

Comments of the Clean Air Action Group on the Operational Programmes of Hungary for 2014-2020 submitted to the European Commission

Budapest, 28 August 2014

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1. Introduction

At the end of July 2014 the Hungarian Government made public seven Operational Programmes¹ for the period 2014-2020 submitted to the European Commission for approval. These Operational Programmes are the following:

Operational Programme (OP)	Expected sum	
	Million HUF at exchange rate of HUF 300/EUR	Percent of the total
Economic Development and Innovation OP (GINOP)	2825	39.4
Territorial Development and Urban Development OP (TOP)	1158	16.2
Competitive Central Hungary OP (VEKOP)	255	3.6
Human Resources Development OP (EFOP)	784	10.9
Environment and Energy Efficiency OP (KEHOP)	059	14.8
Smart Transport Development OP (IKOP)	982	13.7
Coordination OP (VKOP)	107	1.5
Total	7170	100.0

Source: <http://otphp.marketingplus.hu/hirek/2082/sc193/>

Having read the OP's, we are sorry to conclude that very little has changed in order to eliminate the serious imperfections in the use of EU taxpayers' money in Hungary. We described in detail the problems of EU funding to Hungary in our paper "*Good Intentions Meet Reality: The Dire Consequences of Spending EU Taxpayers' Money in Hungary*",² published in April 2013. We are convinced that it is still possible to make the necessary corrections so that EU funds serve Hungary (and also other countries) in an efficient way.

In the first paragraph of the Summary of the paper we said the following:

"The Clean Air Action Group (CAAG), a national federation of 121 Hungarian environmental NGOs, calls for action against the devastating effect of EU spending on Hungarian society, its economy and the environment. Inappropriate rules concerning the use of EU money, coupled with weak or non-existent enforcement of the EU acquis and national commitments, lead to the result that EU money in Hungary is reducing economic competitiveness of the country, increasing social inequalities and undermining democracy – acting thus against the EU targets. In order to improve the situation, CAAG proposes radical changes to EU spending. The European Parliament, the European Council and the European Commission must show leadership on these important issues – all the more because this phenomenon can be observed to a greater or lesser extent in all recipient countries."

Below we highlight again some of these problems as reflected in the OP's mentioned above. (As we could not access the English text of the OP's, we will refer in all cases to the Hungarian text. The texts in italics are our translation.) Finally, we summarize our previous proposals and add some new ones.

¹ http://palyazat.gov.hu/forum_pate/29

² http://www.levego.hu/sites/default/files/eu_budget_hungary_130307.doc

2. Comments on the concrete Operational Programmes

2.1. Economic Development and Innovation OP

As it can be seen from the table above, Economic Development and Innovation OP (GINOP) would be by far the largest beneficiary of EU funds, receiving about 40 % of the total. In GINOP we can read, among others, the following:

“it was characteristic that support was given to those enterprises and projects, which would have implemented their investments even without the support ... although the projects supported were implemented according to the regulations, the support did not generate any surplus development” (p. 12)

“The productivity of enterprises which received support increased more slowly than of those enterprises which had to survive under fierce market competition...” (p. 14)

As quite a number of economists and entrepreneurs pointed out, these problems are not hazardous errors of the present system which can be corrected, but they are inherent to the system. Moreover, this system of funding has very detrimental long-term consequences. As a renowned Hungarian entrepreneur, Member of the Governing Board of the European Institute of Technology & Innovation, Gábor Bojár expressed it recently, *“EU funding might make the actors of the Hungarian economy infatilistic.”*³ (For a detailed criticism of distributing EU funds to individual enterprises, see the paper “Good Intentions Meet Reality...” mentioned above.)

It is very telling that the main indicator of the “success” of GINOP is the **number of enterprises which received EU funding**. In GINOP one can find no indicator about whether these enterprises fare better than those which have not received EU aid. Neither is there any indicator whether, for example, there will be a higher national GDP growth than would have been without EU aid.

Distribution of EU funds to individual enterprises constitutes a substantial part in other OP’s, too. As the problems are the same, below we will not deal with this issue when assessing other OP’s.

An important priority of GINOP is funding **innovation**. Clearly, boosting innovation is extremely important for society. However, considering the indicators in GINOP, it is highly dubitable that EU funds will efficiently serve this purpose. First of all, there is no indicator whatsoever showing the effectiveness of the use of these funds. Secondly, the indicators relate mostly to those entities which receive EU funding, which means that innovation on national level might even decline. (For example, one of the main indicators is the number of new researchers at the entities receiving EU aid. This indicator shows nothing about the number of researchers on national level. It might even happen that the entities receiving EU aid just drain researchers away from entities which do not receive such aid.) Furthermore, a large part of the funds allocated for innovation is swallowed by corruption, but these sums are also accounted for as expenditures for innovation.

³ http://www.napi.hu/magyar_gazdasag/nem_orban_a_hibas_hanem_az_eu.581138.html

Because of the problems indicated above, other types and more complex indicators should be used which reflect the changes of innovation on national level. The Innovation Union Scoreboard⁴ would certainly be a good tool for this purpose.

Another part of GINOP is support for **energy efficiency and renewable energy** investments. One of the main indicators here is the energy saved by the investments supported by EU funds. However, there is no indicator about total energy saving on national level. We know that there is such an indicator (18 % until 2020) in the National Reform Programme, but in our opinion this should be included in the indicators of GINOP as a priority which can be challenged by the European Commission if it is not fulfilled⁵.

It is worth-while mentioning here that support for energy efficiency and renewables are foreseen also in other OP's. It is questionable whether such a dispersion of funds for the same purposes in various OP's will lead to efficient use of resources.

Employment and training is another priority of GINOP. The indicators here are also questionable. For example, one of the indicators is the increase in the number of people employed in the social enterprises receiving EU aid. However, the EU aid to these enterprises will probably lead to a decrease of the number of people employed in enterprises not receiving EU aid. Therefore a much better indicator would be the national employment rate.

2.2. Smart Transport Development OP

A large part of the Smart Transport Development OP (IKOP) is intended to finance road construction. In our opinion, no EU money should be allocated for road construction. According to a study by the Institute for Transport Sciences, road transport receives a public subsidy (including environmental and health costs) equalling to up to 10 % of GDP.⁶ Further subsidizing road transport therefore is economically unsound and socially unjust: it leads to a waste of resources, and in fact punishes those most who benefit the least from such investments. Naturally, we do not assert that there should be no further road construction. We are asserting only that the user/polluter should pay for such investment, and not the EU taxpayer. In fact, in our opinion, funding road construction with taxpayers' money distorts competition and it is therefore incompatible with the internal market (Article 107 of the Treaty on the Functioning of the European Union); furthermore it contradicts the polluter-pays principle (Article 191 of TFEU).

A further problem with IKOP is the lack of proper indicators. For example, one of the main indicators of IKOP is "time saved" due to improved transport infrastructure. However, induced traffic is not taken into account. This means that the total time spent in traffic might even increase. There is no evidence whatsoever that this would be beneficial for the EU or for

⁴ ec.europa.eu/enterprise/policies/innovation/files/ius/ius-2014_en.pdf

⁵ See: Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, Article 23

⁶ **The social balance of road and rail transport in Hungary.** Institute for Transport Sciences, Budapest, 2010, http://www.levego.hu/sites/default/files/social_balance_transport_hungary_20110131.pdf

Hungary. Another flaw of the indicators is that it is not required to assess real alternatives which might be economically and/or environmentally more advantageous. (For example, an important indicator is the reduction of congestion. While it is also highly questionable that new road infrastructure would lead to less congestion, there is no requirement to assess, for example, whether the implementation of road pricing or the new road construction would be more efficient in reducing congestion.)

Part of the funds in IKOP would be allocated to *“improving energy efficiency in transport”*. Under this item Table 27 (p. 61) includes also road construction. However, there is no explanation why and how this would improve energy efficiency. (We believe that just the opposite is true.)

2.3. Environment and Energy Efficiency OP

The indicators in the Environment and Energy Efficiency OP (KEHOP) give no information at all what will be achieved on national level. For example, one of the indicators is the *“extension of the habitats affected by the measures taken in order to improve the conservation status”*, but this tells nothing about the overall changes in habitats in Hungary. It might even happen that while certain habitats are improved with EU funds, the general state of habitats in Hungary deteriorates. Another indicator is the *“reduction of greenhouse gas emission”* through the projects financed by EU funds. However, there is no indication whether the Hungarian government is not going to implement measures (e.g. reduction of energy prices) which increase ghg emission.

A priority of KEHOP is the *“modernisation of the electric energy system for reducing CO2 emission”* (p. 40). This is certainly an important task. However, it is not clear why the EU taxpayers should finance this task instead of the polluter/user.

2.4. Human Resource Development OP

Section 1 of the Human Resource Development (HEFOP) very well highlights the tragic situation of human resources in Hungary. Here we quote just a few sentences:

“In international comparison, the state of the social environment is reflected by OECD’s better life index, in which, in 2011, Hungary ranked the second to last among the EU Member States.”

“Deprivation and social exclusion of children are among the most severe social problems: in 2012, 32.4% of the population was affected while the EU average was 24.3%; and an ever increasing proportion of children get into this category while the number of births is continuously decreasing.”

“Each year [Hungary] loses one-third of its GDP because of the poor physical state and health condition of the population.”

“In international comparison, the inequalities in educational caused by various social disadvantages are extremely high.”

“The social institutional system and the human resources of research and development have dangerously weakened, both quantitatively and qualitatively.” (One of the main reasons for this process is the poor and continuously deteriorating educational system. – A.L.)

“The average salary of public service employees is very low...”

The last point is extremely important. Namely, on the one hand, substantially raising the salary of public service employees is a key to reaching the targets of the Europe 2020 Strategy. On the other hand, no EU funding is available for this purpose; just on the contrary, EU funds are draining money away from it. All this leads to the continuous degradation of public services, including education and health care.

3. How to solve the biggest problem of the Hungarian economy

According to declarations of the Hungarian government, the main problem of the Hungarian economy is the lack of capital. We agree with this opinion. However, practically nobody in Hungary (or, for that matter, in the European Commission) has examined what might be the most efficient way of increasing capital in the Hungarian economy. On the contrary, the Hungarian government did not even reply to our repeated requests to do so.

According to an important study by the World Bank⁷, the preponderant form of capital in every country is intangible capital, i.e. “human capital and the quality of formal and informal institutions” (see the table below). Furthermore, the share of intangible capital is much higher in rich countries than in poor countries. According to the study, intangible capital “includes human capital, the skills and know-how embodied in the labor force. It encompasses social capital, that is, the degree of trust among people in a society and their ability to work together for common purposes. It also includes those governance elements that boost the productivity of the economy. For example, if an economy has a very efficient judicial system, clear property rights, and an effective government, the result will be a higher total wealth and thus an increase in the intangible capital residual.”

The composition and levels of the capital of nations by income group
(USD per capita and percentage shares)

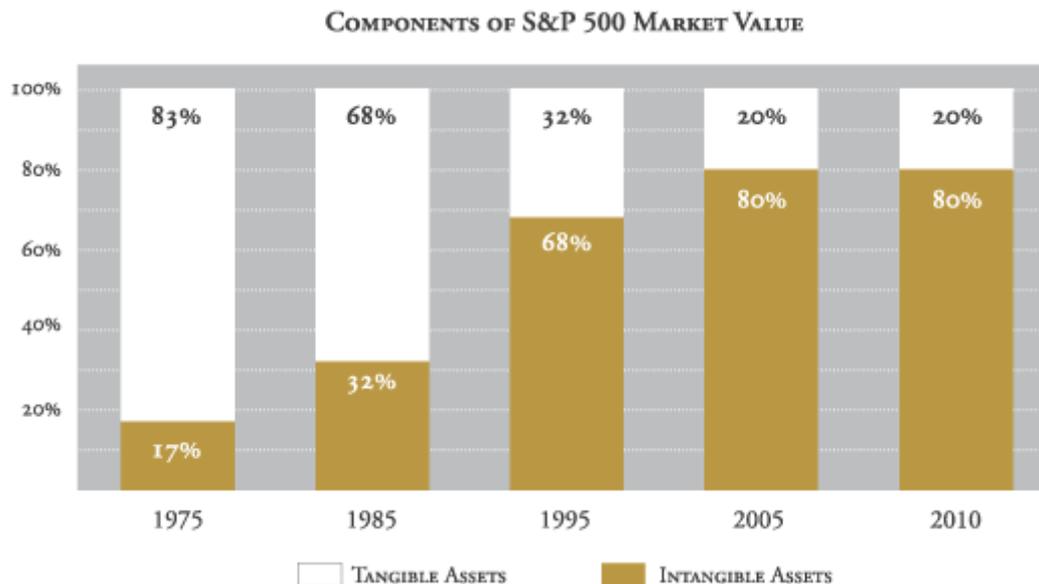
Income group	Natural capital	Produced capital	Intangible capital	Total wealth	Natural capital share	Produced capital share	Intangible capital share
Low-income countries	1,925	1,174	4,434	7,532	26%	16%	59%
Middle-income countries	3,496	5,347	18,773	27,616	13%	19%	68%
High-income OECD countries	9,531	76,193	353,339	439,063	2%	17%	80%
World	4,011	16,850	74,998	95,860	4%	18%	78%

We get a similar picture, if we examine the components of the assets of companies. For example (see the figure below⁸), in 1975, tangible assets constituted 83 % of all assets of the 500 biggest US companies, while intangible assets only 17 %. In 2010, the proportion was

⁷ **Where is the Wealth of Nations? Measuring Capital for the 21st Century.** The World Bank, Washington, D.C., 2006, <http://siteresources.worldbank.org/INTEEI/214578-1110886258964/20748034/All.pdf>

⁸ Source: <http://www.oceantomo.com/productsandservices/investments/intangible-market-value>

practically the opposite: 20 % and 80 %, respectively. (Tangible assets: assets that have a physical form, e.g. machinery, buildings, land, money. Intangible assets: nonphysical assets, e.g. knowledge, know-how, patents, trademarks, copyrights, goodwill, brand recognition.)



From all this, it can be deduced that by pouring the overwhelming majority of EU funds (and the corresponding national co-financing) into the “economy”, the Hungarian government is in fact draining money away from those sectors which could produce by far the biggest amount of the capital for the economy. This means that the competitiveness of the Hungarian economy will be further reduced during the period 2014-2020.

4. Combating corruption

EU funds have been identified by several studies as one of the hotbeds of corruption in Hungary.⁹ The distribution of free funds irresistibly attracts all those looking for a quick buck by illegal or semi-legal means. Earlier, one could read about such cases almost every day in

⁹ See, for example:

- Hidden Depths. The Case of Hungary by Mihály Fazekas, Lawrence Peter King and István János Tóth. Working Paper No. 36, European Research Centre for Anti-Corruption and State-Building, August 2013, <http://www.againstcorruption.eu/wp-content/uploads/2013/09/WP-36-Hidden-depths-Hungary-full-clean.pdf>
- Are EU funds a corruption risk? The impact of EU funds on grand corruption in Central and Eastern Europe by Mihály Fazekas, Jana Chvalkovska, Jiri Skuhrovec, István János Tóth, and Lawrence Peter King. Working Paper No. 39, European Research Centre for Anti-Corruption and State-Building, November 2013, http://www.againstcorruption.eu/wp-content/uploads/2013/11/wp39_eufunds_corruptionrisk_cee2.pdf
- **A korrupció és a közbeszerzési korrupció Magyarországon**, GKI Gazdaságkutató Zrt., Budapest, 2009. http://kozbeszerzes.hu/static/uploaded/document/Korrupci%C3%B3s_k%C3%B6zbeszerz%C3%A9si_kutat%C3%A1s_Magyarorsz%C3%A1gon_I_k%C3%B6tlet.pdf
- According to this study, corruption is linked to 65-75 % of all public procurement cases in Hungary. A substantial part of the EU funds are distributed through public procurement.



the press (and, as it has been proved by several surveys on the subject, the reports published in the press are just the tip of the iceberg). Since the present government came to power, the number of such press appearances has manifestly decreased, but this does not reflect decreasing corruption and fraud, but to the changed situation of the press, the decimating of public authorities by budget cuts, the dismissal of highly qualified experts, the elimination of the factual independence of quite a number of hitherto independent institutions (public prosecutor's office, state audit office, etc.), and the substantial weakening of the NGO sector; in short, generally the removal of checks and balances.

The government has been even changing laws with the result that it has become much easier to commit corruption. Examples of such laws are the following:

1. According to the new Civil Code accepted by the Parliament in February 2013, local governments can declare secret any document, e.g. any contract, if they consider that it contains "business secret".¹⁰ Before this law was adopted, all documents, contracts of the local governments which involved public money were accessible for the public. Thus the new Civil Code practically gives green light for corruption practices at local governments, in spite of the fact that corruption in local governments in Hungary has been already widespread and increasing in the last 10 years.
2. An amendment to the law on freedom of information (Act CXII of 2011) accepted by the Hungarian Parliament in April 2013 all but ensures that the Government operates in complete darkness. The amendment is alarming for many reasons. Most crucially, it casts a wide net in banning public access to any information handled by public bodies that may be controlled by, for example, the State Audit Office, the Government Control Office, the Public Prosecutor or the Ombudsman. The amendment was passed in an insane two days at a conspicuous time when major NGOs and news portals were about to ask for the bids in a tender for tobacco retail licenses, which reportedly went to Fidesz loyalists. With this law corruption turns into business as usual and discussions will be silenced.¹¹
3. The new law on budget, accepted in July 2010, no longer regards the contracts of companies with majority state-ownership as being information of public interest.
4. Act CXV of 2013 accepted by the Parliament on 21 June 2013 makes it practically possible for many rich criminals to get away with his/her crimes without any consequences for him/her. Namely, if he/she buys state bonds for HUF 5 million (this equals to an average net wage of about three years) or more, no authority has the right to investigate where he/she got that money from.¹² Furthermore, the Parliament also decided that this law can be changed only with at least two-thirds majority, which means that it will be nearly impossible to repeal it even if a new government would come to power.
5. According to Act XXXIII of 2014 accepted by the Parliament on 4 July 2014 affiliated companies do not have to sell their products or services at market prices any more, if they are affiliated to the state or the local government. This means that a private company affiliated to a company partly owned by the state or a local government could receive

¹⁰ See: **New Civil Code: public fund contracts are to become inaccessible**, Transparency International Hungary, 16.08.2012,

http://www.transparency.hu/New_Civil_Code_public_fund_contracts_are_to_become_inaccessible

¹¹ See: **The coming dark age of democratic governance in Hungary**, Átlátszó, 08.05.2013,

<http://atlatszo.hu/2013/05/08/the-coming-dark-age-of-democratic-governance-in-hungary/>

¹² See: **White Collar Crime – Hungary. The stability savings account: a boon for money launderers?** International Law Office, 19.08.2013,

<http://www.internationallawoffice.com/newsletters/detail.aspx?g=a5b1f892-734f-45d0-890a-21502b9fc4d1>

payments for its assets from the latter without any restrictions. This way bribery becomes very easy and practically legal.¹³

The recent centralisation the distribution of EU funds, according to which the Prime Minister's Office makes practically all important decisions and has complete control over the distribution of the funds makes sense only, if it is intended to make even wider room for corruption.

Many researchers on the topic propose better control and monitoring of the use of EU funds. While this is necessary without doubt, in itself it will not solve the problem, because corruption is inherent to the present system of distribution of EU funds.

5. Implementation of the Code of Conduct and Code of Good Administrative Behaviour

5.1. Implementation of the Code of Conduct in Hungary

In January 2014, the European Commission adopted a regulation binding for all EU Member States concerning the code of conduct on partnership in the framework of the European Structural and Investment Funds.¹⁴ According to the Code, the governments of the member states must closely cooperate with “bodies representing civil society at national, regional and local levels throughout the whole programme cycle consisting of preparation, implementation, monitoring and evaluation.” The Hungarian government has been doing just the opposite:

- Civil society representatives were practically excluded from a number of bodies where they had a seat earlier. The present government either directly denied their representation or substituted it with false representatives. (An example of this practice is the National Economic and Social Council where the genuine representatives of the civil society were replaced by persons nominated by the government.)
- Funding to independent NGO's has been substantially reduced, first of all to national NGOs which were capable of seriously commenting government documents. Furthermore funding for NGO's to produce studies, analyses of issues of national importance practically disappeared. Today independent NGO's have much less capacity to seriously take part in consultations with the government than five years ago. On the other hand, “NGO's” have been created by persons closely related to the ruling party Fidesz, which receive ample financial support from the government.¹⁵

¹³ A detailed description of the detrimental effects of the new law (in Hungarian): Törvényesített korrupció – Az állami tulajdonú cégek egyszerű kifizetőhelyek lehetnek. (Corruption legalised – State owned companies might become simple pay-offices). Népszabadság, 14 June 2014, <http://nol.hu/gazdasag/torvenybe-irna-a-korrupciot-a-kormany-1467809>

¹⁴ Commission Delegated Regulation (EU) No 240/2014 of 7 January 2014 on the European code of conduct on partnership in the framework of the European Structural and Investment Funds, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0240&from=EN>

¹⁵ See e.g.:

- Itt a civil támogatások listája: a kormány mellett demonstrálni menő (Here is the list of NGO support: it is cool to demonstrate for the government), <http://atlatszo.hu/2012/10/22/itt-a-civil-tamogatasok-listaja-a-kormany-mellett-demonstralni-meno/>. Summary in English: <http://atlatszo.hu/2012/11/06/civil-organisation-subsidy/>



- It became much more difficult for NGO's to make their voice heard. Their opinion appears in the press (especially in the television and radio) much less than e.g. five years ago. This is partly due to the reduced capacity of the NGOs, but mainly to the change of the attitude of the press towards NGOs, which in turn is a clear reflection of the present government's policy.
- Quite often the deadline given for the consultation is too short to make it possible to give well-based comments. It is not uncommon that important changes in legislation are approved within a few days or even a few hours following their submission to the Parliament.
- Generally no background studies, impact assessments, calculations accompany the government proposals, and this often makes it impossible to properly evaluate these proposals. The budget bill is compiled in a way that makes it extremely difficult to compare its data with those of the previous years.
- Often individual Members of Parliament submit bills (which are, in fact, prepared by the government), and the present laws in such cases require neither assessments, nor public consultation.

Recently the government has launched fierce attacks against those NGO's which have a critical view on certain measures taken by the government. The aim is clearly their intimidation and making impossible their further activities. For example, the economic background of the Kishantos Rural Development Centre¹⁶ was ruthlessly eliminated by clearly illegal means; a leading anti-corruption journalists' foundation, *atlatszo.hu* is being sued for its reports about corruption in the government; the NGO's which have received grants from the EEA/Norwegian NGO Fund are being harassed¹⁷.

A detailed and well-founded description of the state of NGO's in Hungary during the last few years is the Civil Society Organization Sustainability Index published by USAID.¹⁸

5.2. Implementation of the Commission's Code of Good Administrative Behaviour

According to the European Commission's Code of Good Administrative Behaviour¹⁹, "A reply to a letter addressed to the Commission shall be sent within fifteen working days from the date of receipt of the letter by the responsible Commission department."

András Lukács, CAAG's President had the chance to discuss personally our paper "Good Intentions Meet Reality..." with several members of the staff of DG ECFIN and DG REGIO

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- A Fidesz taníthatná a norvégokat (Fidesz could teach the Norwegians), http://index.hu/belfold/2014/04/10/a_fidesz_tanithatna_a_norvegokat/
 - Nations in Transit 2014 – Hungary, http://www.freedomhouse.org/report/nations-transit/2014/hungary#.U_8K8PI_vX1

¹⁶ See e.g.: The end of an internationally known organic demonstration farm and school? <http://hungarianspectrum.wordpress.com/tag/kishantos-rural-development-center/>

¹⁷ See: <http://norvegivilalap.hu/en>

¹⁸ <http://www.usaid.gov/europe-eurasia-civil-society/cso-sustainability-2012/hungary>

¹⁹ Code of Good Administrative Behaviour, Relations with the public. European Commission, http://ec.europa.eu/transparency/code/_docs/code_en.pdf

in 2013 and 2014. Generally, they agreed that the problems expounded in the paper exist. Even more, during the meeting of Mr. Jack Engwegen (DG REGIO) with representatives of Hungarian NGO's in Budapest on 16th October 2013, Mr. Engwegen stated that he had read this paper, and he found nothing new in it, he knows all these problems. In reply to my question, why the Commission is not doing anything to solve these problems, he said that he must act according to the present EU rules, and changing them is a political issue outside of his competence.

Although András Lukács sent the paper “Good Intentions Meet Reality...” to DG ECFIN and DG REGIO several months ago, asking for their opinion, the only written reply he received was the following: *“Thank you very much for your kind message, and for the paper which contains many important and interesting observations. We will certainly read the paper with care and give it due consideration when trying to further improve the effectiveness of EU spending and support to the Hungarian economy.”*

6. CAAG's proposals

Our proposals to remedy the situation are the following:

1. The commitments made in the National Reform Program should form an integral part of the OP's, and they should include yearly targets. Other well measurable indicators showing the progress should also be applied (for example, the Innovation Union Scoreboard, the results of PISA²⁰, the change in the Gini Index, and the change in healthy life years). It is absolutely necessary that these should be indicators on national level, and not only for projects financed by the EU. The indicators should be as SMART (specific, measurable, attainable, realistic and timely) as possible. These indicators should be priorities, and if they are not fulfilled the Commission has the right to start the process defined in Article 23 of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council²¹.
2. The indicators (priorities) must be worked out in a transparent process, involving all stakeholders, and providing for these stakeholders the necessary means for meaningful participation, in accordance with the Code of Conduct.
3. No direct discretionary funding should be provided to any private company with the exception of funding for innovation. (For example, no funding should be provided directly to a company which is specialised on renewal of heating systems, but the local government might – through a public procurement process – order from that company the renewing of the heating system of the town hall.) However, a revolving fund might be used to provide low interest loans to SME's.
4. No funding should be provided for projects which could be financed by the user/polluter.

²⁰ The OECD's Programme for International Student Assessment

²¹ See: Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, Article 23

5. Further EU funding to Hungary should be provided only if the Hungarian government and Parliament restores and improves the system of checks and balances, including the revocation of all change of laws which have helped corruption activities, and the implementation of international best practice on combating corruption (with special attention to public procurement).
6. An independent body should be set up in Hungary under the supervision of and financed by the European Commission to continuously control whether EU funds are used efficiently and in accordance with the rules.
7. The European Commission should take urgent steps so that the Code of Conduct is enforced in Hungary.
8. The European Commission must implement in practice its own Code of Good Administrative Behaviour.
9. Concerning the OP's, funding should be substantially redistributed according to the principles outlined above, including the following:
 - a) Funding for GINOP should be substantially reduced.
 - b) Funding for TOP and VEKOP should also be reduced, and used only for public purposes.
 - c) Funding for HEFOP should be substantially increased, and most of the funds should be used for increasing the financial contributions for public service employees (teachers, medical staff etc.) in accordance with their performance. The Commission must act in accordance with the Europe 2020 Strategy, which includes as main priorities improving education and ensuring a healthy life for its citizens. There the Commission should do away with the stand according to which certain activities are arbitrarily considered development and these are funded according to the "principle of additionality", other activities, however important they may be, are not funded, because they are not considered development. For example, motorway construction is subsidized with EU money, but better financial remuneration for teachers or health care staff are not – although the latter are much more important for Hungarian society and the implementation of Europe 2020 Strategy, and they would constitute real development. Increased remuneration for public service employees at the same time will create demand for products and services, which means that companies and regions (on average) will be fully compensated for the reduction of the funds in other OP's with the big difference that they will have to compete on the market and not for public funds – with all the advantages that this brings to Hungarian society and economy.
 - d) Funding for transport should be used in any OP only for sustainable transport (public transport, railways, cycling, walking, traffic calming, promoting car sharing and carpooling).
 - e) Funding in KEHOP should be regrouped. No direct discretionary funding should be provided for companies even for energy efficiency and renewables. No non-refundable payment should be given for private persons, except for reduced or zero interest rates for loans. There should be a revolving fund, and the support provided to private persons should be repaid according to the "pay as you save" principle. Non-refundable funding should be provided first of all for works on public buildings, information (including setting up and operating information centres free for the public and enterprises), training and examination of the trained, and state control of the investments.

f) We propose to regroup funding of the OP's as follows:

Operational Programme (OP)	Percent of funding out of the total	
	Proposed by the Hungarian government	Proposed by CAAG
Economic Development and Innovation OP (GINOP)	39.4	20
Territorial Development and Urban Development OP (TOP)	10	10
Competitive Central Hungary OP (VEKOP)	3.6	2
Human Resources Development OP (EFOP)	10.9	38
Environment and Energy Efficiency OP (KEHOP)	14.8	14.8
Smart Transport Development OP (IKOP)	13.7	13.7
Coordination OP (VKOP)	1.5	1.5
Total	100.0	100.0

Several of the above proposals can be implemented by the Commission under the present EU rules. Others need changes in the EU legislation. In the latter case, it is the Commission's duty to make proposals to the European Parliament and the Council.

For, example in our opinion, the Commission has the right to require from Hungary appropriate rules to combat corruption as a precondition to providing EU funds to Hungary. Namely, this would be in accordance with Article 4 of (see especially pp. 8 and 9) of the Regulation (EU) No 1303/2013.

It is time that the Commission take a serious stance on the issue, reply to the concerns raised in our present and previous letters, and take the necessary measures so that EU taxpayers' money do not harm, but serve the society in the Member States.



András Lukács
President
Clean Air Action Group, Hungary