referring to Prime Minister Viktor Orbán's office in Buda Castle.

– told us a mayor emphasizing that it is the essence of the System of National Cooperation the MP has full power in the electoral constituencies by mediating with the managing authority and the ministry, deciding who is supported and campaigning with the projects in the social media where the beneficiaries thank for the funds. Another mayor said slightly ironically that:

*'The local MP has influence, it is worth being in good relationship with him and with the state secretaries, even at the cost of small gifts, of establishing personal good relations. My family every year asks me why I make so many sausages. On the one hand because it's a very big family, and on the other because there are so many fucking secretaries of state!'*

(Mayor of a town in South Eastern Hungary)

Good personal connections help at least in gathering information, so sometimes the mayor goes to Budapest to visit the state secretaries, other times he just calls them to 'see what's new'. He also added that the MP keeps order in the electoral constituency, calling the mayors together from time to time, hosting them, discussing local needs in both formal and informal ways – he sometimes tells in advance that there will be a call for proposals, or even advises which projects are worth applying for (for example, because there are few applicants, and a lot of money is left in the budget).

In addition, MPs and leaders of county local governments may provide some funds for supporting the projects of municipalities based on their personal preferences, and this pillar of funding may operate in parallel with the official, formal way of the distribution of funds. Consequently, certain mayors try to maintain good personal relationship with the MPs and leaders of county local governments, but others – mainly who clearly belong to opposition parties – claimed that they avoid doing so. However, the vast majority of the municipalities tend to prepare their tender materials in advance, and if there is a tender more or less in line with their needs, after a bit of tailoring they submit their proposals quickly.

The county local governments have lost their relevance in many parts of the country in favor of the MPs, some mayors reported that they have very limited contact with them.

*'I hardly know any of the members of the county local government.'*

(Mayor of a village in Western Hungary)

### *Political favoritism, crony system, kleptocratic state*

In counties where the local MP has greater influence on the distribution of the European funds, mayors reported that MPs tend to direct them towards his hometown or settlements with FIDESZ-leadership.

*'A thermal spa and conference center are built in the hometown of the MP, without any justification.'*

(Mayor of a town in Eastern Hungary)

As the vast majority of the MPs locally elected belong to the Fidesz, party politics cannot be set aside, and municipalities with a non-Fidesz leadership are at a distinct disadvantage. For example, an independent mayor told us that before the parliamentary elections, the Fidesz candidate promised a gymnasium in a municipality, and plans were also drawn up for it, but it was eventually built in another town after the elections, which is under Fidesz leadership. Despite the scam, the mayor thinks it is possible to cooperate with the MP, but Fidesz mayors have an advantage in the allocation of resources, they are better informed and have more channels to promote their interests.

*'Obviously Fidesz has its political instructions: not the municipalities, but the Fidesz initiates projects. In fact, they even divide the funds: you get this much, you get that much. And not the goals that are interesting, but the political power, they let us know through the distribution of the funds also that "you are not the kid of our dog".'*

(Mayor of a town in central Hungary)

A mayor who has become more and more related to the opposition during the last decade could experience the process of the deterioration of the relationship between local MP and his municipality.

*'Firstly, I wanted to believe that this will not be that bad, and did not want any trouble, but after it became clear that terrible things were happening. I took part in the formation of a new party, and this was the moment when we have been executed.'*

(Mayor of a village in Eastern Hungary)

Furthermore, mayors have to consider whether the implementation of a tender is supposed to be awarded to a particular group of companies, what might lead to problems with the quality of the works, thus they might avoid applying to such tenders even without any kind of political pressure.

*'In general, if we look at the success rate of these tenders in the past, I would not be very wrong about the 80:20 ratio. So that 80 percent of the funds are given to municipalities close to the government. But the point is that often, when a tender is announced and a municipality applies for it, the group of preferred companies which would like to carry out the project has to be respected. And from this point on there is a serious concern about accountability, because if one of the politically preferred company wins, it is all about donating the appropriate compensation, and then if the work is done badly, they cannot be held accountable.'*

(Mayor of a town in central Hungary)

*'The most representative project from this perspective is the street lighting renovation, done by István Tiborcz<sup>14</sup>. In the tender here, the name of another city appeared several times, so it was copy-pasted. Street lighting is about to turn ten years old, and we are now seeing more and more quality complaints, less and less brightness, and more and more operating costs. On the one hand, there was overpricing, and on the other hand, Elios brought in low-quality lamps.'*

(Mayor of a town in Eastern Hungary)

Political favoritism can be observed from the perspective of the entrepreneurs too.

*'70-80% of the construction projects are always won by the 'big players', the companies of Lőrinc Mészáros and László Szíjj<sup>15</sup>. They are known as the 'Bundesliga'. The term 'Bundesliga' is also used at local level: in every county there is a group of entrepreneurs who win the majority of public contracts'.*

(Entrepreneur in Western Hungary)

Companies without political ties may be asked to do political favors in order to win the tenders, e.g., they have to hire acquaintances of politicians or have to support programs of the municipalities which also benefit the Fidesz leadership. Furthermore, they might be asked to facilitate awarding a tender to a crony company by applying with intentionally losing bids several times.

*'It is a well-known practice for a Fidesz politician or one of his staff to call up a "friendly" contractor and ask him to submit a tender that he knows in advance will be a loser, just to put the contractor preferred by the county local government's leadership in a position. I have been also asked to do so on several occasions and always complied with the request. I cooperated.'*

(Entrepreneur in Western Hungary)

Nonetheless, there was a mayor among the interviewees, who claimed that he was never under pressure from the chairman of the county local government regarding the tenders, said that generally there are no preferred contractors in his area, but in his view the pointless projects tend to be awarded to crony companies.

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<sup>14</sup> István Tiborcz is a son-in-law of PM Viktor Orbán.

<sup>15</sup> Lőrinc Mészáros is a close friend of PM Viktor Orbán and László Szíjj is a close friend of Mészáros and he has close ties to PM Viktor Orbán and the Foreign Minister Péter Szijjártó. See: <https://szeged.hu/cikk/nincs-itt-semmi-korrupcio-szijj-laszlo-91-milliardos-megbiazast-kapott-a-magyar-allamtol-az-o-jachtjan-nyaralt-szijjarto-peter-es-csaladja-amirolo-miniszter-azota-sem-hajlando-beszelnii> and <https://english.atlatszo.hu/2020/07/10/laszlo-szijj-is-the-beneficial-owner-of-the-malta-offshore-company-in-posession-of-luxury-yachts-used-by-the-hungarian-government-elite/> .

## Channels of advocating the interests of the municipalities

Most of the mayors agreed that the weight and the importance of the say of the municipalities decreased in the last decade. Furthermore, most of them emphasized that the locals are completely excluded from the decision-making procedures, but their interest also declined.

*'Long ago there were regional development councils. There were mayors, lobbyists and experts, they ranked the proposals, and there was a political decision at the end, but these decisions were widely accepted. Different actors had a lot more say. Now only Fidesz decides. This is the mid-Kádár era, when everything is decided at the party headquarters. They are only a few steps away from saying they will appoint mayors.'*

(Mayor of a town in central Hungary)

*'Development targets are now decided around the conference table even without differentiating between smaller local administrative units.'*

(Mayor of a town in central Hungary)

*'Approximately 300 companies operate in the town, but I meet every few months with only 18 to 20 business leaders to discuss their wants, such as what developments are needed near their headquarters. The locals are no longer consulted very much in public hearings, because the participation is very modest.'*

(Mayor of a town in Western Hungary)

However, most mayors do not give up and try to lobby for funds, sometimes, with success.

*'The municipalities have made a lot of requests to the county local government, asking for kindergartens, schools and renovations. The most frequent request was for energy renovation, and solar panel installation was also very popular, infrastructure improvements were also requested. They also wanted to apply for various community programs and events in most municipalities. All in all, there was a lot of lobbying going on in the county, for example, the center of a town has been renovated with almost two billion forints TOP grant money and finally the MP started to strongly criticize the project.'*

(Representative of a county local government in Southern Hungary)

*'Every neighboring settlement has a sports field, except ours, and I asked the representative several times when can we have one. Once he said OK, he'll check, he'll call back. An hour later he said he gives 50 million forints; we can do what we can with it. Originally, we thought about building a sports center, which eventually became an unlit artificial grass football pitch.'*

(Mayor of a town in Central Hungary)

In the current 'upside-down' system, municipalities have no choice but to tailor their projects to tenders as they cannot really count on successes in advocating their interests, which sometimes leads to oddities and inefficient spending of public money.

*'The core logic of tendering should be changed, as currently the opportunities come "from above", to which local governments adapt instead of lobbying for funds matching with their goals. The system should work the other way round: as the needs are described in the economic plans, and tenders should be issued in line with these, so that the municipal and tender objectives would be in line with each other.'*

(Mayor of a town in South-Eastern Hungary)

Once a municipality becomes successful on its first tenders, then it tends to become easier to win further funds as the developments tend to follow each other, mostly in the cases of tourist attractions.

*'There is a town winning most of the funds in our region attracting at least half of the tourists visiting the area, due to the developments. But perhaps tourists do not go elsewhere because there is not as much development at other towns. And because if the high interest of the tourists, this particular town tends to be successful in general in applying for funds.'*

(Mayor of a village in Western Hungary)

The vast majority of the interviewees concluded or at least suggested that the local governments do not have an active and participatory role in making or influencing a decision about the distribution of the funds. This is not an irregularity, as the allocation of funds is the responsibility and power of the government, so it had to be decided at government level how to achieve regional goals, e.g., the creation of tourist attractions according to the regulations. The local governments have to cope with the centralized distribution with top-down decisions and the ad-hoc opportunities sometimes occur (mostly provided by the MP), what might lead to questionable outcomes. Furthermore, the chances for accessing the EU-funds are not equal among municipalities: smaller settlements with limited administrative capacities may reach them only at the cost of greater sacrifices.

### *Audits and audit authorities*

The interviewees mostly have to cope with the Hungarian State Treasury as an authority controlling the projects on behalf of the Hungarian state. The Treasury might even signal political favoritism in the beginning of a project according to an entrepreneur:

*'If the Treasury finds deficiencies in an application, it is rarely an indication of a real error, but in fact they signal that you will not win the tender.'*

(Entrepreneur in Western Hungary)

Furthermore, settlements with leadership related to the opposition might be negatively discriminated during the audits:

*'We had a mutual project with a neighboring village led by a mayor of Fidesz. There were some minor problems revealed during the audit, and we were the only ones held responsible.'*

(Mayor of a village in Eastern Hungary)

Though, most of the interviewees agreed that the Treasury tends to be cooperative and supportive, even if the controls are sometimes tough and rigorous.

*'The audit of the last road construction was based on indicators, for example, they checked whether 32 pavement signs had been painted on the road as requested and whether the signs were in place. I have to add that they were always accurate during the checks.'*

(Mayor of a village in Western Hungary)

*'The TOP-projects the municipality were very seriously checked every time. The inspectors of the Hungarian State Treasury go through the documents very thoroughly, checking every single bidder. They also examined the way how the public procurement was published, practically everything. In some cases, it is better to launch projects in consortium with others who are in better relationship with the Treasury in order to ease the administrative burdens.'*

(Mayor of a town in Western Hungary)

Nonetheless, some of the interviewees criticized the Treasury for being gullible, as it is sometimes too narrow-minded or eager on minimizing the scope of the inspections.

*'The authorities, the administration, are deflecting. They try to find procedural loopholes, in order to avoid taking action. The authorities practically never act.'*

(Representative of a county local government in Southern Hungary)

*'And then there's the control, when something is completed, at what level we control it, for example, the Felcsút small railway: it's in the tender that I don't know how many passengers it has to produce for I don't know how many years. Well... you can take groups of students on it for free, and then you can produce the indicators, to prove that this tender is of touristic importance and that it is important from the perspective of the tourists.'*

(Mayor of a town in Central Hungary)

*'There are indicators at the level of programs and projects, there may be a target of a million visitors, which is achieved with 10 unvisited lookout towers and an adventure park that works well, and there is also an*

*underperformance buffer, so the objective, often aggregated measures can be hacked.'*

(Associate of the European Commission)

The managing authority – who is mostly practically represented by the county branches of the Treasury – has also been criticized for the control procedures as in many cases even the contracted terms between them and the beneficiaries allow the irregularities or corruption happen.

*'The local government has little to do with the managing authorities and their inspections, which in principle happen according to a strict agenda, but in practice they often get behind schedule. Basically, everything is usually found to be in order, it is not really worthwhile for any of the actors to cheat or deviate from the contracts that these bodies check after the project has been implemented. For example, if there is a quality objection to the implementation of a project, it will be foreseeable in the contracts, as will the bizarre solutions, so that the authorities are usually forced to accept many strange projects without blinking an eye.'*

(Mayor of a town in Central Hungary)

Furthermore, the interviewees agreed that on the level of the European Union there are no rights and capacities for controlling the Hungarian projects they support financially. The European institutions, like the European Commission can only deal with irregularities if the rules or the laws are violated, but in most of the cases this does not happen, the projects are implemented in line with the regulations.

*'The Union will not clash as it has six hundred thousand things to do. If cheating gets too far, then... well, now they're asking this rule of law question. That's part of it. We had people from the European Union here to investigate, we told them our grief, "we know everything", they said, they will not do anything, they do not have the power. In your country, you decide, you argue about it, that's it, how the funds are treated. They will get into one or two things only, see Tiborcz.'*

(Mayor of a town in Central Hungary)

*'It is possible to build a lookout tower in the Great Plain in compliance with the law, so it is difficult to take action against it at level of the European Commission – most of the frauds are technically not fall into the illegal category. And the EU-rules are based on the assumption of free member states operating rationally, but in fact it is also allowed to be stupid. The system cannot cope when you have a government that is all about stealing money with pointless projects.'*

(Former Associate of the European Commission)

However, the European Commission might initiate audit controls. The affected projects are mostly selected after risk assessments, and the auditors announce

in advance what and when they will check, the project owners can foresee the details of the control and do not have to expect any surprises.

*'The auditors have less and less discretion, they deal with what they told in advance they will look at. I know about a case when they went to an applicant with a list of documents they wanted to check. They were sent to a warehouse full of boxes of papers, all they knew is that the documents are in there somewhere. They looked for them, but didn't find them, so the auditors gave up. Now they tell in advance what they exactly want.'*

(Former Associate of the European Commission)

If the European authorities do find problems despite the deficiencies of the controlling mechanism, the member state might be ordered to refund the financial aid, but a potential dispute can be disadvantageous for the European institutions, what they take into consideration – in many cases the European funds just become redistributed from the questionable programs towards other projects, so the member state does not lose money.

*'The Commission does not risk being held liable anywhere, especially in court.'*

(Former Associate of the European Commission)

### Anomalies: corruption and white elephants

In this chapter we continue the summary of the understandings mostly of the potential beneficiaries of the European funds focusing on the background of tenders resulting in irregular outcomes. The first section deals with the potential urge to receive as much money as possible and its effects. Then we summarize how political considerations might lead to dubious projects and also present the attitudes of the local voters to the funded developments. Finally, we discuss some of those institutional and external problems that might result in deviations from the desired outcomes.

#### *Pressure for absorbing external funds*

The interviewees were divided whether there is a constraint to absorb as much European funds as possible on the level of the settlements. Mostly greater municipalities can try to take advantage of all the potential funds with sufficient administrative capacities, and the interviewees also added that mayors related to the Fidesz tend to exploit all the financial opportunities. In the meantime, the county local governments and the local MPs tend to advocate using the European funds, it is only a secondary issue, whether they are spent wisely.

*'Projects such as the 11 lookout towers in Tyukod can only be realized because no one cares whether they will be of any use, often even the*

*mayors do not care whether the village develops, the main thing is that money arrives, it is spent and the county assembly is satisfied.'*

(Entrepreneur in Western Hungary)

*'There is a town in the county in with stable financial background. Nevertheless, the mayor always asks for and receives extraordinary municipal support. The general attitude of the Fidesz leadership of the town is "if they give money, we should take it".'*

(Representative of a county local government in Southern Hungary)

*'I can bring you this money and then let's do something. In a way that's good for you.' Such conversations tend to take place between the MP the Fidesz mayors. That's how it works. A lot of times the impulse comes from the MP leads to stupid projects. It is a point of honor for both the MPs and the mayors how much money they take from the European Union.'*

(Mayor of a town in Central Hungary)

Two mayors added that as the budget of the local governments tend to be restricted the municipalities are more dependent on the external funds, however, they have to be careful, as the projects might result in additional financial burdens on the long run. Mostly those small and mid-sized towns are pressured towards the European funds which are not eligible for the 'Magyar Falu' [Hungarian Village] and the 'Modern Városok' [Modern Cities] governmental programs.

*'Since the cuts in local government budgets, the municipalities cannot afford not to take advantage of all the opportunities for tendering, even at the cost of a little or a lot of trickery. The pressure to absorb EU funds is more at the government level, municipalities are motivated by the lack of money to apply, not by exploiting the opportunities alone, because it is possible that in the long run the costs of a municipality will increase with a development. We have needed beach development for years, now we can do it through tenders, but then the cost of running it will increase. Anyway, we will try, we can't do anything else now.'*

(Mayor of a town in south-east Hungary)

*'The municipality's own revenues are now mainly generated by companies operating locally, so it is no wonder that everyone wants to develop an industrial park and want to absorb as much funding from the government and the European Union as they can.'*

(Mayor of a town in Central Hungary)

Lack of administrative capacities may discourage municipalities from the applications to tenders in the meantime, resulting in inequalities in the availability of the European funds mainly among the settlements of different size. Furthermore, in local governments with small staff, the officials tend to feel more

responsibility and they try to avoid any kind of commitments upon the general functions of the municipality.

*'We never participate in TOP tenders because the village is small and the tenders come with too many unnecessary expectations, resulting in more of annoyance than advantage. What's more, unlike many other villages in the region, here no one wants more tourists or more construction. The current infrastructure is able to serve the locals, but if hotels and attractions were to be built, they would have to be developed. The beauty of the village is its tranquility. I take a conservative view of the role of local government, which I regard as providing public services, keeping order and maintenance, so that the town is livable. The entrepreneurs should deal with attractions.'*

(Mayor of a village in Western Hungary)

*'Small, underdeveloped municipalities are unable to fulfill the requirements that a more developed regional municipality can easily do. Often even putting together a tender, is a problem. Another problem is the lack of financial resources as most tenders require own funds, but most small municipalities do not dare to apply for tenders with a 100 percent intensity, because of the administrative burden and the responsibility that has to be taken on. They don't want to get burnt; they don't want any problems. And since projects often run short of funds because of construction price rises, they can only count on help from the state. But in the municipal sector, people are paranoid, which I can't blame them for, but they're scared. They are afraid of getting burned by, say, an administrative error, which could end up in litigation.'*

(Representative of a county local government in Eastern Hungary)

Furthermore, a mayor cited a case when he had to decline a project suggested by the local MP, backed up by European funds and potentially becoming a white elephant.

*'The MP wanted the municipality to build a nursery school by using EU-funds, but we took into account its potential consequences. Unfortunately, the population is falling and most children are born into families with adults at home. So, the classical purposes of a nursery school could not be fulfilled here, and although we would have received funding for the construction, we would not have received funding for the operation. We didn't want to take the risk of closing the new nursery school in a few years' time because there was no point in running it.'*

(Mayor of a village in Eastern Hungary)

## *Political aspects in the mechanisms of the planning and the preparation of the distribution of the European funds*

The interviewees reported several questionable practices in line with the regulations but leading to irregularities. A former representative delegated by on opposition party of county local government told us that he and the other opposition members did not see the details of the documents related to the preparation, conduction and evaluation of the local development programs. In the case of his county's Territorial and Settlement Development. Operational Programme (TOP) tenders, the meetings of the pre-decision committee were attended only by the president of the county local government and the secretary of state of the relevant Managing Authority and it is unknown what happened exactly at these meetings, what arguments led to the decisions. Furthermore, the representatives had to ask for a special permission to look into the tender dossiers in order to get familiar with their details, otherwise they were mostly given summary materials, with no information on the decision-making process or the evaluation criteria. The county administration took care to ensure that only the minimum information required by law reached the opposition members. If a member of the assembly did ask for an insight, he was given it, but in these cases, he was still bound by confidentiality. Generally, the interviewees agreed, that there is plenty of money for pointless projects as well as many useful ones in the TOP system around the country, but the Fidesz efforts to gain control over the distribution of these funds and protect the doubtful investments and the related actors, business circles.

*'I don't think that most of the TOP tenders are pointless, in contrary, they are useful. The problem is that everywhere the local Fidesz-people decide which contractors can win the projects. However, there are indeed pointless investments, for example the marketplaces built in small villages, because they are not used, they are empty most days of the week, and their maintenance only costs the village money. I also took part in a project I knew would be pointless, of no or very little use. I am not proud of it, but the God will forgive me, I needed the money'*

(Entrepreneur in Western Hungary)

*'Anomalies are extremities. Most of the spending goes on sensible things because of pride and practical reasons too. The entrepreneurs want to be proud, the mayor and the local government especially, but also the MP.'*

(Advisor of managing authority)

*'They initiate pointless developments for their own business interests, and the beneficiary believes that "Big Brother" will protect. On the one hand they feel safe, they feel they can do anything, and on the other hand the local community is so vulnerable to these people that they either dare not speak out or have become so indifferent that they are not even concerned that money is being wasted on nonsense in their hometown. Over time,*

*they have accepted that "everyone steals" and they are tolerated for it. There is a supportive political environment and a "public feeling" that some entrepreneurs and officials are allowed to do this, they can live with it.'*

(Representative of a county local government in Southern Hungary)

*'There was so much European money coming into the country that it really could have worked wonders. And indeed, there were some considerable developments but this was not the sole aim when the funds were spent, sadly.'*

(Mayor of a village in Eastern Hungary)

It is a common experience of the interviewees that the county local governments tend to distribute the funds that are supposed to help disadvantaged settlements in catching up in an unfair way, e.g., by diverting them towards the county seats. Such interventions may aim to make the funds less accessible to major settlements, a mayor of a district center reported that in his county there is a ceiling for value of the tenders of HUF 500 million, what is enough to satisfy the needs of a small town, but the needs of district centers – which are mostly led by mayors related to opposition parties in the affected county – are higher. All in all, the distribution of the funds can be influenced by introducing administrative conditions opposing the interests of certain municipalities what can be done by both the county local governments and the managing authorities.

*'There are different dynamics and different castes. Municipal leaders in electoral constituency were told by the regional MP to "don't dare to apply because I want all those tenders for myself". The MP tries to do everything manually, although he does not always succeed. He doesn't consult the municipal leaders, but says "This is how it's going to be."*

(Representative of a county local government in Eastern Hungary)

*'It is interesting when there is an MP, who used to be a mayor and a vice-mayor. And then he launches a great pointless project directly related to his name – look at György Simonka's safari park, it was even too much for the Fidesz.'*

(Mayor of a town in south-east Hungary)

A mayor of a small village reported that the tenders and their implementation is unsure from their perspective: small settlements have to cope with consortium partners, the execution is driven mainly by the approaching deadlines and they have to consider the scenario that the projects end without success implying the repayment of the grants. The local governments may find themselves in a trap, if the entrepreneur to which the project is awarded tries to take advantage on them in the meantime, and they tend have fraudulent intentions – this might be indicated for instance in terms of the parameters of the winner company, according to an entrepreneur interviewed, the winners of the TOP tenders almost never have employees, and the workforce is provided through subcontractors.

He added that this system is not more common in EU-funded tenders than in other projects.

The European Commission has basically no competences in impacting the formal way how the funds are distributed. The system of EU funding operates under shared management scheme, because the European Commission distributes the money through an administrative system of rules written by the Member States, with no EU-level influence. None of the Member States is a monolithic bloc and neither is the Commission, there are many different objectives and motives mixed in, it is difficult to generalize according to an interviewee related to the Commission.

In his view, in the managing authorities, as most people are from ministries and beneficiaries, making decisions without any substantive debate, they do not put obstacles in the way of white elephants and fraudulent projects – however, they the managing authorities and the monitoring committees might put brakes into the system, but they are not required to do so by law. The Commission has limited view on their operation, for example the managing authority is not obliged to share how many lookouts are being built, the Commission knows this from the press. At the same time, the Commission has no real capacity to monitor projects, and their say is also limited from the legal perspective:

*'We can't say that a project is nonsense, and we don't pay for it. We have no legal basis for that, we would lose a court case against the Member State if it sued us for that.'*

(Former Associate of the European Commission)

### *Projects from the perspective of voters and political popularity*

Most of the interviewees mentioned that developments by the funds of the European Union might result in a certain kind of political prestige, however, this does not necessarily happen within voters, it might be more important for political groups, parties, i.e., the Fidesz. In the meantime, the general campaign of the Fidesz relies strongly on local developments.

*'Most of the projects are really just image-building activities of the Fidesz, and even those mayors who do not belong to the party are forced to assist in this kind of campaigning.' /Entrepreneur in Western Hungary/*

*'EU-money: these are usually the most twisted stories, as some mayors intended to strengthen their prestige by getting as much of them as possible both in the eyes of the voters and the local MP.' /Mayor of a town in Central Hungary/*

Even mayors not belonging to, or opposing the Fidesz sometimes turn a blind eye to projects with political intentions, in order to be able reach funds and favorable decisions to the settlements they lead. In some extreme cases mayors with such mindset join the Fidesz party too despite the antipathy felt towards

the governing power. The public communication of the Fidesz also reinforces this tendency.

*'Certain opposition mayors not to get very involved in opposition issues, but rather to stand off and on in order to help develop their settlements. Others stand for the Fidesz party only because they believe they would not otherwise have access to development funds, what is a rational decision, as the Hungarian development policy is based on patronage. You can change the Fidesz logo for development funds – this is done by mayors, who were previously elected by huge majorities even without a Fidesz support. Some mayors are making bad compromises, and I can see that they are suffering. There were mayors who described the whole thing as a "spiritual death camp"'*

(Representative of a county local government in Eastern Hungary)

*'Nowadays it can happen that Mr. Lázár<sup>16</sup> sends a message to Mr. Márki-Zay<sup>17</sup> that if he is elected there will be no support, so what does that mean? Decisions happen by force. Can a minister do that, from his position, to send out a message that if he is elected, there will be nothing? How?'*

(Mayor of a town in Central Hungary)

As for the reaction of the voters, the interviewees mentioned ambivalent tendencies: on the one hand they tend to be more satisfied if there is any kind of happening, development in their hometowns on the short term, but on the other hand, on the long run, it pays off if sensible projects take place even if there are confrontations between the municipal leadership and the Fidesz.

*'Voters like things to happen, even if they are pointless, even if they are not really good for them. You can liven up public life with an investment.'*

(Mayor of a town in Central Hungary)

*'People can see, feel, hear, understand what is going on, it is no coincidence when mayors get reelected. They want the town's leadership to implement projects that they feel close to themselves, and they don't care about the municipality's relationship with the government. So, we can't be miffed by the Fidesz, but we have to represent the interests of the town, without sneaking around. Even if they screw us, we have to continue cooperating with them.'*

(Mayor of a town in Eastern Hungary)

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<sup>16</sup> János Lázár: a Hungarian politician, member of Fidesz, former minister of Orbán's government. See: [https://en.wikipedia.org/wiki/J%C3%A1nos\\_L%C3%A1z%C3%A1r](https://en.wikipedia.org/wiki/J%C3%A1nos_L%C3%A1z%C3%A1r)

<sup>17</sup> Péter Márki-Zay: a Hungarian politician; he has served as mayor of Hódmezővásárhely since 2018. He was the candidate of the United for Hungary challenging Prime Minister Viktor Orbán in the 2022 parliamentary election, which he lost. See: [https://en.wikipedia.org/wiki/P%C3%A9ter\\_M%C3%A1rki-Zay](https://en.wikipedia.org/wiki/P%C3%A9ter_M%C3%A1rki-Zay)

*'The people should be happy. In two years' time they will remember the good things: the main square is nice, there is drainage, the public space is greener. A development should be spectacular and not pointless, there is a real need for it.'*

(Advisor of managing authority)

*'Voters often tell me that I would better give in instead of the confrontation with the MP of the Fidesz in order to get more funds, the developments are important for them. But they also see that despite my conflicts, our village is still tidier and the local institutions operate better than what can be experienced in the neighboring settlements led by mayors of the Fidesz.'*

(Mayor of a village in Eastern Hungary)

This kind of popularity can be also enriched by remarkable handover ceremonies with the presence of high-ranking politicians.

*'I am in touch with Tibor Navracsics<sup>18</sup>, regardless his party affiliation, I like him and welcome him at handover ceremonies. These are important, symbolic events, it does matter who you can invite.'*

(Mayor of a town in south-east Hungary)

#### *Institutional defects, 'time-to-grant periods', inflation*

Most of the interviewees agreed that the key problem related to the tenders is difficult administration, especially for the projects funded by the European Union. Bureaucratic burdens tend to affect the way whether municipalities apply for funds and how they procure the products and services.

*'All in all, I have never experienced any kind of political intrusion in the implementation of the TOP projects, the problem with them is rather the administration with too many unnecessary requirements.'*

(Mayor of a village in Western Hungary)

*'There is a lot of bureaucracy involved in running these projects, which is a problem especially for small villages.'*

(Mayor of a town in Western Hungary)

In the recent years the inflation caused further problems in addition to these difficulties as the prices tend to change during the long 'time-to-grant' periods. Coping with this phenomenon sometimes leads to questionable practices.

*'Due to inflation, the proposals given by potential contractors quickly become invalid.'*

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<sup>18</sup> Tibor Navracsics: a Hungarian politician, a member of the Christian Democratic People's Party, former minister of Orbán's government from 2010 to 2014. See: [https://en.wikipedia.org/wiki/Tibor\\_Navracsics](https://en.wikipedia.org/wiki/Tibor_Navracsics)

(Mayor of a village in Western Hungary)

*'A common problem in the inflationary period is until a funded development can be started after the planning stage, the prices increase compared to what was planned. In many cases, the municipality can only solve this by using its own resources, which might originally have been intended to be used for an investment what does not quite fit for the purpose of the funds. However, if the investment has to be done and there is no money left over for it, then the local government may have to go for tenders absolutely not in line with its needs, what might result in white elephants.'*

(Mayor of a town in central Hungary)

Several interviewees reported that the worst solution is when municipalities try to carry out the projects within the original budget despite the increasing prices. Sometimes bidders apply for the public procurement offering a price what is obvious in advance that does not cover the work done in a proper quality and there will be further problems with the contractor that might result in several years of conflicts. However, a mayor cited a potential workaround for such cases:

*'Perhaps you can make an agreement with an entrepreneur you know that he will at least purchase the materials in advance at his own expense. Then you have to target the tender, which may seem like corruption. A contractor helped us this way with an urgent sewer repair by lending us 40 percent of the costs of the materials, and he delivered them to the site. If he doesn't win the tender, the whole thing will fail, so what am I supposed to do?'*

(Mayor of a town in central Hungary)

And sometimes the municipalities may also cancel the project, and give the money back.

*'There is a lack of resources for all projects, money has to be added to the funds. The state sometimes gives extra resources to compensate for the price increases, but not for municipalities like ours [a well-known character of the opposition leads the municipality]. We won an EU tender for building a kindergarten and a nursery school but it had to be given back, because of the rise in construction prices. We totally cancelled it; we couldn't do it.'*

(Mayor of a town in central Hungary)

There was a consensus between most of the interviewees that the aforementioned recent changes in the tax system affecting the municipalities – the reduction or the withdrawal of incomes based on the motor vehicle tax, the business tax and the introduction of the solidarity tax – erodes the resilience of the local governments against the sudden and unexpected changes in the budget of the planned projects. A common suggestion for the European Union in order

to solve this problem is to determine the amount of the grants ex post for example on the basis of indicative calls for tender.

It turned out in many cases that the inflexible and complex regulation related to the European funds – with the combination of the planning on the level of the government – itself leads to dubious outcomes. These can be complemented by irresponsibility and, of course, the intention to corrupt.

*'There is a system in which everyone acts rationally, but the final result is irrational. Even with minimal corruption it can be irrational.'*

(Former Associate of the European Commission)

*'Irregularities are like air disasters: many factors contribute to them and their dissection is challenging. The stupidity of a mayor plus the bumptiousness of the MP and the – sometimes false – feeling that nobody cares about anything can lead to questionable projects, sometimes with private gains, but I think mostly without them.'*

(Mayor of a village in Eastern Hungary)

The financial situation of the local governments deteriorated in the meantime, so they are increasingly forced to scramble for resources. But interviewees mostly agreed that white elephants and corruption also exist, in some cases the MPs indicate who should and should not apply to tenders (or they tailor them to the projects they prefer) and also the quality how projects are implemented can be very telling. But if we focus on the traditional meaning of white elephant – a project resulting in a burdensome possession –, the majority of the mayors cited the market and fairground developments funded by the TOP-1.1.3-15 tender about 5-6 years ago, which are mostly used on one or a few days per week and their maintenance costs are very high with respect to this.

### 3. Summary

The findings of this study underscore the complex interplay between institutional arrangements, political incentives, and resource allocation within the framework of EU cohesion policy. The ad hoc nature of institutional structures governing EU funds, combined with their significant spatial and temporal variability, reflects a lack of stable governance mechanisms. This institutional fluidity has important implications for both efficiency and equity in resource distribution. As municipal and county governments have seen their competencies curtailed, the influence of national-level actors—particularly members of parliament—has grown, shaping the allocation of funds in ways that often reflect political aspirations rather than developmental priorities.

One of the most striking outcomes is the persistence of unequal access to EU resources. Municipalities with greater administrative capacity and foresight can prepare competitive applications in advance, thereby increasing their chances of securing funding. In contrast, others—often smaller or politically marginalized—are excluded, sometimes for explicitly political reasons. This dynamic resonates with theories of kleptocracy and clientelism, in which resource allocation serves to consolidate political power rather than foster inclusive development. The short-term orientation of many EU-funded projects further reinforces this interpretation. Initiatives frequently align with electoral cycles and campaign agendas, such as family-friendly programs, rather than long-term structural improvements. This pattern suggests that cohesion policy, intended to reduce disparities, may inadvertently reproduce or even exacerbate existing inequalities when filtered through politicized governance structures.

Moreover, the evaluation of EU funds has been dominated by a quantitative logic that prioritizes absorption rates and spending volumes over qualitative outcomes. This emphasis on financial disbursement as a measure of success risks obscuring the actual developmental impact of funded projects. It also creates incentives for local actors to prioritize easily implementable, visible projects over those that might generate more substantial but less immediately measurable benefits. Such tendencies align with critiques in the literature that question the effectiveness of performance indicators in complex governance settings, particularly when these indicators fail to capture institutional quality or long-term sustainability.

Taken together, these findings highlight a fundamental tension in cohesion policy implementation: while the policy aims to promote convergence and institutional strengthening, its operationalization within politicized and capacity-constrained environments can lead to outcomes that diverge from these objectives. Addressing these challenges requires not only technical adjustments—such as improving monitoring frameworks and capacity-building measures—but also a deeper reconsideration of the political economy of EU fund allocation. Without such reforms, the risk remains that cohesion policy will continue to serve as a

vehicle for short-term political gains rather than a catalyst for durable development.

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