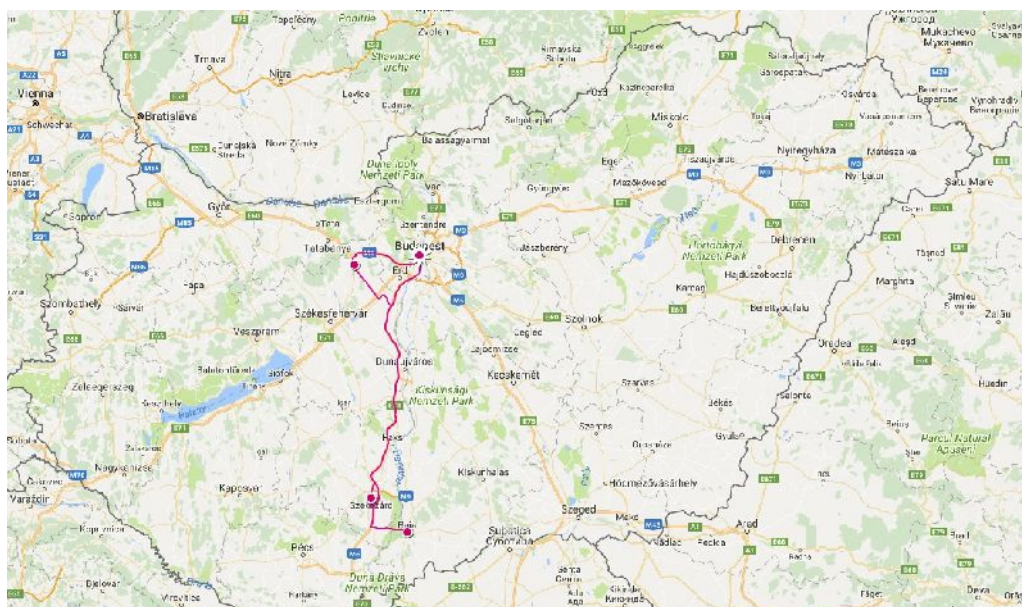


Directorate-General for Internal Policies of the Union  
Directorate for Budgetary Affairs  
Secretariat of the Committee on Budgetary Control

Brussels, 25 January 2018

**Report  
on the fact-finding mission  
of the Budgetary Control Committee (CONT) to  
Hungary  
18-20 September 2017**





## **Summary and recommendations**

The CONT fact-finding mission to Hungary was a follow-up mission to the mission undertaken by CONT in July 2011.

The purpose of the mission was twofold:

1. take a look at the **use of cohesion policy funds**, especially on the performance of projects, whether they contribute to the EU 2020 targets and whether there is any evidence for misuse of the EU funds (fraudulent or non-fraudulent);
2. visit the **European Institute for Technology (EIT)**, based in Budapest, in order to find out whether improvements can be reported in reaction to the critical observations by the European Court of Auditors in its Special Report N°4/2016 *“The European Institute of Innovation and Technology must modify its delivery mechanisms and elements of its design to achieve the expected impact”*.

The preparation and organisation of the mission was rendered difficult by the initial lack of cooperation from the Hungarian Authorities.

On 4 September 2017, CONT held an exchange of views in preparation for the mission where the Chair informed the members about the negative attitude of the Hungarian authorities towards the CONT mission. Only in the last week before the mission took place, the Hungarian authorities started to cooperate in the organisation of the mission. The initial reluctance of the Hungarian authorities and the firmness of the CONT delegation not to accept Hungary's interference in the way it organises its work caused a significant and outstanding media attention for this fact finding mission.

The delegation took place from 18 - 20 September 2017 and consisted of nine Members and an accompanying member of the European Court of Auditors. It was chaired by Ms Ingeborg Gräßle.

The main conclusions are the following:

- Structural and Cohesion Funds are of great importance to the Hungarian economy, Hungary is one of the EU Member States benefitting most of EU funding. 6.3% of Hungarian GNI are generated by EU investment. More than 50% of public investments were made from EU funds over the past five years.
- With regard to management and control systems, the Commission states that public spending in Hungary suffers from a lack of transparency and corruption risk in public decision making is perceived to be high.
- Commission's audit findings reveal irregularities such as breach of public procurement rules, ineligible expenditure or overpricing of the financed projects. The Commission dedicates special attention to apply the necessary corrective measures in good cooperation with the authorities managing the funds at national level. On the other hand, the Commission acknowledges that overall the audit and control systems work well, which is proven by the fact that lastly the majority of errors and irregularities has been detected even if they have not been reported by the national authorities.
- In 2017, six out of the 13 operational programmes of the 2007-2013 period are under reservation. For each reservation, payments have been timely interrupted or suspended and targeted remedial action plans have been launched. Overall EUR 1 billion of corrections have been applied on EUR 25 billion spent for Hungary under the whole programming period 2007 to 2013. The Commission found that reservations are mostly

linked to tendering problems. It must also be noted that the irregular use of EU funds in Hungary remains well below 2% as a result of all corrections which have been made..

- Hungary was also the Member State with the highest amount of financial corrections applied in the year 2016: an amount of EUR 211 million has been confirmed by the national authorities as a result of the supervisory role of the European Commission.
- Hungary has received so far 37 OLAF recommendations on the basis of which charges have been filed in eight cases, investigations have ended in two cases and are still pending before Hungarian authorities in all other cases. Currently OLAF has 14 ongoing investigations in Hungary which concern mostly structural funds and agriculture. Hungary is the only Member State which grants OLAF even access to bank accounts of persons under investigation.
- Hungary is among the Member States who do not participate in the enhanced cooperation establishing the European Public Prosecutor's office.
- The Commission, in its annual 2020 country report, is criticising shortcomings in the public procurement practice in Hungary. Also NGOs complain that public procurement proceedings above the EU threshold have a far too high share of tenders with a single bidder (36%, well above the reference value of 20% set by the internal market scoreboard. The low intensity of competition and alleged overpricing increase the overall corruption risk - in this regard the EU funded tenders seem to have performed worse than non EU funded ones. Since 2011 a new public procurement act was adopted in November 2015 to ensure compliance with EU directives in the area. More recently, Hungary has introduced a possibility to cancel procurement procedures that only attracted a single bidder.
- Regarding project selection, the Commission is of the view that for both the 2007-2013 and the 2014-2020 period there have been transparent selection procedures in place and that the Hungarian authorities involved the Commission in developing these procedures. However, the actual selections do not always seem to follow the principle of efficiency.
- According to the Commission, funds were disbursed well for the 2007-2013 period and Hungary had one of the highest absorption rates among the new Member States.
- Some of the projects visited caused some irritation among the delegation with regard to their selection (under value for money considerations and on their suitability to effectively contribute to reduce disparities), while some others, notably the cultural projects in Budapest, the Pesti Vigadó and the Ferenc Liszt Academy of Music appeared to be very convincing and successful.
- As an immediate follow-up, the CONT Chair announced: (1) an in-camera meeting with OLAF on their cases relating to Hungary, (2) an inspection of the documents on the "Heart of Budapest" project, (3) an examination of public procurement procedures in Hungary.
- The CONT delegation considers that country specific reporting by the European Court of Auditors on Hungary and every other Member State would be very welcome in the foreseeable future.

## Table of contents

1. Introduction.....	6
2. Overview of EU support to Hungary.....	7
3. Summary account of meetings and visits.....	14
<i>Annex</i> - Programme including list of participants.....	45

## 1. Introduction

The CONT fact-finding mission to Hungary served a twofold purpose:

In the first place, the mission delegation wanted to focus on the **use of cohesion policy funds**, evaluate their overall performance and find out in particular whether the projects financed by them effectively contribute to the EU2020 targets in terms of employment rate and climate targets. The CONT delegation also wished to verify if there are any - fraudulent or non-fraudulent - misuses of EU funds.

In the second place, CONT wanted to visit the **European Institute of Technology (EIT)** in order to find out how the EIT addressed the critical remarks received by European Court of Auditors in its Special report n° 4/2016 *“The European Institute of Innovation and Technology must modify its delivery mechanisms and elements of its design to achieve the expected impact”*.

The preparation of the mission appeared to be difficult because of **lack of cooperation from the Hungarian side** on the grounds that the mission supposedly interfered with the upcoming elections in Hungary in spring 2018. However, the decision to organise a mission to Hungary in the second semester of 2017 as a follow-up mission to the first CONT mission in July 2011 was adopted in CONT on 6 October 2016 and approved by the European Parliament’s Conference of Presidents on 11 May 2017.

According to standard practice for the preparation of missions, a letter has been sent in July 2017 to the Hungarian administration asking to facilitate the organisation of meetings with central authorities and in field visits of projects. In his reply, the Minister of the Prime Minister’s Office, Mr János Lázár did not offer the required help, but complained that CONT did not follow the Hungarian proposals on suggested projects to be visited and criticised the program as favouring one-sidedly the aims of the Hungarian political opposition. In a further exchange of letters, CONT replied by explaining its role and working methods, reiterating the request to facilitate the organisation of the mission. The reply by the Hungarian Minister formulated in even stronger terms the initial criticism and invited the CONT Chair to reconsider the programme according to the suggestions from the Hungarian side.

On 4 September 2017, a public exchange of views in preparation for the mission took place in CONT where the Chair informed the members about the negative attitude of the Hungarian authorities towards the CONT mission.

On 5 September 2017, the CONT Chair met the Hungarian Permanent representative to the EU upon his request. He pleaded for either postponing the mission until after the Hungarian elections (whose date was not yet fixed at that moment) or rebalancing the programme according to the Hungarian wishes. The CONT Chair did not accept any political interference in the way the CONT committee organises its work and underlined that the decision on the mission as well as well as the decision on the programme were entirely made in accordance with regular procedures.

On 6 September 2017, CONT informed the Presidents of the European Parliament and of the European Commission of the lack of loyal and sincere cooperation of the Hungarian authorities in the organisation of this CONT mission.

In the following days, the attitude on the Hungarian side changed and the mission could finally take place according to the programme decided by CONT with a so far unprecedented level of media attention for a CONT fact finding mission.

## **2. Overview of EU support to Hungary**

Hungary became eligible for Structural Funds support when it entered the EU in 2004. Structural Funds were channelled towards the least-developed regions of Hungary, thus helping these areas to catch up. The period 2004–2006 saw almost 20 000 projects being supported from the Structural Funds. Support was provided to 13 000 micro-, small and medium-sized enterprises, and nearly 22 000 new jobs were created.

In the Central Hungary region, including the capital Budapest, GDP per head was of more than 75% of the EU-15 average in the period 2007-2013, while in the other Hungarian regions the GDP per head was of less than 75% of the EU average. The co-financing rate in the Central Hungary Region in the 2007-2013 period was 85%, similarly to the co-financing rate in the 6 convergence regions, but some differences existed in the aid intensity, i.e. the allocation of EU funds per head. According to the ex-post evaluation by the Commission of Cohesion policy programmes 2007-2013, significant disparities persisted between the Hungarian regions in particular between the Central Hungary region with Budapest and the other, less developed regions, in the country.

For the 2007–2013 period, Hungary has been allocated EUR 25.3 billion under the Cohesion Policy. They were divided as following:

- Convergence Objective: EUR 22.9 billion;
- Regional Competitiveness and Employment Objective: EUR 2 billion;
- European Territorial Cooperation Objective: EUR 386 million.

The investments channelled through the Cohesion Policy are estimated to have increased GDP in 2015 by over 5% above the level it would have been in the absence of the funding provided.

The investment in the previous financing period has led to important achievements for the Hungarian economy and society.

- more than 108.000 jobs created, of which more than 40.000 in SMEs and around 3.600 in research
- more than 478.000 additional people connected to new or upgraded wastewater treatment facilities
- 1.9 million people benefit from improved flood protection measures
- some 2.500 km of existing road and 216 km of railway lines upgraded
- 502 km of new roads built
- over 3.900 research projects supported.

Payments from the Commission reached nearly 95% of the allocation for all programmes with the rest retained for the closure of the programmes. The balance that remains to be paid amounts to EUR 1.5 billion, but the precise amount to be paid will be determined after an agreement will be reached on all the pending audit issues.

It is worth noting that six out of the thirteen operational programmes of the 2007-2013 period are under reservation of the Commission. For each reservation, payments have been timely interrupted or suspended, and targeted remedial action plans have been launched.

The action plans involve correcting both the irregular expenditure at risk and addressing the deficiencies in the management and control systems to ensure that only regular expenditure is declared to the Commission in the future when same administrative structures are used.

Programmes under partial or full reservation for the programming period 2007-2013 are:

- Environment and Energy,
- Transport,
- Social Infrastructure,
- Electronic Public Administration,
- Implementation and
- Central Hungary OP's.

Hungary was the Member State with the highest amount of financial corrections applied in the year 2016: an amount of EUR 211 million has been confirmed by the national authorities as a result of the supervisory role of the European Commission.

The Commission services are monitoring the implementation of corrective measures closely and are supervising that the Member State undertakes adequate measures in several ongoing contradictory procedures, especially related to the procedures of the financial period 2007-2013.

The Commission points out that public spending in Hungary suffers from a lack of transparency and that the corruption risk in public decision-making is perceived to be high. While there are formal arrangements in public procurement to ensure transparent contract award procedures, in practice, the application of these rules and principles is not always assured.

Commission's audit findings reveal irregularities such as breach of public procurement rules, ineligible expenditure or overpricing of the financed projects. The Commission dedicates special attention to follow up these findings and to apply the necessary corrective measures in good cooperation with the authorities managing for the funds at national level.

Under the programmes of the 2014-2020 period, Hungary selected a large number of projects - covering more than half of the total allocation - without competition. These so called "*key projects*" are approved by the Government, the decision covers the project content, the technical requirements and the maximum amount of grant. On request of the Commission, detailed justification on the use of this type of selection method was provided for each key project to the programme Monitoring Committees, which also approved the selection criteria for these projects.

## **2.1 The European Regional Development Fund and Cohesion Fund 2007-2013**

Support from the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) amounted to EUR 21 billion for the entire programming period, equivalent to 3% of GDP and 57% of total Government capital expenditure. The funding going to Convergence regions amounted to EUR 399 per head of population per year over the period, just above 5 times the amount going to the Phasing-in capital city region. It represents a funding averaging around EUR 304 per head per year.

The priorities of the Hungarian National Strategic Reference Framework (NSRF) for the 2007-2013 period were:



- to sustain long-term growth to be achieved through the specific objectives of improving competitiveness, strengthening the knowledge economy, widening the economic basis and developing the business environment; and
- to increase employment by improving employability and labour market activity, increased labour demand by promoting job creation, and develop a labour market environment that ensures balance between supply and demand.

Support went to a large extent to investment in Transport and Environmental infrastructure, which together accounted for around 55% of total funding.

## **2.2. The European Social Fund 2007-2013**

Hungary's European Social Fund's (ESF) priorities were implemented through two Operational Programmes covering the whole country:

- The Social Renewal Operational Programme which aimed at supporting both growth and employment through measures primarily focused on improving the quality of human resources.
- The State Reform Operational Programme Support which aimed to increase the quality of administrative and judicial services' operations.

Under the 2007-2013 programming period, Hungary received 3.63 billion EUR from the EU.

## **2.3. The European Agricultural Fund for Rural Development 2007-2013**

Following the purposes of the CAP reform launched in 2003, three major objectives for Rural Development Policy (RDP) have been set for the period 2007-2013:

- Increasing the competitiveness of the agricultural and forestry sector (AXIS I),
- Improving the environment and countryside through support for land management (AXIS II),
- Enhancing the quality of life in rural areas and promoting diversification of economic activities (AXIS III-IV).

Under the 2007-2013 programming period, Hungary received 3.86 billion from the EU from the EAFRD.

## **2.4. Implementation of the 2007-2013 MFF**

In the 2007-2013 period, Hungary had an overall allocation of EUR 29 billion, of which EUR 25.2 billion under the Cohesion and Structural Funds. This is equivalent to 3% of GDP and 57% of government capital expenditure with funding averaging around EUR 304 per head and per year. Support went to a large extent to investment in Transport and Environmental infrastructure, which together accounted for around 40% of total funding. Cohesion policy was implemented through 8 sectorial and 7 regional programmes.

About 93% of the ERDF/ESF funding available was allocated to the Convergence regions, and the rest to the Phasing-in region. Taking all Cohesion funds into consideration, the Central Hungary region benefitted of more than 7% of the allocation.

After an initial delay, due mainly to the overlap with the previous period, the pace of programme implementation increased steadily, especially after 2011. By the end March 2017, more than 100% of the funding available had been claimed, which suggests that the corresponding allocations had been spent by the end of 2015 as required by the regulations.

However, significant disparities persisted across Hungarian regions in their level of development. The Phasing-in region of Central Hungary (Közép-Magyarország – the only region to receive support under the Competitiveness Objective), which includes the capital Budapest and accounts for around a third of the total population, has a GDP per head twice that of the average for the other regions, supported under the Convergence Objective. The gap narrowed a little over the period but only slightly.

There are also differences between the 6 Convergence regions, especially between the Central Transdanubia (Közép-Dunántúl) and Western Transdanubia (Nyugat-Dunántúl) regions, and the remaining ones. In 2007, Western Transdanubia had a GDP per head which was just under a third higher than the average for the Convergence regions taken together, Central Transdanubia, respectively 25% higher. Whereas the latter difference diminished a little, the gap in the case of Western Transdanubia widened to 40% in 2014.

## **2.5. The 2014-2020 Multiannual Financial Framework**

Over the 2014-2020 period, Hungary has been allocated EUR 25 billion from European Structural and Investment (ESI) Funds, making Hungary the 8th largest beneficiary of these funds in the EU. The total allocation will be disbursed through nine national and two regional programmes. With a national contribution of EUR 4.63 billion, Hungary has a total budget of EUR 29.63 billion to be invested in various areas, from infrastructure networks in transport and energy, SME competitiveness, employment measures, to environmental protection measures, the low-carbon economy, research and innovation as well as investments in social inclusion and education.

The ESI Funds combine five Funds, plus the Youth Employment Initiative, that work together to support economic development in line with the objectives of the Europe 2020 strategy over the period 2014-2020:

- European Regional Development Fund (ERDF) - EUR 12.58 billion (= 42.4% of total EU funding in HU)
- Cohesion Fund (CF) - EUR 7.09 billion (= 23.9% of total EU funding in HU)
- European Social Fund (ESF) - EUR 5.64 billion (=19% of total EU funding in HU)
- European Agricultural Fund for Rural Development (EAFRD) - EUR 4.17 billion (=14.1% of total EU funding in HU)
- Youth Employment Initiative (YEI) - EUR 108 million
- European Maritime and Fisheries Fund (EMFF) - EUR 51 million

With currently 6.3% of its gross national income generated by EU investment, Hungary is one of the countries that benefits most from EU funding.

The main figures of Hungary's financing from the EU in 2015 were the following:

- Total EU spending in Hungary – EUR 5.629 billion
- Total EU spending as % of Hungarian GDP – 5.18 %

- Total Hungarian contribution to the EU budget – EUR 0.946 billion
- Hungarian contribution to the EU budget as % of its GDP – 0.87 %

According to the Annual Activity report of DG REGIO in 2016, Hungary was concerned by 10 reservations in 2015 out of which 7 were lifted in 2017. Financial corrections were decided for 10 Operational Programmes for an amount of 369.6 million EUR which was by far the highest amount for an individual Member State out of the total of 563.8 million of financial corrections in 2016.

By contrast, under the same Annual Activity report no reserves were reported on funds for Hungary under the 2014-2020 MFF.

## **2.6 Implementation of the 2014-2020 MFF**

The implementation of the 2014-2020 funds is followed under 9 OPs: 7 national and 2 regional. National and regional programmes report financial data on their progress to the Commission.

The partnership Agreement of Hungary was adopted on 29 August 2014. ESI Funds in 2014-2020 support five main national development priorities which contribute also directly to the Europe 2020 strategy:

1. Improving competitiveness and global performance of the business sector
2. Promoting employment through economic development, employment, education and social inclusion policies, taking account of territorial disparities
3. Enhancing energy and resource efficiency
4. Tackling social inclusion and demographic challenges
5. Implementation of local and territorial development aimed at promoting economic growth.

Hungary performs reasonably well in implementing the ESI Funds investment programmes. Calls for project proposals covering the whole 2014-2020 budget were already published. Projects have been selected for funding covering 60% of the allocation which is double the EU average. Concerning the programme implementation, 52% was contracted and 22% were paid to beneficiaries (5.5 billion EUR of which 2.7 billion is eligible for co-financing). Only 4% from the total ESI funds allocation (not calculating the advance payments) was paid so far to Hungary. The government plans to allocate 85% of the whole allocation to projects until the end of 2017 in order to secure the full absorption of the Funds in time.

Financial instruments play an increasing role in cohesion policy in Hungary: 2.3 billion EUR (10,5% of the total allocation for cohesion policy in 2014-2020) have been allocated to financial instruments covering key investment areas like SME support, CO2 reduction measures, information and communication technology, and research development and innovation. Hungary exceeded its national target to double the allocation to financial instruments. In the period 2007-2013, the total amount of Financial instruments was EUR 800 million (3.2% of total allocation).

## **2.7. National programmes under the 2014-2020 MFF**

Seven national programmes are planned under the 2014-2020 MFF cohesion policy, representing 83.5% of the total budget for the entire period. Four programmes will receive funding from the ERDF and the ESF. Two programmes will receive funding from the ERDF and the Cohesion Fund. One programme will be funded by the ESF and Cohesion Fund. The programmes are the following:

## **1. Economic Development and Innovation Programme – EUR 8.81 billion**

The programme aims to stimulate the economies of the less developed regions in Hungary. Its most important priorities are the competitiveness of small-and-medium sized enterprises, research and innovation, and employment. The programme also aims to develop the tourism industry, enterprises' energy efficiency, and information and communication technologies. Moreover, it will stimulate the use of financial instruments to cover other objectives, like increasing renewable energy production and improving the energy efficiency of households and public buildings.

## **2. Environmental and Energy Efficiency – EUR 3.78 billion**

The programme aims to support sustainable growth and contribute to achieving the Europe 2020 targets for smart, sustainable and inclusive growth. It should improve flood protection, provide better waste and wastewater management services and good quality drinking water to more residents, help protect natural habitats and species, and it should improve energy efficiency and the use of renewable energy sources.

## **3. National Rural Development – EUR 4.17 billion**

Hungary is a rural country, with 66.3% of its area classified as rural and 46% of the population living in rural areas. The share of agriculture in the GDP is 4%, while the overall agricultural industry (agricultural engineering and chemical industry, food processing industry, etc.) has a 15% share of the GDP. Agriculture and food industry are important pillars of the local economy, particularly in rural areas.

Hungary's Rural Development Programme is putting emphasis on actions related to restoring, preserving and enhancing ecosystems, promoting social inclusion, poverty reduction and economic development in rural areas and promoting food chain organisations and risk management in agriculture.

## **4. Integrated Transport – EUR 3.92 billion**

This programme includes the main transport infrastructure investments. It focuses on further developing highways and railways across the country, improving public transport services not only in and around the capital, but also in the main cities, and in improving regional accessibility. Railway modernisation will continue along the main corridors across the country, with several stations to be upgraded (Békéscsaba, Székesfehérvár, Szombathely). Urban transport will be further developed both in and around Budapest. Other large cities will also benefit from urban transport investments, and light train developments will link cities in the country together.

## **5. Human Resources Development – EUR 3.07 billion**

In the field of human capital, Hungary faces one of the biggest backlogs regarding long-term effect structural development factors. This OP has therefore been designed for contributing to address social and demographic challenges. The main interventions cover social inclusion, strengthening social cohesion and the role of the family, health promotion and prevention, improving the quality of public education, increasing the number of people who have tertiary education and strengthening the staff of social institutions.

The various instruments of this programme will contribute to create social cohesion related to economic growth and to achieve Hungary's employment development goals. Involving disadvantaged groups, Roma, and other socially deprived groups living in segregation, this programme can set off fundamental changes in the social environment of Hungary. Through public education and health promotion programmes it can also contribute to a better quality of life.

## **6. Public Administration and Civil Service Development – EUR 935 million**

The programme will help Hungary to increase the efficiency of its public administration. The development of quality public services is essential to achieve sustainable growth, in line with the Europe 2020 Strategy.

The programme will seek to streamline the structure and performance of the public administration, and to lower administrative burdens, thus contributing to create a business-friendly economic environment.

To achieve this goal, the programme includes different interventions, such as reducing red-tape, strengthening e-governance, increasing transparency and reinforcing human resources. It also includes plans to develop a comprehensive information database for decision makers in local authorities.

## **7. Maritime and Fisheries – EUR 51 million**

Hungary is a landlocked country with a long tradition of fish farming. Lake Balaton is the largest lake in central Europe; the two main waterways are the Danube and Tisza rivers.

The programme covers four priorities defined in the EMFF, by aiming the promotion of environmentally sustainable, resource efficient, innovative, competitive and knowledge-based fisheries and aquaculture, the implementation of the Common Fisheries Policy, and by fostering marketing and processing to increase the popularisation of fish and its consumption within the domestic market.

## **2.8. Regional Operational Programmes under the 2014-2020 MFF**

Aside from the seven national programmes, EU funds are allocated to two regional programmes for a total of EUR 4.9 billion, or 16.5% of total budget for the 2014-2020 MFF period:

### **1. Territorial and settlement development – EUR 3.97 billion**

The programme aims to support regional, decentralised economic development and an increase in employment based on local resources. The programme allocates more than EUR 1 billion to integrated sustainable urban development actions in the framework of a dedicated priority.

### **2. Competitive Central-Hungary – EUR 927 million**

The comprehensive objective of the programme is to ensure the development of the Central Hungary Region and to further improve its competitiveness, whilst simultaneously decreasing the socio-economic disparities within the region.

### **3. Summary account of meetings and visits**

**Monday, 18 September 2017**

#### **European Institute of Innovation and Technology (EIT) - visit of the agency**

- Mr. Martin Kern, EIT Interim Director
- Ms. Mathea Fammels, Head of Unit Policy and Communications (acting)
- Mr. Adam Rottenbacher, ECA coordinator
- Ms. Kirsten Dunlop, EIT Climate-KIC, CEO
- Mr. Erwin Guizouarn, CEO & Co-Founder of Evolution Energie, a start-up supported by EIT Climate-KIC
- Ms. Julia Römer, Founder & CEO Coolar UG, a start-up supported by EIT Climate-KIC

#### **Introduction**

The EIT is an agency created in 2008, with the objective to promote innovations in the EU Member States. It brings together business, education and research to form multi-country partnerships, so called Knowledge and Innovation Communities (KICs) which are formed to create new products and services and to train young entrepreneurs. The EIT does not contribute to financing individual research projects, but provides grants to the KICs for the purposes of training and education activities, collaborative research and innovative business creation and development.

The EIT is led by the EIT Director who is responsible to implement the operational activities under the strategic leadership and overall direction from the Governing Board which consists of 15 experts from education, research and business sectors, as well as an observer from the EC. The Board is responsible for selecting, evaluating and supporting the KICs.

The EIT's financial contribution does not exceed 25% on average of a KIC's overall resources, since it should attract further public or private funding. For the 2008-2013 period the EIT had a budget of over 300 million EUR. Under the current 2014-2020 MFF, the EIT has been allocated 2.4 billion in order to strengthen the innovation capacity of the EU Member States and thereby to contribute to economic growth and competitiveness. In 2016, the final budget of the EIT was 293.8 million EUR, representing an increase of 4.51% compared to 2015; the overall contribution of the EU amounted to 252.2 million EUR. End of 2016 the total number of staff amounted to 59. Since its creation, the Director changed four times and since August 2014, the position of the Director has been filled only on an ad interim basis.

The EIT still needs to react on a number of outstanding issues and to complete corrective measures in response to comments by the Court of Auditors in 2012, 2014 and 2015 related in particular to funding conditions, ex-ante verification of cost statements, funding from public and private sources, unused appropriations, financial autonomy and the respect of the principle of sound financial management.

In spite of the objective of the funding regulation that the EIT shall mobilise funds from public and private sources and from income generated by its own activities, the contribution from the Horizon 2020 financial envelope accounted for 99% of its 2015 budget.

## The European Court of Auditors (ECA) Special Report 4/2016

The ECA's Special report of 14 April 2016 "[\*The European Institute of Innovation and Technology must modify its delivery mechanisms and elements of its design to achieve the expected impact\*](#)" was the result of an audit carried out between December 2014 and June 2015, covering EIT activities from 2010 to 2014. The ECA concluded that the ECA needs significant legislative and operational adjustments in order to become an effective tool for innovation.

The points criticised by the ECA were the following:

- little evidence of tangible results or impact through KICs
- unlikely that KICs income will replace EU funding (from the 460 million EUR injected in KICs from 2010 to 2014, only one KIC reported an income of 400.000 EUR, all the others did not generate any income)
- no link between costs and performance; KICs lack of transparency in the selection of the activities to be financed by the EIT
- principle of annuality is a major handicap because KICs must select projects without knowing whether funding will still be available after the first year
- structural understaffing and lack of stability in senior management: the amount of grant managed per person is significantly higher than for any other EU research grant programme; the resulting high workload has a serious effect on staff turnover
- overly complex funding system: funding condition that KICs develop complementary activities unnecessarily complicates the EIT's financial contribution
- financial sustainability of KICs is doubtful; businesses are not sufficiently involved; EIT funding is concentrated within a few countries and a limited number of KIC partners
- performance indicators and monitoring process do not provide an informative picture of results and impacts
- lack of financial autonomy of the EIT.

## Summary of presentation and debates

The EIT Interim Director, Mr. Kern outlined the major achievements and future ambitions of the EIT: The Knowledge and Innovation Communities (KICs) address major societal challenges, like climate change (Climate-KIC), the digital transformation (EIT Digital), sustainable energy (KIC InnoEnergy), the scarcity and dependence on raw materials and healthy and sustainable food production.

The EITs operations from 2014 to 2020 are defined in the Strategic Innovation Agenda which in essence foresees three priorities:

- to consolidate the three existing KICs (Climate-KIC, EIT Digital and KIC InnoEnergy)
- to create new KICs (2014: health & raw materials, 2016: food and manufacturing, 2018: urban mobility) and
- to enhance the EIT's impact.

In 2016, Forbes has chosen 18 EIT community members in their annual Forbes “30 under 30” list which has been considered as a major achievement by the EIT. Several examples of successful cooperation were quoted:

- Konux: a German engineering cooperation with Silicon Valley in a project to cut down railway maintenance contracts by digitalising the railway network of Deutsche Bahn.
- Skeleton Technologies, an Estonian project on next generation battery power with a graphite based innovation for better storage of battery power which is now expanding to Germany.

EIT was also presented as favouring woman leader- and entrepreneurship.

Under the EIT’s unique approach the following elements were highlighted:

- pan European network and coverage (with some admitted gaps in central and eastern Europe; most important partners: France, Germany, UK; activities stretching out to associated countries under Horizon 2020, like Western Balkans and Ukraine)
- long term strategies
- physical co-location centres to gather KICs
- performance based funding
- independence of EIT and its low administrative expenditure.

In the outlook beyond 2020, the EIT aims to further deliver on its mission and reply to megatrends and innovation needs which are not yet covered well enough. For the future it will be necessary that education adapts faster to rapid technological change and to focus on entrepreneurship.

The aim of the EIT is to improve the EU’s innovation capacity and to strengthen the EU’s global position by closing the innovation gap towards its competitors. These ambitious goals should be achieved by increasing the cooperation between the worlds of higher education, business and research.

Ms Angelova Kratseva from DG EAC gave already a hint on the Commission’s mid-term evaluation on the EIT, foreseen for the late autumn 2017. According to the Commission, the EIT is seen to fulfil its mandate to foster innovation in Europe and to contribute to creating jobs and growth. For the future, the EIT should keep an important place under the next generation of a research and development programme, since it is delivering results and has improved substantially. Challenges which need to be tackled concern the EIT’s outreach, its communication activities and procedures.

Coming back on the recommendations by the ECA in its Special Report 4/2016 on the EIT, it was considered that two thirds of the action plan to address the detected deficiencies have been addressed (time between submission of projects and decision of grants has been reduced; Task Force simplification is progressing, single audit approach has been implemented, cooperation with the ECA has been reinforced, rules have been tailored to KIC needs, and key performance indicators have been modified to focus on results).

The one third of remaining open actions concern notably the following points:

- amendment of the EIT Regulation - has been drafted and submitted to the Commission
- feasibility of multiannual grants in order to allow for multi-annual grant agreements



- financial autonomy - decision still expected in 2017
- staffing completed - additional resources have been requested, meanwhile staff has been increased to 65.

Beyond the recommendations by the ECA, the EIT developed further new ideas to improve the KICs innovation model by supporting the cooperation among KICs in order to help them to share services and facilities.

Ms Kirsten Dunlop, Mr. Erwin Guizouarn and Ms Julia Römer presented concrete examples of successful start-ups, in the field of the Climate-KIC, as e.g. the “Colar” project to create an innovative refrigerator which might be used especially for cooling medicine in developing countries.

In the subsequent debate, the role of the EIT in overcoming the pillar fragmentation between research and business was highlighted; questions concerned the impact of budgetary cuts because of EFSI (Juncker-plan), which indeed hampered the setting in place of new KICs; with regard to the impact of Brexit, the likelihood to lose the UK as a partner is seen as very detrimental to the EIT who would rather prefer to keep a close relationship.

The presentation of projects and debate did not completely dispel all doubts with regard to tangible results achieved by KICs.

#### **Metro Line 4 – project visit**

- Mr. Flórián Szalóki, Deputy State Secretary, Responsible for Transport Operational Programs
- Mr. Lénárd Borbély - Mayor of 21st district (Csepel)

#### From DBR (Dél-Buda-Rákospalota) Metro Ltd.:

- Dr. Zoltán Takács Deputy Head of Department
- Ms. Piroska Dr Vajdáné dr.Horváth - project director,
- Ms. Dóra Szeder - project financial manager
- Dr. Sándor Fehérvári - project manager engineer

#### From BKV (Budapest Transport Privately Held Corporation):

- Mr. Zoltán Vajda - chief engineer of infrastructure

#### **Metro Line 4 of the Budapest Metro Transport OP (ERDF/CohesionFund) Grant awarded: July 2007**

**Total project cost: EUR 1,417 million**

**Cohesion Fund contribution: EUR 696,49 million**

**Project completed: March 2014**

This was a follow-up to the visit already undertaken in 2011 when the ongoing construction works have been visited.

The CONT delegation first undertook a field visit to the metro station Szent Gellért Square, went by metro to the final station of Metro 4 to the Kelenföld Railway Station, and was then welcomed in the Kelenföld depot meeting room. The field visit allowed to judge that the infrastructure makes a good and solid impression and that the metro was well used.



The construction of the line 4 of the Budapest metro, linking the two major railway stations Kelenföld and Keleti, was the biggest single Hungarian project in the 2007-2013 period. The project was criticised for its high construction costs, cost overruns and significant delays of implementation.

Before the Commission adopted its decision to grant a Cohesion Fund contribution to the project, a total of EUR 229.5 million was excluded from the project's eligible costs due to public procurement irregularities detected by the managing authority for the Transport OP in 11 contracts.

In September 2010, the Commission interrupted the payments of the Transport OP on the basis of the system audit report by the National Audit Authority. This report included suspicions of irregularities in relation to 53 procurement items related to that project.

The Commission audited only five contracts of the project in 2010. No findings were made for these contracts. The Hungarian audit authority audited expenditure of the project between 2011

and 2015 and came in each year to findings with financial impact (public procurement, ineligible expenditure, lack of documentation).

The grant contract was modified several times, last in December 2015. The final modification mainly reduced the budget and scope of the project.

In January 2012, the European Court of auditors notified OLAF about serious concerns on the implementation of the project. In December 2016, the final OLAF report was transmitted to the Hungarian government and was made public in February 2017. OLAF discovered serious irregularities and errors affecting the project as a whole. The main OLAF findings relate to the incapacity of the beneficiary to manage the complex project and to the payment of unjustified funds to contractors with political connections, which have been qualified as corruption by OLAF. According to OLAF, two main contracts were irregular and even fraudulent: the contract with Siemens for the power supply and the contract with Alstom for the rolling stock. OLAF recommended the Commission to recover EUR 228 million. The Commission launched the contradictory procedure with the Hungarian authorities.

In February 2017, Minister Lazar announced the opening of police investigations against the former prime minister for providing consultancy services to Alstom in exchange of a success fee for winning the tender. However, in the formal reply in June 2017, the Hungarian authorities challenged all findings and conclusions of the OLAF final report. Hungary is claiming that OLAF presents inaccurate facts and that the proposed financial corrections are disproportionate and also affect contracts which are not co-financed by the EU budget. The Commission had to enter into a formal contradictory procedure which impedes the closure of the programme.

The exchange of views started with the wish of the CONT delegation to be updated on the current state of play of ongoing court cases as well as of the follow-up to the OLAF report. The delegation also wanted to know which kind of fraud occurred.

The financial manager of the project gave an overview of the financing of the project, indicating the difficulties which have been faced and which have led to successive reductions of the project budget and subsequent reductions of the EU grant. Taking into account the ongoing litigations with contractors, the total investment cost is expected to amount finally to HUF 380.4 billion.



Ms Szeder being in place as project director since 2012, declared that anomalies in this project originate from the period 2004-2005 when permit procedures were speeded up and from 2005-2007 when the contracts were signed. Preliminary procedures lasted until 2011/2012 which provoked a domino effect on the execution of the successive contracts entailing major delays in the project implementation. With regard to EU funds she considered that existing contracts would have needed to be renegotiated. She declared that litigation with subcontractors (Alstom and Siemens) is still ongoing as well as investigations linked to the OLAF report which are under the responsibility of the General Prosecutor's office.

The project manager engineer, Mr Fehérvári, tried to explain some of the problems by indicating that the project was never meant to be financed by the EU and that the EU co-financing was only decided in 2008 (when the operational programmes for the 2007-2013 period were adopted) when the project implementation was already at a rather advanced stage.

Mr Borbély, the mayor of the 21st district and chairman of the Working Group investigating corruption on the Metro line 4 project balanced the positive result that the metro works and is being well used with the fact that this infrastructure project is linked to the biggest corruption case in Hungary. According to him all critical contracts were signed before 2010. Only in 2011, after a new mayor was elected, a lawsuit was filed against the former mayor and the respective investigation might be concluded in December 2017. The report of the Working Group investigating corruption on the Metro line 4 was expected to be ready for 30 September 2017, with findings similar to those of the OLAF report. He explained further that the UK antifraud office inquired into the Alstom rolling stock purchase which followed a public procurement procedure where only one company could get the contract. A consultancy company was involved in tailoring the public procurement procedure to Alstom in exchange of a "success fee"; this company happened to be owned by the former prime minister.

The chair of the CONT delegation, Ms Gräßle inquired why no legal proceeding have been launched against the persons responsible for the alleged corruption.

Mr Borbély replied that the reason is to be found in politics: when the Fidesz politicians were in opposition, they did not get access to the requested relevant documents and were therefore not able to scrutinize the critical contracts. Only as of 2009 was it possible for the members of the opposition to access these documents when the Budapest transport company set up a secret room.

The CONT chair inquired why a potential case for criminal proceedings was left to party politics - would it not rather have been up to the public prosecutor to do his work.

In reply, Mr Borbély was eager to clarify that the separation of powers works well in Hungary since the new mayor immediately informed the public prosecutor in early 2011 after getting into office in the end of 2010.

Further questions by Mr Javor concerned the extent of use of Metro line 4 and the contract on the rolling stock with Alstom which allegedly had the worst offer which was only accepted because of a major bribe behind the scenes.

Mr Borbély indicated that the report of the Working Group investigating the contract with Alstom had been approved by the Hungarian national assembly and that it found that the procurement procedure and the bribery were interlinked in so far as the tender procedure was faulted from the beginning, since it was clear from the outset that the only possible tenderer could only be Alstom.

With regard to the number of passengers - the expected number was 300.000 - 360.000 per day - the project manager engineer explained that the estimated number has not been reached yet, but that the judgement on whether the indicator has been fulfilled or not has to be seen in a time span of 30 years.

With regard to the OLAF investigation it was further detailed that OLAF investigated 64 contracts out of which 30 were co-financed from the EU budget. The focus was on five contracts which caused 95% of the value of the irregularities. The Hungarian side perceives a contradiction with regard to the terms of the correction rate. It was suggested to wait for the end of investigations in Hungary before deciding on the final rate and figure of correction. For the time being the Hungarian authorities do not recognise the final OLAF report as a legal basis for the recuperation of grants.

The representative of the European Commission, Mr Bender, reminded that the Metro line project is the biggest project ever financed by the EU in Hungary which is likely to keep the EU and national bodies involved busy for quite some more time. At present, it is not clear whether we are facing only irregularities or whether fraudulent action is at stake as well. Since the Hungarian side denied the facts and recommendations of the OLAF investigation, it will be necessary to wait until fraud will have been established by a legally binding ruling before a financial correction of 100 % can be applied, according to the COCOF guidelines.

The representative of the Commission, Ms Marcela Buzoi, clarified that the Commission did not directly make an audit on the contracts in question. The Commission reviews the work of the national auditors and based itself on the conclusions of their audit. It was also noted that the Hungarian authorities applied some corrections to the contracts affected by irregularities. She further clarified that the Commission is only competent for identifying irregularities, but has no competence to establish fraud. Whenever the Commission has a suspicion of fraud it informs OLAF. The Court of Auditors has a similar approach where suspicion of fraud during an audit is apparent. For Metro 4, both the European Court of Auditors and the Commission informed OLAF on a suspicion of fraud. This information towards OLAF happened following an audit of the European Court of Auditors.

Mr Bender detailed further that a suspicion of fraud exists only with regard to two contracts, for all other contracts, it is only a question of irregularities. For the Commission it is not possible to apply the 100% correction rate before a clear case of fraud has been established by a judicial body, but the Commission has to establish the correction rate at the time of closure of the programmes under the 2007-2013 period. With regard to the German case (Siemens), the Hungarian prosecutor could not establish fraud (because of an out-of court settlement which excludes recovery on the grounds of fraud); for the UK case, this question is still pending in Court.

Mr Tarand wondered if a prescription period might limit further investigations.

In reply, the mayor of the 21st district denied that prescription might prevent further investigation because of a political agreement to extend it since this is allegedly the largest corruption case in the country. In his eyes, one of the contracts was a clear case of fraud because in order to win the tender, the company had to pay 5% to the mayor of Budapest.

Ms Schmidt insisted on explanations why the Commission did not better watch the use of EU money.

Mr. Bender indicated that the Commission had questions on a number of contracts linked to this project before adopting its decision on the Cohesion Fund contribution. The Hungarian government proposed automatic flat-rate corrections of 25% to the affected contracts, but the Commission insisted on taking out the irregular contracts in full. If risks are still perceived, these are covered by 5% of the total expenditure of the operational programme that the Commission retains, which serves as a security to cover financial corrections. From the EU perspective, it would therefore be premature to speak of a loss of money. The EU taxpayer's money is better protected than the Hungarian taxpayer's money which eventually may have to be used to cover irregular expenditure.



Meeting with **Prosecutor General**, Dr Péter Polt

- Dr. Péter Polt, Prosecutor General
- Dr. Barna Miskolczi, Chief of Staff, Chief Prosecutor General - Cabinet
- Dr. Pál Sinku, Chief Prosecutor - Terrorism, Money Laundering and Military Affairs
- Dr. Richárd Szoboszlai-Szász, Chief Prosecutor - Senior Anti-Corruption and Organized Crime Department
- Dr. Gáza Fazekas, Deputy Chief Prosecutor, Press Officer - Cabinet
- Dr. Balázs Garamvölgyi, Deputy Chief Prosecutor - Senior Counsel for Corruption and Organized Crime
- Dr. János Homonnai, Chief Prosecutor - Senior Department of Corruption and Organized Crime

The meeting with the Prosecutor General of Hungary, Mr Peter Polt took place in the Prosecutor General's Office.

The Prosecutor General briefly lined out the organization and functioning of the prosecution service under the Hungarian constitution: The prosecutor's office is independent and responsible only to parliament. With regard to corruption, Mr. Polt indicated that the general competence lies with the police, while the prosecution service is only competent for major corruption cases. He underlined that the protection of the EU's financial interests is also very important for Hungary, as demonstrated by the fact that the former Director General of OLAF visited the Hungarian Public Prosecutor twice.

On the CONT chair's statement that Hungary is concerned by a relatively high number of OLAF investigation, but that she has the impression that Hungary is at least taking action to remedy, Mr Polt detailed that since 2012, Hungary has received 33 recommendations where criminal procedures were proposed. In addition, four cases contained possible criminal indications.

The prosecution service launched investigation in all these 37 cases. In eight out of those charges were filed, in seven cases investigations were ended and all other investigations are still ongoing. The Prosecutor General underlined that the Hungarian prosecution service takes OLAF recommendations very seriously. Most concerned by these recommendations are funds under the ERDF, on the second place comes the budget of the EU institutions, and on the third place the EAFRD.

On the Metro line 4, Mr Polt indicated that with regard to the procurement of the rolling stock (Alstom case), the procedure in the UK concluded that Alstom gave amounts for bribery in order to get the contract. In the ongoing Hungarian proceedings, the question is now to find out, in close cooperation with the UK authorities, who were the recipients of this bribery. These investigations have arrived now at a state where several allegations are made and charges will follow. The second procedure relating to the Metro line 4 is currently under the responsibility of the police:



international connections make it difficult to progress, but the Prosecutor General expects that charges can be filed at a later stage. Concluding on this point, he underlined that only few of the 37 OLAF recommendations in total raise allegations of corruption. However, he sent a letter to all Hungarian prosecutors in 2014, asking them to investigate if any other criminal suspicion, like corruption, might be relevant and to investigate such allegations with priority.

In the debate, the CONT chair Ms Gräßle inquired why Hungary did not join the enhanced cooperation on the setting up of the European Public Prosecutor's office (EPPO) which will be responsible for investigating, prosecuting and bringing to judgment the perpetrators of offences against the Union's financial interests.

Mr Polt replied that the question of joining the EPPO is not a decision by the Prosecution Service, but in the hands of politics. He indicated mainly two reasons why Hungary did not wish to participate: firstly, an argument based on subsidiarity, since in the Hungarian perspective the protection of the Union's financial interests can be tackled with the same efficiency at national level; and secondly, from a constitutional point of view the participation in the EPPO would diminish the national sovereignty. Other Member States who do not participate in the EPPO share this line of thinking. For Mr. Polt, the Member States not participating in the EPPO can combat fraud



against the EU's financial interests at lower costs thorough the cooperation in Eurojust. He underlined that Hungary has already often requested Eurojust investigations.

Ms Gräßle was sceptical about this argument, stressing that there will be a "hard border" between the EPPO and Eurojust and that cooperation and data exchange between them will be difficult. With a further question, she aimed to know whether the prosecutor General is aware of similar cases of systematic fraud like in the Metro line 4 case.

Mr Polt denied while admitting that among the 37 cases raised by OLAF, some may contain corruption allegations. However, investigations need to be grounded on clear suspicions and that mere rumours are not enough for lawyers to launch an investigation.

Mr Szoboszlai, in charge of prosecution with relation to agricultural funds related a case of a public high-level civil servant who claimed funds without justification on which a court case is pending. He explained that the Hungarian criminal code contains nine different criminal offences of corruption, but that budgetary fraud is not one of them. If the objective of funding has been achieved, the only problem may consist in overpricing (higher invoices compared to real costs) which is very difficult to prove. Mr. Polt added that in general it is difficult to find evidence for corruption. The tapping of phone calls and undercover investigations are strictly regulated in Hungary. Sometimes it is not possible to use evidence for merely formal reasons. However, he expects an improvement as of next year because of a new procedural code which will improve the use of evidence.

Mr Valli wanted to know whether organised crime exists in Hungary and whether it infiltrates large infrastructure projects.

Mr. Polt answered that the Office of the Prosecutor General has direct close links to other Member States' corresponding authorities with regard to organised crime and that exchange of information is very important. He quoted explicitly Slovakia and the US as examples of good cooperation. Undercover investigations and controlled delivery are being used in the fight against organised crime as investigation methods. As an example in the fight against organised crime, he quoted a case where the offenders bribed high ranking police officers; this case which is still ongoing caused serious damage.



Ms Gräßle inquired whether a national law on conflicts of interests exists in Hungary.

Mr. Polt indicated that rules for conflicts of interest do exist, but that such conflicts cannot cause criminal proceedings.

Further questions by Mr. Javor concerned among others the reliability of statistical data on the latency of corruption where official data and data from NGOs diverge. How to explain that after 2010, the rate of indictment tripled?

In reply, Mr. Polt indicated that the report of 2015 of the Prosecution Service of Hungary contains precise statistical data which shows a clear increase in the success rate of anti-corruption. At the same time, the number of cases where the office of the Prosecutor General does not launch an investigation is decreasing.

The delegation received the before mentioned report on the functioning of the Prosecution Service of Hungary in the form of an extract from the 2015 report to the Hungarian Parliament ([http://ugyeszseg.hu/pdf/ogy\\_besz/ogy\\_beszamolo\\_2015\\_eng.pdf](http://ugyeszseg.hu/pdf/ogy_besz/ogy_beszamolo_2015_eng.pdf)).

This information interestingly shows that in 2015, the number of economic crimes was on a rising tendency, including budget fraud, which still plays a significant role among those crimes, while on the contrary, the number of corruption crimes showed a significant decrease as well as economic bribes. The indictment rate laid at 50.8% of the cases that the prosecutors received from investigation authorities. This 1:2 relation for indictments is considerably higher than the indictment rate of 1:3 on judicial recommendations made by OLAF towards the Hungarian authorities.

In a follow-up meeting in CONT on 27 November 2017, with the interim Director General of OLAF, Mr. Ilett confirmed that OLAF cannot complain about the administrative cooperation with Hungarian authorities. The number of judicial recommendations made so far by OLAF to Hungarian authorities (30 according to Mr. Ilett, 33 according to the Hungarian Prosecutor General), is not an exceptionally high figure. Currently OLAF has 14 ongoing investigations related to Hungary which mostly concern structural funds and agriculture. The rate of indictment is rather low at 33%, but the number is currently rising towards the EU average. The volume of amounts recommended for recovery is relatively high concerning big infrastructure projects - Hungary was the Member State with the highest amount of financial corrections applied in the year 2016 - but the number of cases in which recoveries are recommended is not beyond average. It was noted as particularly positive that Hungary is the only Member State who grants OLAF even access to bank accounts of persons under investigation; a further positive comment was made on the proactive publication on the OLAF report on Metro line 4 by the Hungarian government.



Meeting with representatives of **civil society** - discussion on various aspects of difficulties facing implementation of EU funds in Hungary

- Transparency International HU:
  - Ms Gabriella Nagy, Head of Public Finance Programs
  - Mr József Péter Martin, Executive Director
- K-Monitor: Mr Miklós Merényi
- Corruption Research Center: Mr Istvan Janos Toth, Director -
- Hungarian Women's Association: Ms Andrea Alföldi, President
- Hungarian Chamber of Agriculture: Mr Béla Kocsy Director of International Relations
- Chamber of Commerce and Industry: Mr Zoltán Szép, Secretary General



Ms Nagy from Transparency International criticised the Hungarian government position to allocate 60% of available EU funds to SMEs as not contributing to the long term development of the country. With regard to public procurement procedures, she stressed the risk of overpricing which might concern up to 90% of all procurement procedures. The overpricing as such might be estimated to roughly 25%. A further matter of concern are procurement procedures with only one bid which amount to 36% of all procurement procedures. Concerning the monitoring of legislation, the overall compliance

of Hungary with regard to transposition is positive, the problem lies rather in the application of existing legislation.

Mr Toth from the Corruption research Center presented the findings of a report which examined data from Hungarian public procurement in the period between 2009 -2016. More than 150.000 contracts have been examined. The report has meanwhile been published:

[http://www.crcb.eu/wp-content/uploads/2017/12/eu\\_hpp\\_2016\\_report\\_170616\\_.pdf](http://www.crcb.eu/wp-content/uploads/2017/12/eu_hpp_2016_report_170616_.pdf)

The report concludes that EU funding had the perverse effect in Hungary that it reduced the intensity of competition and increased the level of corruption risk because of low transparency, price distortion and single bidder procedures. The EU funded tenders had significantly worse outcomes than the non EU funded ones. The winners of many procurement procedures were close to the Hungarian prime minister. A clear risk of favouritism can be deducted from publicly available information (e.g. contracts to the company of the prime minister's son in law). The authors of the study estimate that between 14 to 24 % (EUR 6.7 to 10.6 billion) have been squandered during the examined time-frame.

The CONT Chair, Ms Gräßle asked how to deal with such accusations if local/national authorities do not act?

Ms Nagy replied that earlier there were tailor-made procedures, while now it would even not be necessary any longer to distort the competition because only the companies close to the ruling party dispose of the references required to participate in a tender.

Ms Alfödi from the Hungarian Woman's Association, an umbrella organisation, complained that gender balance is not given special attention in Hungary. This is underpinned by the lack of information on whether gender quality objectives are taken into account. She also regretted that there are no tools available to put pressure on the government.

Mr Kocsy from the Hungarian Chamber of Agriculture outlined that his interest representation aims to keep the same support for agriculture in the future. The Chamber of Agriculture is a very strong interest representation because of compulsory membership. Their principle activity is to provide information on how to access the EU funding and to make their voice heard in Brussels.

Mr. Szép from the Chamber of Commerce started by indicating that also his Chamber draws its strength from compulsory membership for SMEs. Their aim is equally to help SMEs to get to EU financing.



Mr Merényi from K-Monitor referred to the clientilistic nature of agricultural subsidies. According to him, the top 10% of farmers, consisting of oligarchs and FIDESZ party members have been getting more and more during the past years, but there are no sufficient legal and financial means available to attack this situation.

When Ms Gräßle asked the Commission representatives whether they could confirm the allegations made by the three NGOs, Mr. Bender confirmed the substance of some of these allegations. In public procurement there is indeed less of a problem of

transposition of EU legislation, but there seems to be a problem in the application of this legislation, notably with regard to the lack of competition, e.g. through the single bidder procedures. Allegations on overpricing are very difficult to substantiate. With regard to gender budgeting, there is no legal requirement. Ms Buzoi assisted in confirming that the Commission audits reveal indeed problems in public procurement in Hungary. For example, problems are identified with the selection criteria in the tenders which are assessed as restrictive. When problems are identified by the Commission, follow-up corrective measures are initiated in the form of financial corrections and recommendations to improve the system. Corrective measures serve to protect the EU budget.

When problems on legality of expenditure are identified, the Directors General can make reservations in their Annual reports. These reservations can be full, partial or reputational. Full reservations concern the entire operational programme, partial reservations are limited to a part of the programme and a reputational reservation indicates a reputational risk that the system at programme level is not fully working to detect problems before expenditure is asked for reimbursement to the Commission.

The subsequent debate centred on the question how to avoid cleptocratic tendencies, the limitations of the investigative capacity of OLAF (300 procedures on average per year compared to 60.000 projects in which Hungary participated under the last programming period) and the limitations of Commission checks under shared management where the Commission has to rely on information from the Member States. The Commission considers the error rate communicated by the Hungarian authorities as reliable. A reservation will only be expressed if a high level of errors is reported, but the Commission does not have sufficient resources to assess the situation on its own. The bottle neck in Hungary is the public prosecutor - the prosecution service is powerful and independent, but if a case is not referred to the judges, it does not exist, since private prosecution in corruption matters does not exist.

Ms Gräßle concluded that the allegations that the system serves the close friends of the government would need to be proven. She would hope that fewer money will be available under the next MFF if the EU money is not used in the best way and does not improve the overall situation in a Member State. Already under the last programming period 25% of EU fund went to SMEs, but the competitiveness did not improve, but decreased. What sense does it make under these conditions that now it is intended to attribute 60% of the available EU money to SMEs?

**Heart of Budapest** - project visit - EU support to sustainable cities

Municipality of Budapest:

- Ms. Ivett Varga, international and EU advisor
- Mr. Péter Király, head of investment and project management department
- Ms. Dóra Kókai, head of project management unit
- Ms. Anita Tremmel, deputy head of project management
- Mr. Gergő Veres, project manager
- Ms. Zsuzsa Kármán, engineering manager

Municipality of 5th District:

- Ms. Valéria Balla dr., vice mayor, Municipality of the Fifth District of Budapest
- Mr. Ákos Méhes, engineering manager

The “Heart of Budapest” programme is part of the EU support to sustainable cities. Four projects have been completed in the 2007-2013 period with a total cost of projects of EUR 51 million and a total ERDF contribution to these projects of EUR 26.4 million. The aim was to revitalize the historic city centre by creating more favourable conditions for pedestrians and cyclists and by reducing the heavy transit car traffic.

A Commission audit in 2011 identified a disproportionate restrictive selection criterion for a design contract for which appropriate financial corrections were imposed.



The Hungarian audit authority audited the projects but did not establish any findings with financial impact.



Suspensions of irregularities emerged in connection with several procurement procedures for the construction contracts: it was alleged that procurements were designed to be won by favoured companies; these allegations reached the highest levels of politics, including the mayor of the 5th district who is currently the Minister responsible for the Prime Minister’s cabinet office.

OLAF carried out two investigations in the project. The first one concluded in 2014 identifying a number of irregularities concerning public procurement procedures (such as requesting criteria which could only be met by a single company) or the lack of proper public procurement. OLAF proposed the recovery of EUR 31.5 million. During the contradictory procedure, only one irregularity concerning the design contract



which was directly awarded without competition could be upheld. The Commission proposed a financial correction of EUR 279,677 to Hungary. The contradictory procedure is still ongoing.

The second OLAF investigation concluded in 2016 by identifying serious irregularities in relation to an audit services contract which was overpriced. In the contradictory procedure, Hungary accepted the proposed financial correction of EUR 166.000.

An investigation by the Hungarian authorities was launched in 2015 and closed in 2017. According to the Prosecution Service, there was indeed a problem with the breach of public procurement rules which however was not of criminal nature. The investigation was not able to determine financial loss, therefore the case was dropped without indictment and without any other legal consequences.

The delegation first went to a field visit starting at the Waterfront and new Pest promenade project, visiting then the new Main street and finally the Inner Ring Boulevard and its nodes project before gathering at the city Hall for a discussion of the project with the project managers and the vice mayor of the fifth district. The CONT delegation was able to see that favourable conditions for pedestrians and cyclists were created which make the centre of the city more attractive.

The CONT delegation chair suggested that CONT should take a look into the documents of the audits and the OLAF inquires in order to make its own views. She inquired why the Commission did not pursue in the contradictory procedure following OLAF's recommendations.

Mr Tas from the Commission explained that OLAF was challenging inter alia the specification of the type of stone to be used for the project which could only be fulfilled by one company. In the exchange of arguments in the contradictory procedure, similarly to the contradictory procedure following the Commission's own audit in 2011, the Hungarian authorities succeeded to convince



On the question how the financial correction as a result of the second OLAF investigation is being applied, Mr Tas replied that the Commission imposes a flat rate of 5% as a financial correction on all contracts with engineers in Hungary. The reason is that Hungary applied a discriminatory selection criteria in so far as it required for engineers a membership in the national chamber of engineers which is in contradiction with the freedom to provide services. The Commission also monitors attentively the implementation of corrective measures in order to avoid repetition of earlier mistakes.

The Commission did not conclude on further findings which would have required further corrections.

Mr Javor reminded of the investigation by the Hungarian Prosecutor General who concluded that there was indeed a breach of public procurement rules linked to this project, but that these violations did not cause any material damage, were not relevant under criminal law and were finally prescribed already. The Commission was not in a position to confirm this information since it's not in contact with the Prosecutor General and did not receive information from OLAF in this regard.

#### **Val Valley light railway – project visit -Rail transport**

- Ms. Attila Albertné Hamar, Economic Manager of the Felcsút Retraining Educational Foundation

The visit of this project by the CONT delegation attracted huge media interest, since it is closely linked to the Hungarian Prime Minister on the one hand (the project is located in his direct neighbourhood, close to the Football Academy founded by him and is said to have realized a long cherished plan of his) and on the other, heavily criticised as not being economically viable and possibly affected by corruptive tendering.

The delegation first heard a presentation of the project by Ms Hamar, the economic manager of the Felcsút Retraining Educational Foundation, before taking a ride on the narrow track train from the Alcsútdobózi Arboretum to the Puskas Akademia. The delegation appreciated a nostalgic train ride, welcomed by a crowd of journalists in an otherwise entirely peaceful scenery without tourists in sight (outside the summer season the operation of the train is limited to afternoons during weekdays).



The objective of the project was the development of regional tourism. The total project costs amounted to EUR 3.8 million, the ERDF contribution consisted of EUR 1.7 million. The EU grant was awarded in May 2015, the works started in July 2015 and were finished in November 2016; the project was completed in December 2016.

The project consists of the reconstruction of old tracks in the length of 5.7 km, renewal of crossings, construction of four stations, purchase of one diesel locomotive and four wagons, touristic service development with mobile app and webpage and temporary exhibition in Felcsút. The railway connects already existing tourist attractions (Puskas Academy and Museum in Felcsút and the Botanic Garden of Alcsútdobó). The railway operates in the period of March to October with six return rides on five days a week. The beneficiary undertook the commitment to create 4 jobs and to





welcome 10.000 visitors per year. This figure breaks down to 63 visitors per day during the operational time, meaning 6 passengers per train. The expected revenue from the tickets sold should amount to EUR 20.000 per year. The project received high media attention and was subject to various queries by MEPs. On the basis of information available to the Commission there was no evidence to prove any irregularities. The passenger numbers included in the grant contract do not correspond with the (inflated) numbers quoted by the press. The mandatory results to be achieved will be verified by the Commission before making a final payment. Neither the Commission, nor the Hungarian audit authority audited the project.

The project was presented as tourist breakout from Budapest, located only some 50km away from the capital. In a further stage, a connection to the national railway line is envisaged. Such intermodality juncture should make this nostalgic railway much more accessible. Ms Hamar underlined that the operational objectives were met: during the first year the passenger target has been tripled, since 30.000 passengers used the train and not only four, but ten jobs had been created.



The chair of the delegation, Ms Gräßle wanted to know how the project was chosen, who uses it and if the costs were covered.

In reply, the delegation was informed that the call for tender specified that the project should serve for tourism in the vicinity, notably for children and youth. For this reason the schedule has been adapted to school time and is mainly riding during afternoons and week-ends, but can be complemented by individual request (the CONT delegation was offered a train ride outside normal working hours). A feasibility study concluded that the investment

would achieve average return. Compared to this study, the costs increased (HUF 20 million), but also the revenue (HUF 17 million). Mr Javor inquired whether this study was publicly available. He was told that the project management must be in possession of the study which was the basis for the grant contract. A report on the first year of operation of the railway was submitted in June 2017.

According to available information, the Vál Valley Light Railway was qualified as a priority project (special legal status for investments of national regional interest). Publicly available information also suggests that the grant was not founded on realistic estimates and that the efficient market-based operation of the railway line was unlikely. The tender was published in February 2015. According to press information, the Foundation for Felcsút Youth Development won the tender as single tenderer. This



foundation was created by the current Hungarian Prime Minister in 2006 and has been led for many years by Mr Lőrinc Mészáros, the country's fifth richest citizen (Bloomberg, BusinessWeek, and 25 July 2017), at present mayor of Felcsút, and former school mate of the Prime Minister.

#### **Bodri Princeszet Winery – project visit - EU support to SMEs**

- Dr. István Bodri, owner



The CONT delegation visited the Bodri Princeszet Winery and its wine cellars with very up-to-date technology and listened to a presentation by the project manager of the company.

The Winery started as a family company in 1999, when a first wine cellar was built of the size of 300 sqm as well as facilities for wine production and guest rooms. A new cellar of 1800 sqm was built which is the biggest of its kind in Central Europe. Half of the new cellar's total cost of approximately EUR 1.6

million was covered by the European Agricultural Fund for Rural Development (EAFRD).

The project manager gave an introduction to the CONT delegation explaining that Szekszard is the second best known wine region in Hungary behind the region of Tokaj. The Bodri family is cultivating wine in the fifth generation and puts a focus on high quality wine which is also reflected in its participation in wine competitions. The Bodri Winery is now established among the most successful wineries in Hungary and has one of the biggest wine cellars in Eastern Europe. In 2016, 371.000 bottles of wine have been sold. Thanks to the investment, the annual revenue increased from approximately HUF 10 million to HUF 450 million and employment increased from 5 to 15 persons employed.



Ms Gräßle asked if the investment would also have been made if EU funds would not have been available. The project manager admitted that this remarkable economic upswing would not have taken place without the 50% co-financing from the EU and the EU grant was the decisive factor for the investment.

A further question aimed to know whether foreign investments are made in land or companies in this wine region. It was replied that such acquisitions by foreign investors were made primarily in the Tokaj region before the accession to the EU, but not in the Szekszárd region.



Complex development of **tourism infrastructure in Baja** - project visit - EU support for tourism

- Mr. Zoltán Keszei, Baja Mayor's Office, City Development Office



The CONT delegation went to inspect the development of tourism infrastructure in Baja consisting among others of an ecological park with a watchtower, a pedestrian and bicycle bridge, a bicycle road and a refurbished event and touristic centre.

The objective of the project is to encourage tourists to visit the city of Baja all year round and to lengthen their stay by offering high quality services.

The project grant was awarded in September 2012 and the project was completed in December 2016.

The total project costs are of EUR 3.8 million, the contribution under the ERDF amounted to EUR 1.7 million. The project consists of the following five elements which are located close to each other in the recreational area of the city of Baja close to the Danube and its islands:

1. A bicycle road with a length of 12.6 km, linking the major sights of the city and the new attractions and which is part of the Eurovelo6 network. Total cost of this project element was EUR 1.7 million.
2. Water stage, an event centre which was reconstructed, enlarged and equipped with an auditorium and modern visual and sound effect technology. The total cost of this of this project element was EUR 150.000.
3. Touristic centre, an existing building was transformed and enlarged into a modern event centre able to accommodate large scale events also in bad weather. It also serves as an information point for visitors and hosts an interactive exhibition about the specialities and traditions of the city of Baja. The costs of this part of the project amounted to EUR 1.3 million.
4. Pedestrian and bicycle bridge, a 73m long bridge was built to connect the two islands of the city and to offer easy access to the Pandúr ecological park. The total cost of this project element was EUR 2 million.
5. Pandúr ecological park, a holiday park which was created on the side of the city in a recreational area, close to the Danube and the Gemenc natural reserve area. It provides open air fire places, a watchtower and a nature trail with eight stations with educational material on the wildlife in the Gemenc forest. The total cost of this project element was EUR 460.000.



The construction of the watchtower raised some criticism as there is already a popular observation tower just a few hundred meters away which stands at the confluence of the Danube and Sugovica rivers and hence offers more interesting views than the newly constructed tower which is offering only a limited panorama, including however a view to the local wastewater treatment facility. Observation towers financed by EU funds in questionable locations have become somewhat of a theme in Hungary: a few of the estimated 160 observation towers co-financed by the EU serve as recurring jokes in the media.

After the walk through the ecological park and over the pedestrian and bicycle bridge, Mr. Keszei outlined to the CONT delegation in the new touristic centre the main touristic attractions of Baja. The delegation was satisfied that the overall touristic infrastructure is of high quality and suited to increase the attractivity for tourism; some doubts might remain however, if the infrastructure will effectively be sufficiently used which leads to the question of the criteria for the selection of projects eligible for EU funding.



Meeting with **State Secretaries**

- Mr Nándor Csepreghy, State Secretary of the Prime Minister's Office
- Mr Ferenc Szabolcs Takács, State Secretary for EU Affairs
- Ms Eszter Vitályos, State Secretary for European Union Developments and Investments



The State Secretary Mr. Csepreghy gave an opening statement indicating that the absorption of available funds was the highest priority for the Hungarian government during the programming period 2007- 2013. For the current programming period, it is aimed to use 60% of the available funds for economic development and 40% for government spending. Currently there is a debate between left and right wing politics in Hungary on whether to use the EU funds proportionally year after year and spread over all the country or whether the funds should be used rather in a way in order not to be

dependant any longer on EU funds after 2020. This is a reaction to the uncertainty which prevails over the future of cohesion policy under the next programming period and after Brexit. Under high migration and social pressure, a re-orientation of cohesion funds cannot be excluded, and under these circumstances, the Hungarian economy should become self-reliant by 2020.

On the net payer and net-receiver debate, the State Secretary hinted that the net payers are in reality also benefitting most of the European Union.

On transparency, Mr Csepreghy mentioned the fierce political climate where the Hungarian opposition aims to prove corruption, but in his eyes the fear of corruption is unfounded because access to EU funds is only granted if a project contributes to job creation or general economic development.

He also highlighted that Hungary has improved its performance on several indicators:

On the project selection process, for instance, Hungarian ministries tendered through an umbrella organisation and outsourced the evaluation of project applications to companies which sometimes had left wing connections. Under the current government, projects are being evaluated within the services of government in order to exclude business interest.

Mr. Csepreghy supports that public procurement has to be transparent and that the number of tenders with only one bidder should be reduced.

Another important aspect of public procurement is the cost effectiveness of projects. Taking the example of the Metro line 4 project, he underlined that the cost efficiency needs to be considered over the whole life cycle of a project.



With regard to the audits of EU funds in Hungary, the State Secretary underlined that the proportion of irregularities is less than 2%. The Hungarian government is entirely committed to have fully regular and efficient public procurement proceedings.

The chair of the CONT delegation, Ms Gräßle thanked the State Secretary for the excellent cooperation during this second visit of CONT as a follow up visit the first one in 2011. She announced her intention to come more often, if possible every 3 to 4 years in order to follow the evolution of EU spending in Hungary. She made clear however, that she did in no way intend to interfere in domestic politics and internal political campaigns.

Ms Gräßle highlighted some problems with public procurement, notably the high number of single bidder procedures and the high number of OLAF investigations.

However, she confirmed the impression that management and government authorities have the aim to comply with the rules and to ensure regular procedures. She stressed that EU funds should be used in a way that it can be seen that they contribute to economic development. She expressed the hope to see how the new government policy bears fruit in this regard.



Mr. Ivan recommended not to focus too much on what happened before 2010, but rather to scrutinize what is happening now. In this perspective he inquired whether the information given by NGOs that the current Prime Minister's son in law had access to EU funds was correct.

Mr. Ali wanted to know if the use of cohesion funds fulfil their objectives in Hungary and further asked how transparency could be improved.

Mr. Tarand asked firstly for an explanation why so many of the Hungarian programmes under the last programming period were subject of OLAF investigations and secondly why so many people feel being excluded from the possibility to access EU funds.

Mr. Valli appealed to Hungary to be more transparent and to open the access to EU funds. With regard to migration he warned that Member States who do not take immigrants might risk to lose funds in the future. Lastly, he wanted to hear from the Hungarian side on their view on Brexit.

Ms Schmidt wanted to get more information on how projects are being selected and who controls the performance of the selected projects and insisted on getting a reply on the reproach that the Hungarian government manipulates tenders.

The closer the election, the sharper the campaign, was the summary of these questions by Mr Csepreghy. The opposition always wants to prove that the government is incompetent and corrupt. This time, the campaign started early and it is unfortunately not possible to exclude politics from the present debate. The timing of the CONT mission was not considered fortunate by the Hungarian government, but nevertheless the government showed to be cooperative. Some of the questions raised, he said, are in the public debate: is there a trend that the opposition uses OLAF for its campaign? In his eyes, many of the OLAF investigations have a political connotation. The former Director General Kessler stated that the findings relating to Hungary are not worse than in other Member States, but that the number of whistle-blowers is higher. Not the number of procedures is decisive, but their outcome. The lack of substance in this regard is also confirmed by

the low error rate, which according to the Commission is below 2%. The Hungarian government gives all its documents to the Commission and OLAF and should therefore be given the same credit as the opposition. In the cases where financial corrections were applied, the Hungarian authorities asked the Commission for guidance, but it gave none. The European Parliament should act in future regulation to solve this problem.

With regard to the single bidder procedures, Mr. Csepreghy highlighted that other Member States have the same problem, but the Hungarian government took action and changed the procurement law which requires now that all bidders have to be listed on a public website. This measure is expected to reduce the number of single bidder procedures. Also, the management authority needs to check if the threshold needs to be lowered or the procedure needs to be annulled in order to avoid single tendering.

With regard to the efficiency and the effects of using EU funds, the State Secretary drew a thoroughly positive balance. Regarding the previous funding period, it was possible to allocate all the available funds.

Concerning NGOs, he considered that they became a factor in the political arena: based on political convictions they stigmatise other opinions.

On the reproach of clientelism, Mr. Csepreghy said that the press is pointing out some entrepreneurs, but it should not be overlooked that companies have an important role in the economy. Linked to the period 2007-2010, the government is examining all allegations. Under the current government, action is taken that 30.000- 40.000 companies should benefit from the Fidesz economic policy. Concerning the son in law of the Prime Minister, the State Secretary assured that he sold all his business interests and left the market in order to avoid these allegations. On behalf of the government, Mr. Csepreghy asked the CONT delegation to base its opinion on documents and facts and not on hear-say.

As to the decision on the selection of projects, the State Secretary explained that monitoring committees have to approve the project selection criteria (Commission participates only in an advisory role). Based on these criteria, the managing authorities proceed. The evaluation is then made by civil servants - who can take additional tasks as members of an evaluation board - in anonymised form. For every project, two evaluations are being made; if there is a significant difference between the two, the managing authority can overrule them, if necessary. Ex-post controls are made also by the managing authority and also the Commission can proceed to audits.

Mr Takács, the State Secretary for EU affairs added some comments on the migration crisis of the past two years for which nobody was prepared and which prevented the EU from dealing with other important issues, like the conflict in the Ukraine or Brexit because all the attention focused on migration. From the Hungarian perspective, migration needs to be controlled in a better way: the origin of migrants must be known and way must be found to help people to stay in their countries of origin.

He stated that Hungary is one of the most law obedient countries and therefore it also takes border control seriously. With regard to the ruling of the Court on the compulsory quota for relocation of refugees, he expressed his conviction that a quota system will not solve the problem. To establish a linkage between migration and cohesion policy, is not rational but a political punishment. Other Member States profited from cohesion for a much longer period. If the budget for cohesion policy would be substantially reduced, the net payer Member States would hurt their own interests because cohesion benefits them as well. Finally, he drew the attention to the criteria for cohesion policy which are laid down in EU primary law and warned that the creation of a linkage to well behaving in extraneous policies would also raise legal problems of constitutional nature.

With regard to Brexit, Mr Takács stated that Hungary regrets that the UK will be leaving because both states have similar thinking on many topics, like on migration or on the role of national parliaments. Hungary is also aware of the fact that with the UK's departure, the EU loses its second most important economy and net contributor. The crucial question will be how to come to additional funds to replace the UK's financial contribution or how to live with a lower EU budget. Concerning the EUR 6 billion promised to Turkey, he wondered how they will be financed in the future, but immediately warned that the money for migration should not be taken away from cohesion which is one of the most successful EU policies. The Hungarians do not want to punish the UK for leaving the EU and they do not overlook that the UK is one of the most important members of NATO. Nevertheless, he made clear that Hungary negotiates the Brexit as part of the EU and not bilaterally.

Ms Vitályos, the State Secretary for European Union Developments and Investments, detailed with regard to OLAF investigations that currently 32 procedures are open. This number is almost the double of the EU average, but can be explained by the high number of politically motivated denunciations. If one puts the number of OLAF investigations in perspective with the total number of the so far 72.000 projects which have been implemented with the help of EU funds, the number of OLAF investigations looks quite small.

Ms. Gräßle assured that she would take a look into the OLAF investigations and proceed to a quality check on OLAF. She reminded again of the high amount of financial corrections - EUR 1 billion over the whole programming period 2007-2013 out of the total of EUR 25 billion co-financed by the EU. She expressed the hope of having constructive relation with Hungary and regretted the high media interest in this CONT mission.

Mr. Csepreghy confirmed that the Hungarian media were closely following this CONT mission and stressed again that the Hungarian government showed *[note of the redactor: at the last moment]* a cooperative attitude. In his concluding remarks, the State Secretary reminded that the European Union takes account of the differences among its Member States and that a constant negotiation on common values is necessary. On migration the attitude and perspective varies largely among different Member States and this should be respected.

Lastly, Mr. Bender indicated from the Commission's side that the 2% error rate mentioned by the Hungarian side, is only the result after all the corrections had been made.

#### Meeting with the **State Audit Office** of Hungary

- Mr. László Domokos, President
- Ms. Magdolna Holman, Director of Planning
- Ms. Margit Horváth, Supervisory Manager
- Ms. Mária Makkai, Supervisory Manager
- Ms. Erzsébet Németh, Supervisory Manager
- Mr. Gyula Pulay, Supervisory Manager
- Ms. Nóra Gál, Head of Department of Legal Support
- Mr. Bálint Horváth, Head of Department of Communication and Institutional Relations
- Mr. Kornél Jakab, Head of Department of Methodology and International Relations
- Ms. Júlia Szappanos, Head of Department of Risk Analysis

The President, Mr. Domokos, gave an introduction into the functioning of the State Audit Office (SAO), the Hungarian supreme audit institution. The interest of every citizen that public money is correctly spent is the overarching guiding principle. The office aims to promote good governance and to help eliminating errors and irregularities. The Office does not dispose of investigative powers or the right to impose sanctions. With this model, Hungary has taken inspiration from the Anglosaxon system of organising a court of auditors. In the relation with the European Court of Auditors, the Office aims to avoid parallel checks. The relations with the ECA are improving, there is a better strategic planning now, and since 2010, ECA audits overall confirm that the use of EU funds in Hungary is becoming increasingly efficient. With regard to the better strategic planning, he indicated that for the 2014-2020 funding period, the decision was made that 60% of the EU funds should be made available for companies. It is also intended to refurbish the overall infrastructure of the country in a sort of a Marshall plan which was very positively received by citizens. Mr. Domokos stressed that Hungarian budgetary resources are controlled less strictly than EU funds. Part of their task is also to control the controllers by checking organisations who are supervising the distribution of funds.



Ms Holman, the Director of planning presented an overview of the results of the SAO. Audit reports are entirely made public which increases their impact. The era of audits without impact has ended. To the extent that the ECA has already completed an audit, the SAO follows its findings in order to avoid duplication. The SAO audited all projects of high risk under the 2007-2013 programming period (M6 motorway, metro line 4, Liszt Academy, rural development programmes). In 2015, the SAO presented a study analysing the effects of EU funding in Hungary which were found to have had a very positive impact. An SAO report in 2010 on the metro line 4 was confirmed by identical

findings by an OLAF report in 2017, with a suspicion of misappropriation of funds and risks identified for the public procurement. Hungary did not have a long history of public procurement before it joined the EU which can explain some of the difficulties faced. The programming period 2007-2013 was a learning period for Hungary in a time where the country was further challenged by the financial crisis. Since then, the regulatory framework has been improved.

The CONT chair, Ms Gräßle wanted to know more about data on corruption with a focus on public procurement procedures.

Ms Gál, the Head of the Department for Legal support replied that if problems of such nature are identified, the legal department directly contacts the law enforcement agencies, like the public procurement enforcement agency. Overall, with regard to corruption there is only a small room of manoeuvre to provide evidence which can be used in Court. However, the law enforcement agencies can apply fines and other sanctions. A change in the public procurement law allows the SAO to perform audits on ongoing procedures and thanks to a change of the criminal code auditors can be summoned as witnesses in criminal proceedings. With regard to the SAO's institutional competence, she clarified that the SAO has no further impact on how its findings are being dealt with once an audit report has been notified. As an example, she quoted an audit which has been made with regard to universities which have received EU funding and how they dealt with public procurement. The SAO found that the universities had structural deficiencies and that they had to put systems in place in order to address the shortcomings. The role of the SAO is therefore confined to identifying risky areas, but others have to draw the consequences.

Ms Gräßle wished to know further whether the high percentage of contracts with only one bidder was examined by the SAO and if yes, which the findings were.

Mr Domokos replied that it is not as such illegal to have only one bidder. Since 2015, there is a slight increase in the number of public procurements which have more than one bidder. He also highlighted that new laws aim to better protect public money.

Ms Ivanova, member of the ECA, expressed her thanks for the excellent cooperation between the ECA and the SAO and highlighted as two successful examples the audits on the ESF and on the Youth guarantee.

Mr Valli, Mr. Ivan and Mr. Ali asked further questions with regard to the follow up on the audit work of the SAO and concerning the different shortcomings perceived in the field of public procurement.

In reply, Mr. Domokos gave several examples on the follow-up of the SAO's recommendation, notably with regard to the metro line 4. On public procurement, he indicated that a main reason for having not many competitors is to be found in the size of the market, in several branches there are just not many companies. On the following up on recommendations, he remarked a clear improvement since it is compulsory to react on the SAO's findings under the revised legislation.



#### Meetings with **Hungarian National Assembly** members

- Mr. Erik Banki, Chairman, Committee on Economics
- Mr. Zoltán Tessely, Vice-chairman of the Committee on European Affairs
- Mr. Jenő Manninger, Vice-chairman of the Committee on Economics
- Mr. László Juhasz, chief adviser, head of the Secretariat, Committee on European Affairs
- Mr. Csaba Gergely Tamas, legal adviser, Committee on European Affairs
- Mr. Krisztián Kovacs, Head of EU Department
- Mr. Örs Czenczer, Adviser - EU Department
- Ms. Andrea Homos-Horváth, Adviser - Committee on Economics



Mr. Banki, the Chairman of the Committee for Economics welcomed the CONT delegation and exchanged views with the CONT delegation on a number of topics of common interest. The members of the Hungarian parliament underlined the government's commitment to transparency and fight against corruption. They also quoted examples of legislative improvements by the current government: for instance, party financing has become more transparent and the prescription period for corruption crimes has been extended from 6 to 12 years.

The CONT chair, Ms Gräßle, expressed common concerns: the aim of a successful EU membership of Hungary is shared by both sides. She stressed that the selection of projects is of utmost importance in order to make the best use the available funds.

Mr. Banki assured that the well balanced use of funds is also in the Hungarian interest. Regions in the West of Hungary, close to the Austrian border are generally better developed, while the Hungarian east is still lagging behind. For some years now, Hungary experiences a positive economic growth all over the country. This economic growth and the efforts by the Hungarian government to balance public funding should help closing the gaps between the different regions.

Mr Tessely, the Vice-chairman of the Committee on European Affairs highlighted aspects of political supervision by the Hungarian parliament which have improved and quoted hearings for Ministers to justify the use of funds. With regard to the programming period 2007-13, he praised that in 92% of the accounts no error has been found. He also defended the investment in the Val Valley railway as a good investment in the region, especially if the connection with the railway network will be further improved.

Mr Manninger, the Vice-chairman of the Committee on Economics admitted that without EU funding, the disparity among the Hungarian regions would be much worse.

Ms Gräßle tied up by stressing that the EU wants to improve the life of its citizens and that international cooperation is a real added value. With regard to the Val Valley railway she regretted the high media attention and said that the question if the EU funds could have been better used is not upon CONT to judge, but in general it would be advisable not to use EU funds in order to

increase the public deficit. She announced that CONT will continue monitoring the situation in Hungary and stressed how important it is to have a real fight against corruption.

Mr. Valli underlined the importance of having good cooperation among parliaments and inquired about the parliamentarians' views on the future of cohesion policy.

Mr. Banki replied that Hungary is still very excited about cohesion funds: Hungary had to face severe losses in its economy because of world wars I and II and because of Soviet occupation. All of that destroyed the fundamentals of the Hungarian economy and after the political transition it was necessary to reinforce the private sector. This is also the reason why Hungary intends now to spend more cohesion money for SMEs. With regard to migration, he stressed that Hungary invested considerable amounts of money in order to prevent uncontrolled flows of migrants, but said also that help cannot be imposed, if there is no readiness for it.



After this meeting, a **press conference**, attracting huge media interest, took place at and with the support of the EP Information Office in Budapest.

**Redout Pest (Pesti Vigadó) - project visit - EU funds for culture**

- Ms. Barbara Molnárné Szunyi, Executive of Pesti Vigadó Nonprofit Ltd.
- Mr. Szabolcs Székely-Gyökössi, Head of Department of the Department of Economy and Finance of the Secretariat of the Hungarian Academy of Arts
- Ms. Annamária Kulcsár, Chief Advisor of the Secretariat the Hungarian Academy of Arts

The CONT delegation went for a guided tour through the Pesti Vigadó Concert Hall, a prestigious historical building with a rich past, located at the Danube Promenade in Pest. The Pesti Vigadó functions today as a cultural institution, but also as a high-level event center and tourist destination.

The project aimed to develop the region's attractiveness, a grant was awarded in February 2010 and the project was completed in June 2016. The total project costs amounted to EUR 1.2 million, the contribution under the ERDF amounted to EUR 755,000.



A first concert hall on the same place was destroyed in the Hungarian War of Independence in 1848-49, rebuilt on the basis of original plans, badly damaged during World War II, reconstructed through some 36 years until the 1970s, according to the taste of time and eliminating a number of elements of the original design. When the next renovation became necessary, it was decided not only to bring the building up to modern technical standards, but also to reinstate the original design. Therefore, it was decided to reconstruct the 5th and 6th floor, thereby also extending the touristic utilisation of the building. The 5th floor is now accommodating a new lecture and exhibition hall; on the 6th floor a panoramic terrace was constructed with a magnificent view of Buda. In addition to the reconstruction and renovation of altogether 2035sqm, a new tourist information point was created with interactive equipment. As a result of the project, five jobs were created. The annual number of visitors was expected to be 42.000, but it had more than 100.000 visitors in 2016.



In 2014, the year of its reopening, the Vigadó was transferred to and became the headquarters of the Hungarian Academy of Arts, the main cultural organisation in Hungary being also a main beneficiary of cultural subsidies. According to press reports, there were some problems between the former ownership of the Hungarian cultural foundation MSZA, the Hungarian Craft Academy



Foundation who applied for and won the EU grant and the new ownership of the Hungarian Academy of Arts.

Neither the Hungarian audit authority, nor the Commission audited this project. The Commission is not aware of any breach of EU or national rules in the project selection and implementation.

**Ferenc Liszt Academy of Music - project visit - EU funds for culture**

- Mr. Zoltán László, Szentgyörgyvölgyi -Chancellor
- Mr. Gergely, Lakatos, project manager



The last visit of the CONT delegation was dedicated to the Liszt Academy music school, another historic and cultural gem of Budapest, founded in 1875 by the composer Ferenc Liszt. The present Art Nouveau style building was erected in 1907 and serves as a world famous concert hall and music conservatory. Some 800 students learn in the music study program of the Academy.

The objective of the EU project was to contribute to the development of public services. The grant was awarded in July 2007 and the project was completed in September 2016. The total project costs amounted to

EUR 43,1 million; the ERDF contributed with EUR 33 million.

The building has been painstakingly restored during a four year closure to its early 20th century Art Deco style. The main element of the project was the complete reconstruction and internal renewal of the central building of the Academy that hosts the concert hall which is a national monument. The other element of the project was the reconstruction and modernization of the side building that hosts the university. The project finally served also to enlarge the capacity of the university in order to ensure the long term quality service provided by the academy. The building was reopened to the public in 2013. The conservation of this outstanding monument of Art Nouveau architecture was one of the largest real-estate development projects of the past few years in Budapest.

After one year of use, the renovation project was considered very successful. The results achieved were also presented in a very useful and well-presented hand out specifically prepared for the CONT delegation.

The Hungarian audit authority audited the project but did not establish any findings with financial impact.

The Commission did not audit the project and is not aware of any breach of EU or national rules in the project selection and implementation.

## **ANNEX**

Directorate-General for Internal Policies of the Union  
Directorate for Budgetary Affairs  
Secretariat of the Committee on Budgetary Control



Brussels, 15 September 2017

### **Fact-finding mission of the Budgetary Control Committee (CONT) to Hungary**

**18-20 September 2017**

#### **DRAFT PROGRAMME**

##### **Members of the delegation:**

1. Ms Inge Gräßle (EPP, Head of Delegation)
2. Mr Indrek Tarand (Greens)
3. Mr Catalin Ivan (S&D)
4. Ms Claudia Schmidt (EPP)
5. Mr Nedzhmi Ali (ALDE)
6. Mr Marco Valli (EFDD)

##### **Accompanying Members (out of quota):**

7. Mr Tamás Deutsch (EPP)
8. Mr Péter Niedermüller (S&D)
9. Mr Benedek Jávor (Greens)

##### **CONT Secretariat**

10. Ms Evelyn Waldherr, Head of Unit
11. Ms Veronika Patyi-Horváth (EP mobile: +32-472.580721)

##### **Advisors of Political Groups**

12. Mr Balázs Széchy (EPP)
13. Ms Suvi Leinonen (ALDE)
14. Mr Roccu Garoby (Greens)
15. Ms Barbara Gatto (EFDD)

##### **European Commission**

16. Mr Thomas Bender (HoU - DG REGIO -Administrative Capacity Building and Programme Implementation II - Hungary)
17. Mr Maté Tas
18. Ms Marcela Buzoi (DG REGIO - Audit I)

**European Court of Auditors**

19. Ms Iliana Ivanova

**European Parliament Information Office Hungary**

20. Ms Andrea Lövei (Head of Office)

**Interpreters HU - EN**

21. Mr Péter Szabo (team leader)

22. Ms Eszter Bona

23. Mr Robert Gulyas

24. Mr Ertrit Puka (technician)

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E-mail : [H6565@accor.com](mailto:H6565@accor.com)

**Date in: 18/09/2017      &      Date out: 20/09/2017**

**Flights:**

OUTWARD - From Brussels to Budapest				
Flight	On	Airport	Departure time	Arrival time
SN 2823	18 September	Brussels National (BRU)	09:30	11:20
RETURN - From Budapest to Brussels				
Flight	On	Airport	Departure time	Arrival time
SN 2826	20 September	Ferihegy (BUD) Budapest	17:40	19:40

**Programme:**

**Monday, 18 September 2017**

<b><i>Time</i></b>	<b><i>Meeting</i></b>	<b><i>Location</i></b>
12:00	Pick-up from Ferihegy Airport, departure to EIT	
13:00-14:30	<p><b>European Institute of Technology (EIT)</b> - visit of the agency</p> <ul style="list-style-type: none"><li>• Martin Kern, EIT Interim Director</li><li>• Mathea Fammels, Head of Unit Policy and Communications (acting)</li><li>• Adam Rottenbacher, ECA coordinator</li><li>• Kirsten Dunlop, EIT Climate-KIC, CEO</li><li>• Representative of a start-up supported by EIT Climate-KIC or a Master/PhD student</li></ul>	<p><i>1117 Budapest 1 Neumann Janos utca</i></p>
15:00-16:30	<p>Transport project – <b>Metro Line 4</b> – project visit</p> <p><u>From DBR:</u></p> <ul style="list-style-type: none"><li>– Piroska Dr Vajdáné dr.Horváth - project director,</li><li>– Dóra Szeder - project financial manager</li><li>– Dr. Sándor Fehérvári - project manager engineer(mobile: +36-20/919-2752)</li></ul> <p><u>From BKV (Budapest Transport Privately Held Corporation):</u></p> <ul style="list-style-type: none"><li>– Zoltán Vajda - chief engineer of infrastructure</li></ul> <p>15.00 – Meet Mr Fehervari at Szent Gellért tér station (on the surface, next to the elevator) - District XI.</p> <p>15.15 - Traveling on Metro Line 4 from Szent Gellért Square to the Kelenföld Railway Station</p> <p>15.30 – Arriving to Kelenföld (depot)</p> <p>15.45 – Meeting, discussion (Kelenföld Depot meeting room) (possibility to see control centre)</p> <p>16.30 – End of the programme</p>	<p><i>Budapest -Szent Gellért tér metro station (bus drops of participants)</i></p> <p><i>-Kelenfold depot 1119 Budapest, Gyergyótlgyes utca 2. (the bus should wait in Kelenföld Depot parking spaces)</i></p>

17:00 - 18:30	<p>Meeting with <b>Prosecutor General</b>, Mr Peter Polt</p> <ul style="list-style-type: none"> <li>– dr. Péter Polt, Prosecutor General</li> <li>– dr. Barna Miskolczi Chief of Staff, Chief Prosecutor General - Cabinet</li> <li>– dr. Pál Sinku Chief Prosecutor - Terrorism, Money Laundering and Military Affairs</li> <li>– dr. Richárd Szoboszlai-Szász. Chief Prosecutor - Senior Anti Corruption and Organized Crime Department</li> <li>– dr. Gáza Fazekas Deputy Chief Prosecutor, Press Officer - Cabinet</li> <li>– dr. Balázs Garamvölgyi Deputy Chief Prosecutor - Senior Counsel for Corruption and Organized Crime</li> <li>– dr. János Homonnai Chief Prosecutor - Senior Department of Corruption and Organized Crime</li> </ul>	<p><i>1055 Budapest Markó u. 16.</i></p>
19:00-20:30	<p>Meeting with representatives of <b>civil society</b> - discussion on various aspects of difficulties facing implementation of EU funds in Hungary</p> <ul style="list-style-type: none"> <li>• Transparency International HU <ul style="list-style-type: none"> <li>○ Ms Gabriella Nagy, Head of Public Finance Programs</li> <li>○ Mr József Péter Martin, Executive Director</li> </ul> </li> <li>• Mr Miklós Merényi, K-Monitor</li> <li>• Mr Istvan Janos Toth, Director - Corruption Research Center</li> <li>• Ms Andrea Alföldi, President - Hungarian Women's Association</li> <li>• Mr Béla, Kocsy Director of International Relations - Hungarian Chamber of Agriculture</li> <li>• Mr Zoltán Szép, Secretary General of the Chamber of Commerce and Industry</li> </ul>	<p><i>EP Information Office in Hungary Lövőház u. 35. H-1024 Budapest</i></p>
21:00	Return to hotel and private dinner	<p><i>Mercure Budapest City Center Hotel Vaci utca 20 Budapest</i></p>



**Tuesday, 19 September 2017**

<b>Time</b>	<b>Meeting</b>	<b>Location</b>
7:45	Departure from hotel	<i>Mercure Budapest City Center Hotel Vaci utca 20 Budapest</i>
08:00-09:30	<p>EU support to sustainable cities: <b>Heart of Budapest</b> project in the 5th district 08.00 Meet at the hotel</p> <p>8.05-8.15 Visit Március 15. Square (Waterfront and new Pest promenade project)</p> <p>8.15-8.25 Visit New Main Street project</p> <p>8.25-8.35 Visit Károly körút (Inner Ring Boulevard and its nodes project)</p> <p>8.40-9.30 Meeting at the City Hall</p> <p><u>Municipality of Budapest:</u></p> <ul style="list-style-type: none"> <li>-Ivett Varga international and EU advisor</li> <li>-Péter Király head of investment and projectmanagement department</li> <li>-Dóra Kókai head of projectmanagement unit</li> <li>-Anita Tremmel deputy head of projectmanagement</li> <li>-Gergő Veres projectmanager</li> <li>-Zsuzsa Kármán engineering manager</li> </ul> <p><u>Municipality of 5th District:</u></p> <ul style="list-style-type: none"> <li>-Valéria Balla dr. - vice mayor, Municipality of the Fifth District of Budapest</li> <li>-Ákos Méhes - engineering manager</li> </ul>	<i>Budapest, V.district (walking from hotel to projects)</i>
09:30-10:30	Travel from Budapest V. district to Felcsut	
10:30-12:00	<p>Rail transport: <b>Val Valley light railway</b> – project visit</p> <p>10.30 - Arrival: Alcsútdobózi Arboretum, Main Parking Lot</p> <p>10.45 - Welcome, information about the project in the separate room of the Sport Hotel, standing reception, questions, answers, informal conversation</p>	<i>Vál-völgyi Kisvasút 8086 Felcsút, Mozdony utca 1.</i>

	11.00 - Departure to the Val Valley Railway Arboretum station 11.05 - Departure with the train 11.15 - Felcsut station, presentation of the train service 11.25 - Departure to the Puskás Academy station 12.00 - Departure by bus	
12:00	Departure to Szekszárd	
13.00-13.45	Lunch in Dunaujvaros	<i>Dunaujvaros</i>
13:45 - 14:45	Travel to Szekszard	
14:45- 16:00	EU support to SMEs: <b>Bodri Princeszet Winery</b> – project visit	<i>7100 Szekszárd, Faluhely-dűlő</i>
16:00-16:45	Departure to Baja	
16:45 - 18:15	EU support for tourism - Complex development of <b>tourism infrastructure in Baja</b> - project visit	<i>Baja</i>
18:15 -20:30	Return to Budapest	
20:30	Return to hotel and private dinner	<i>Mercure Budapest City Center Hotel Vaci utca 20 Budapest</i>

### Wednesday, 20 September 2017

<b>Time</b>	<b>Meeting</b>	<b>Location</b>
7:30	Departure from hotel	<i>Mercure Budapest City Center Hotel Vaci utca 20 Budapest</i>
08:00 - 09:00	Meeting with Mr Nándor Csepreghy, <b>State Secretary of the Prime Minister's Office</b> , Mr Ferenc Szabolcs Takács - <b>State Secretary for EU Affairs</b> and Ms Eszter Vitályos - <b>State Secretary for European Union Developments /Investments</b>	<i>Prime Minister's Office Budapest (address TBC)</i>

09:30 - 10:30	<p>Meeting with the <b>State Audit Office</b> of Hungary</p> <ol style="list-style-type: none"> <li>1. Mr. László Domokos, President</li> <li>2. Ms. Magdolna Holman, Director of Planning</li> <li>3. Ms. Margit Horváth, Supervisory Manager</li> <li>4. Ms. Mária Makkai, Supervisory Manager</li> <li>5. Ms. Erzsébet Németh, Supervisory Manager</li> <li>6. Mr. Gyula Pulay, Supervisory Manager</li> <li>7. Ms. Nóra Gál, Head of Department of Legal Support</li> <li>8. Mr. Bálint Horváth, Head of Department of Communication and Institutional Relations</li> <li>9. Mr. Kornél Jakab, Head of Department of Methodology and International Relations</li> <li>10. Ms. Júlia Szappanos, Head of Department of Risk Analysis</li> </ol>	<p>1051 Budapest Apáczai Csere János u. 10</p>
10:45 - 12:00	<p>Meetings in the <b>Hungarian National Assembly</b></p> <ul style="list-style-type: none"> <li>– Mr. Erik BANKI, Chairman, Committee on Economics</li> <li>– Mr. Zoltán TESSELY, Vice-chairman of the Committee on European Affairs</li> <li>– Mr. Jenő MANNINGER, Vice-chairman of the Committee on Economics</li> <li>– Mr. László JUHÁSZ, chief adviser, head of the Secretariat, Committee on European Affairs</li> <li>– Mr. Csaba Gergely TAMÁS, legal adviser, Committee on European Affairs</li> </ul>	<p>1055 Budapest Kossuth tér 1-3.</p>
12:00 - 12:40	Private lunch	Budapest
13:15 - 14:00	<b>Press conference</b> by Head of Delegation and CONT Chair, Ms Gräßle	<p>EP Information Office in Hungary Lövőház u. 35. H-1024 Budapest</p>
14:30 - 15:45	<p>EU funds for culture: <b>Redout Pest</b> (Pesti Vigado)</p> <ul style="list-style-type: none"> <li>– Mr. Szabolcs Székely-Gyökössi, Head of Department of the Department of Economy and Finance of the Secretariat of the Hungarian Academy of Arts</li> <li>– Ms. Annamária Kulcsár, Chief Advisor of</li> </ul>	<p>1051 Budapest, Vigadó tér 2</p>

	<p>the Secretariat the Hungarian Academy of Arts</p> <ul style="list-style-type: none"> <li>– Ms. Barbara Molnárné Szunyi, Executive of Pesti Vigadó Nonprofit Ltd.</li> </ul>	
16:00 - 17:00	<p>EU funds for culture:  <b>Ferenc Liszt Academy of Music</b></p> <ul style="list-style-type: none"> <li>– Andrea, Dr. Vigh - Rector</li> <li>– Zoltán László, Szentgyörgyvölgyi - Chancellor</li> <li>– András, Dr. Batta - former rector, professor</li> <li>– Gergely, Lakatos, project manager</li> </ul>	<p><i>1074 Budapest,  Wesselényi u. 52.</i></p>
17:00	End of official programme	

