A roadmap for improving the distribution of EU funds in Hungary

Hungary is currently a net recipient of EU structural and cohesion funds, but as **Anna Számely** *writes, the country's recent record on key measures of development has been underwhelming. She identifies seven blockages in the chain of EU funding in Hungary that are presently acting as obstacles to effective investment.*

As the EU's next seven-year budget is negotiated for the period 2021-2027, debates over how much and in what ways member states should receive EU funds will become increasingly prominent. Hungary is currently one of the largest net recipients of EU structural and cohesion funds as a proportion of GDP. But this hasn't stopped the country performing poorly in comparison with the rest of Europe in recent years.

Between 2010-17, Hungary experienced a decline in measures of competitiveness and has fallen behind in corruption rankings. The quality of education in the country has decreased and it has also fallen on the European Innovation Scoreboard. This is all despite the fact that research, development and innovation are considered explicit priorities by the Hungarian government.

So why have EU funds not led to increased competitiveness in the Hungarian economy? In a recent research project, I explore dysfunctions in the allocation of EU funding for research, development, and innovation in Hungary. The research, development and innovation sector is considered key to the future competitiveness of the Hungarian economy. The Hungarian Government has established several Operational Programmes (OP), broken down into investment priorities, specific objectives and concrete actions. I have examined two OPs in particular: the *Economic Development and Innovation OP*, and the *Competitive Central-Hungary OP*. These two programmes set their secondary priorities as research, technological development and innovation. However, despite their efforts, Hungary's ranking and absolute score on the European Innovation Scoreboard (2018) has fallen since 2010.

Chains and blockages

A 'chain' of EU funding for research, development, and innovation in Hungary can be sketched out, alongside several important 'blockages' along it (as shown in Figure 1). This 'chain' has four main components. It includes the European Commission, the Hungarian government and its ministries, as well as the fund recipients. Oversight institutions also exist outside the identified chain, such as the European Anti-Fraud Office (OLAF) and the European Court of Auditors.

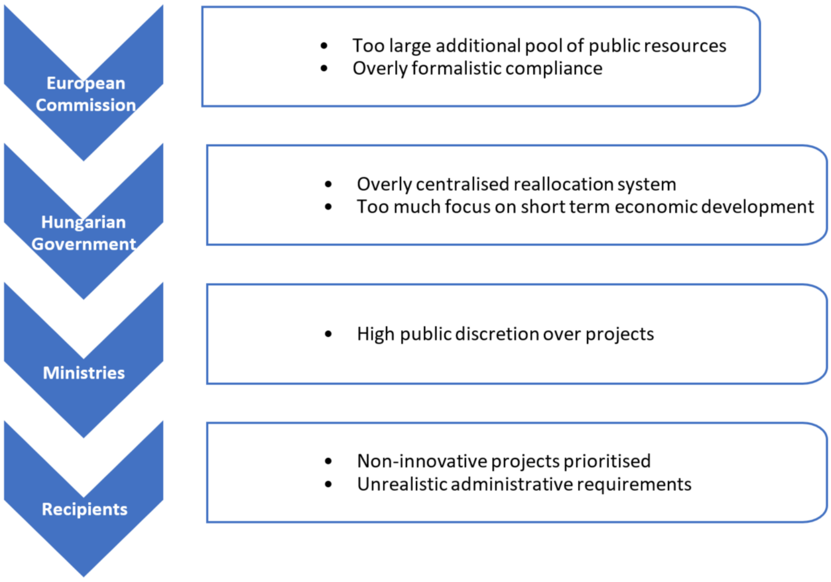
Figure 1: Chain of EU funding for research, development, and innovation

Note: **Compiled by the author.**

The European Commission is responsible for deciding where, when, and how EU funds are allocated to each member state and each economic sector, as well as monitoring the distribution system within the member state. The government and ministries representing the Hungarian state are responsible for creating the operational programmes, calling for tenders, and monitoring the projects. When focusing on innovation, research and development, the National Development Ministry (RDIO) and the Innovation and Technology Ministry have been responsible for creating an efficient, fair, and competitive research area in Hungary. The third and final component of the chain incorporates the recipients of tenders. These are companies, universities, thinktanks, or individuals who are responsible for carrying out the partly EU funded projects effectively.

From conducting interviews with key actors at different points in the chain, I have identified seven key blockages (shown in Figure 2). Together, these blockages point to a failure in the EU funds distribution system in Hungary.

Figure 2: Seven blockages in the chain of EU funding in Hungary



***Note:* Compiled by the author.**

First, EU funds create a large additional pool of public resources. This has contributed to rent seeking behaviour, increased the risk of corruption, and weakened the link between domestic civil society, taxation, and policy performance. According to one of my interviewees, the latter issue "is also a result of a very high reliance on EU funding in public investments [up to 85%]". Such high co-financing shares can diminish the responsibility of project investors due to the lack of their own investment in the projects. Second, there is overly formalistic compliance, which can impede genuinely open and fair competition. The EU sets out very few substantive rules on how to decide on a tender, whereas according to my tender recipient interviewees, there are simply too many rules on formalistic compliance.

Third, an-overly centralised reallocation system may lead to market distortion, making it impossible for certain potential market actors to enter the market. According to one of my interviewees, the main way this can distort the market is by making market actors dependent on a central power, possibly rewarding loyalty over productivity. Fourth, national economic planning tends to be overly short-term. An interviewee argued that "the Hungarian government focuses too heavily on short term economic development and improving short term macro indicators". In the 2014-20 programming period, 60% of EU funds are allocated for economic development in Hungary, rather than for long term development such as research, innovation, education, or healthcare. This strategy has had success in registering healthy macroeconomic indicators in the short run, but runs the risk of a lack of investment confidence and growth in the long run.

Fifth, the state is spending EU funds on projects where public discretion is high. This increases the risk of corruption. As an interviewee mentioned, unnecessary elements are frequently added onto projects (e.g. tunnels through barely existent hills), allowing project managers to receive higher profits from carrying out the project.

Sixth, there is a lack of national resources in research, development and innovation in Hungary. As a result, as an interviewee highlighted, institutions such as universities and thinktanks cannot afford to invest in innovation. Instead, they must spend EU funds on necessary everyday expenses. Finally, there is a common administrative policy for most institutions working with EU funds. Unrealistic administrative requirements act as a drag on the effectiveness of funding. This creates unnecessary burdens for certain institutions by requiring a different system of administration than is used inside the institution. One interviewee said, "the problem arises when ministries require the recipients to follow the set of rules set out by them, when carrying out a project from EU money" and complying with this template is a drain on resources.

Tackling these seven blockages could lead to a more effective allocation of EU funding in Hungary. In doing so, Hungary could perhaps recover some of its lost competitiveness in the long-term. This list of blockages is, of course, far from exhaustive. It is, however, a useful starting point for further research on EU Fund distribution in Hungary, and potentially, beyond.

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