

Lack of Transparency in Hungary: A Persistent Cold War Legacy

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Hungary is a medium sized European country of approximately ten million people that shares with its Central European neighbors a common legacy of more than four decades of Soviet domination. Although a fully functioning democracy for nearly 20 years now, a member of NATO since 1999 and the European Union since 2004, Hungary still suffers from the heritage of communism. While the physical damage of this era has been largely eliminated, the less visible but longer lasting effects of the totalitarian period of Hungarian history persist in plaguing the economic and political life of the country to which I arrived in August 2006.



Source: The World Factbook, 2008.

The dramatic and rapid changes that began the final unraveling of the Soviet Bloc in 1989 were accompanied by a tremendous amount of corruption that continues to mar the democratization of Hungary and the other former Soviet satellites. The highly centralized command economies of Central Europe brought about the destruction of traditionally-accepted norms of political and economic behavior. They were characterized by poor allocation of resources, endless shortages and mutual favor swapping to get around the glaring inefficiency of the planned socialist economy. Consumers were forced to engage in corruption to get at the goods and services that were always in short supply. No one was completely clean since, to quote a saying from that time, “if you did not steal, you cheated your family.” After the 1989 revolutions, the sudden introduction of market economies, initially not hindered or regulated by much legislation or standards of ethical conduct, changed the nature of corruption. No longer was there need to bribe your local butcher for a better cut of meat, but corruption moved elsewhere and grew in magnitude. Now newly minted entrepreneurs could make illegal campaign and political party donations in return for hugely lucrative government contracts, favorable government policies and privatization deals involving former state properties.

Given the lack of oversight and regulatory enforcement, the free wheeling post-communist Hungarian economy was bound for troubled waters. In fact, soon after my arrival in Budapest, it became clear to me that this rampant corruption carried a great economic cost. For example, Transparency International (TI), the global coalition against corruption, estimated the cost of the Hungarian government’s public procurement corruption at about one and a half billion euros. Clearly, the lack of transparency affects Hungary’s competitiveness and is one of the causes of its current lack of growth. The

World Economic Forum's "Global Competitiveness Report" identifies the business cost of corruption in Hungary as one of the highest in the European Union.

The business community approached me early on in my tenure here with their concerns about the growing lack of transparency in the commercial environment, especially in public procurement tenders. They wanted change but were fearful of retaliation if they were to speak out and upset the status quo.

This is where the need for diplomacy came in, and I began a transparency initiative on behalf of US business interests. Realizing that there is strength in numbers, I joined forces with eight other Ambassadors (Austria, Canada, France, Germany, Italy, Japan, the Netherlands and the United Kingdom) who together with the United States represent 85 percent of all foreign investment in Hungary. From the very beginning we were determined to raise the awareness level of the costs of corruption, get the issue of transparency into the public discourse and keep it there. We promoted positive changes in procurement practices, codes of conduct and ethics, increasing oversight responsibilities, strengthening the role of the government auditors, introducing the concept of whistle blowing and advocating greater enforcement powers.

At my suggestion, the Transparency Initiative Ambassadors established an Inter-Embassy Transparency Working Group made up of the commercial counselors from our respective missions. We tasked them with identifying key transparency issues and soliciting views of the business community on how best to bring about change. In May 2007, the Transparency Initiative Ambassadorial group, along with then Economic Minister János Kóka, issued a joint communiqué that pledged to continue to bring up this vital issue and continue to shine a light on corruption. In June 2007, the first ever international transparency conference took place in Budapest sponsored by the American Chamber of Commerce. The US Deputy Secretary of Commerce, David Samson, came to the conference from the United States and my British counterpart brought in an EU party financing specialist from the United Kingdom who also helped to raise the awareness of the problem and suggested possible solutions. We also invited an EU transparency expert to talk about the transparency challenges the European Union continues to face.

Shortly thereafter, the American Chamber of Commerce (AmCham) was approached by Hungary's newly re-organized Transparency International organization for support and funding of the publication of their benchmark "National Integrity System Country Study on Hungary." These "National Integrity System" studies are used as the basic evaluation of a country's systemic ability to operate in a fair and transparent manner. They are also routinely cited by the World Bank, the European Bank for Reconstruction and Development (EBRD) and the World Economic Forum, among others, who publish annual transparency rankings. We at the Embassy as well as AmCham understood right away the importance that such a benchmark study would have, and were determined to do all that was possible to bring it about. With contributions from the various embassies and chambers of commerce, this landmark study came out in December 2007 and served as a clarion call to all concerned about promoting a healthy business environment in Hungary. Knowing how important the Embassy's promotion of the ground breaking report would be,

I made sure that the Embassy and AmCham took the leading role in publicizing it. We arranged a series of high-level briefings that introduced Transparency International and its Hungarian study to the Minister of Justice and his anti-corruption officials, as well as to the senior leadership of the major opposition party. We also arranged for a landmark briefing for a joint session of the Finance and Foreign Affairs Parliamentary Committees that included the entire spectrum of Hungarian political parties. The newly-published study and the briefings on it received substantial media coverage and greatly assisted our efforts to keep the topic in the public discourse.

Slowly but surely the combined efforts of the Transparency Initiative group yielded the first concrete results. In August 2007, the Hungarian government announced the establishment of an Anti-corruption Commission under the leadership of the Minister of Justice. Unfortunately, due to the highly contentious party politics in the Hungarian Parliament, the Commission's transparency strategy that includes, among other things, a revision of the Public Procurement law and a code of ethics for government employees, did not, at this time, get the needed support from the opposition parties. Consequently, my ambassadorial colleagues and I continue to meet with political leaders across the spectrum to highlight the issue and keep up the pressure for action. This fall, the US Embassy will continue our efforts by bringing in from the United States the Director of the National Whistle Blower Center for whom we are arranging a series of briefings and media events in order to acquaint Hungarians with the concept of whistle blowing and to help them see whistle blower protection as another pillar in promoting transparency.

Investors want to know if Hungary is committed to the re-establishing of a sharply competitive, predictable, business-friendly environment. According to the World Economic Forum's 2007-2008 Global Competitiveness Report, Hungary's competitiveness is still declining, and Freedom House noted in a recent report, "Nations in Transit," that a lack of transparency pervades Hungary's procurement system. In fact, the same report notes that only ten percent of the amount spent on public procurement could be considered "completely regular," i.e. procedurally proper and/or not involving any bribe or special payment. In licensing and regulatory transparency, the World Bank's most recent "Report on Ease of Doing Business" ranks Hungary as one of the more difficult places in the world for dealing with licenses. Transparency International finds that in Hungary institutionalized corruption leads to 20-25 percent more expensive public procurement, besides involving the purchase of often poor quality, unnecessary products and services. According to the Inter-Embassy Transparency Working Group, the annual extra expenditure in Hungary amounts to 1-1.5 billion euros, which is too high a price for any economy to bear.

I am very proud of the accomplishments we have made so far, especially in raising the public's consciousness of the costs of corruption. But I realize that this is only the beginning in dealing with this difficult and well entrenched phenomenon. Practically I realize that until the fierce political infighting in the Hungarian Parliament subsides enough to allow the government to adopt laws and procedures that make public procurement and political party financing more transparent, it remains the diplomats' task to blow our whistle from the sideline and point the way to genuine reform. In the words of the President of the World Bank, Robert Zoellick: "Corruption is a cancer that steals from the

poor, eats away at governance and moral fiber and destroys trust...and the challenge is how best to clean corruption out.”

Having met countless Hungarians from all walks of life during my tenure here, I am confident that the vast majority of them share my belief in the critical importance of transparency to continued economic growth and, like me, look forward to the reforms first publicized by Transparency International and the Inter-Embassy Transparency Working Group of Budapest.