1.12 Opening the door to corruption in Hungary’s sport financing

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As a member of the European Union, Hungary has a democratic system with institutions that were originally established to respect the separation of powers and legal checks and balances. Even though institutionalised corruption and moderate respect for the rights of the political opposition have made democracy vulnerable, a political consensus existed that legislative, executive and judicial powers need to be separated and that the government needs to be controlled by independent institutions.

The government of the Fidesz party, based on an overwhelming majority in parliament resulting from successive landslide victories in national elections, has broken this consensus and ‘re-engineered’ the public arena to its own liking. Essentially, Fidesz has constructed a de facto ‘upper house’ of government by appointing to public institutions its own loyalists, with often questionable professional careers but with a clear political bias. The government’s determination to follow this path has in some cases run contrary to European standards.

A number of examples indicate the government’s intention to grant privileges to certain economic actors by legal means, such as the nationalisation and subsequent redistribution of tobacco kiosk concessions, or the same process in the financial sector, with savings cooperatives first being nationalised by law and then reprivatised to an entrepreneur close to the government. In these cases the regulations were tailor-made, hurting market incumbents and favouring new players with close links to the government.
By 2014, when the last session of the previous parliament ended, the edifice of democratic checks and balances in Hungary had been disrupted, its institutional capacity to build equilibrium in public life weakened. In the view of Transparency International Hungary (TI-H), the steps taken by the government have increased corruption risks and have steered the country in the direction of a managed democracy with an Eastern type of state capitalism, and the imminent danger that political influence over independent institutions, the media, business and civil society may be exercised.

Non-governmental organisations (NGOs) that have been critical of the government in the past have come under increased scrutiny from the Government Control Office, primarily Ökotárs, a foundation responsible for coordinating the distribution of European Economic Area (EEA) Grants and Norway Grants. The nature and legitimacy of these audits have been contested both by members of Hungarian civil society and by their Norwegian partners. Transparency International Hungary maintains that the government’s audit stands on shaky legal ground.

The government’s overwhelming power coupled with an unprecedentedly high level of centralisation has resulted in a situation of ‘state capture’, whereby powerful oligarchs either outwit the government or are in symbiosis with influential public decision-makers, allowing them to extract public money from the system through intentionally designed and professionally managed channels. This has been followed by the rise of rent-seeking tendencies and cronyism, which distort the functioning of the market economy.

**Specific forms of corrupt practices in sports**

Hungary’s government is proud of the country’s outstanding sports traditions. The drive to make Hungarian sports teams, especially football clubs, excel at the European and international levels is widely regarded as sufficiently legitimate grounds for pouring immense sums of public money
into the development of sports infrastructure and manufacturing a system of opaque company donations for the promotion of sports clubs and young athletes.

Transparency International Hungary’s judgement is that there are two specific forms of investment into sport that unaccountably absorb taxpayers’ money and open the door to corruption in sport financing. One of these is the financial support going to sports clubs through company donations; the other is the public construction of sports facilities, primarily soccer stadiums. Both types fit into the country’s current situation of widespread state capture.

**Company donations to sports clubs and federations**

To attract financial supporters in order to boost Hungarian sporting life, the government introduced a new tax benefit scheme in 2011. Based on the idea that 75 per cent of Hungary’s active sports community comes from five branches of sport – football, basketball, handball, ice hockey and water polo, referred to in the law as ‘spectator team sports’ – the government devised a new system to significantly increase the amount of donations to sport clubs and federations of these five branches.

Under the tax benefit scheme, all corporations subject to corporate income tax in Hungary may give a donation – of up to 70 per cent of their corporate tax – to one of these five branches of sport to gain two types of tax benefits. Companies may reduce their pre-tax profit by the amount of their donations. Moreover, they may also deduct donations from their corporate income tax calculations; donations thus increase companies’ overall profit. This does not entitle donor companies to expect a quid pro quo from the supported sports clubs, however, making this donation different from regular sport sponsorship.
This new system of donations has serious transparency implications and raises genuine corruption risks.

- **Lack of transparency of the donations.** Tax-deductible company donations are treated as pure corporate donations, whereas in reality they are more like a form of government subsidy offered by repurposing corporate tax. Even though state-owned enterprises are excluded from tax-deductible donations to sports clubs, this ban does not apply to companies owned by municipalities. Therefore, there is a possible avenue to circumvent the prohibition on donating to sports clubs or sports federations from public resources by using municipally owned companies as a vehicle. As the mayors in most of Hungary’s major cities are Fidesz members, it cannot be excluded that the locally owned companies under their auspices are involved in sports financing.

Even so, these company donations do not qualify as public money, and so they are exempt from requests for public interest information. A recent change in legislation, adopted at breakneck speed during the 2014 Christmas period, lifted this interpretation to the regulatory level, with a realistic prospect of further curtailing the accessibility of information relating to the use of public funds, thus decreasing the transparency of the donation processes. In practice, this means that the recipients of tax-deductible company donations – that is, sports clubs and sports federations – are considered civil society groups in the eyes of the law and are not to be troubled with freedom of information tools. This is not just cynical; it clearly contradicts the recent invasive audits of certain Hungarian civil sector organisations.
- **Biased selection of eligible sports clubs.** Suspicions of corruption in the selection of sports clubs eligible for donations are twofold. On the one hand, when the government and parliament defined the five ‘spectator team sports’, they virtually excluded other branches of sports from tax-deductible donations. Even though 75 per cent of Hungary’s active sports community participates in spectator team sports, it could be that the government’s financial considerations, unknown to the public, lie behind this decision. This claim is further supported by the marked increase in the erection and reconstruction of stadiums in recent years.

On the other hand, the sports clubs of the five selected spectator team sports have to apply for authorisation from their respective sports federations in order to be eligible for tax-deductible company donations. Sports clubs’ applications can be refused if the applicant’s programme to be approved is not in line with the long-term strategic goals of the federation, which gives considerable leeway to federations, and raises concerns as to whether inappropriate considerations might be being taken into account. The impartiality of the selection process may be in jeopardy if the decision to approve or dismiss a programme can be based on subjective reasons. There is a clear risk of corruption when sports federations decide which applicants are eligible for donations if this very evaluation process lacks any publicly available regulation and transparency. There is some hope for a measure of transparency, since the Hungarian authorities agreed to submit yearly reports to the European Commission on the activities and outcomes under the tax refund scheme.
• *Favouritism in the appointment of sports federation leaders.* Sports federations in the spectator team sports have a crucial role in the distribution of company donations, which may correlate to their leadership’s political ties. The Hungarian Football Federation (Magyar Labdarúgó Szövetség; MLSZ), the largest recipient of company donations, is chaired by Sándor Csányi, the CEO of OTP-Bank, the country’s biggest commercial bank and one of Hungary’s richest people; he is also a well-known ally of the prime minister, Viktor Orbán. The Hungarian Basketball Federation is headed by Ferenc Szalay, the Fidesz mayor of Szolnok, a medium-sized Hungarian city. Miklós Német, who presides over the Hungarian Ice Hockey Federation, is also the CEO of Közgép, a construction company that has received a very high level of public contracts and that belongs to the interest group of Lajos Simicska, who is perhaps the most influential friend of Orbán.¹³

• *Disproportionate distribution of donations.* Orbán is an ardent football fan, and in his personal dedication to promoting Hungarian soccer he has founded in Felcsút, his hometown, the Felcsút Foundation for the Promotion of Young Athletes, which is the operator of the Felcsút football team and the recipient of the biggest chunk of tax-deductible corporate donations. This move belongs to the broader context of tax-deductible company donations. It is also worth noting that these two Felcsút-based recipients alone receive more tax-deductible corporate donations than all the other elements of the remaining four spectator team sports together.
Figure 1.3 Privileged soccer clubs, 2011-14

Source: Hungarian Football Federation, http://www.mssl.hu/fjoesetelek; Freedom of information requests submitted by Transparency International Hungary
Backdoor deals and opaque lobbying. Corporate donations to the Felcsút soccer team and various other privileged clubs are widely accepted in the country as a form of bribing companies’ way into lucrative businesses and winning public contracts. TI-H’s recent study on the Hungarian lobbying landscape\textsuperscript{14} has uncovered that participants in sports events – especially in football games, and corporate donors to football clubs through the MLSZ – play a prominent role in lobbying in Hungary. These kinds of sports donations are perceived as a distorted form of lobbying, whereby grants are donated to the preferred sports clubs of influential people and decision-makers in an attempt to curry favour with them.

All in all, the new system of sports subsidisation suggests that the government is ready to employ parliament’s regulatory power to achieve political leaders’ personal goals.
According to publicly available data, clubs of spectator team sports received tax-deductible company donations totalling HUF 19.1 billion (or some €61 million) during the 2011/2012 season, which grew to HUF 23.3 billion (almost €75 million) in the 2012/2013 season – equivalent to HUF 42.4 billion (some €136 million) in the span of two years.\(^{15}\) It is worth noting that soccer clubs and the MLSZ absorbed some 90 per cent of all tax-deductible company donations, whereas the four remaining branches of spectator team sports and their respective federations received a much smaller amount of funding.\(^{16}\) Although football is the most popular sport in Hungary out of the aforementioned five, the ratio still seems disproportionate.

Sports clubs in sports other than the five specified spectator sports receive normative grants from the government that are less exposed to corruption. This is the case with teams and federations in 16 other branches of sport, which are to receive a substantial amount of direct government support.\(^{17}\) Organisations active in these branches of sport altogether will receive HUF 135 billion (some €430 million) by the end of 2020.\(^{18}\)

It remains to be seen whether such robust investments will result in improved performance on the part of Hungary’s sports teams, as there are as yet no real positive signs, except for a modest increase in the number of licensed athletes in these sports.\(^{19}\)

**Sports facility construction**

As opposed to the system of corporate donations, which mainly channels private and corporate incomes to designated sports clubs, investments into sport infrastructure are funded directly from public resources. It should come as no surprise that the majority of the funds go to improving and building football stadiums. According to publicly accessible data on sports investments, the
following major sports grounds have been erected or recently rebuilt, or are planned to be built in the near future:

- a stadium at Debrecen – HUF 12.3 billion (€39 million) of public resources;\(^{20}\)
- a stadium for Ferencvárosi TC soccer club – HUF 13.5 billion (€43 million), government-funded;\(^ {21}\)
- a stadium at Hódmezővásárhely – HUF 1 billion (€3.2 million), out of which HUF 702 million (€2.2 million) is tax-deductible corporate donations and HUF 301 million (€963,000) is the local government contribution;\(^ {22}\)
- a stadium at Diósgyőr – HUF 4.5 billion (€14.4 million), public resources;\(^ {23}\)
- a stadium at Szombathely – HUF 9.2 billion (€29.4 million), public resources;\(^ {24}\)
- a stadium at Székesfehérvár – HUF 9 billion (€28.8 million), public resources;\(^ {25}\)
- the National Olympic Centre (Nemzeti Olimpiai Központ) – HUF 128 billion (€4,100 million), public resources disbursed over a period of four years;\(^ {26}\) and
- a stadium at Felcsút – HUF 3.8 billion (€12.2 million), 70 per cent of which comes from corporate donations, the remaining 30 per cent being the owner’s contribution.\(^ {27}\)

Despite these considerable investments, however, the numbers of spectators are dwindling in these brand new, state-of-the-art stadiums.\(^ {28}\) The average number of soccer enthusiasts attending the matches in person is showing a downward trend.\(^ {29}\) It is also worth noting that attendance at the most popular event, the National Championship league, has also taken a big hit, with the number of fans falling by 4,897 this season so far compared with the previous season and a decrease of 624 in average spectators per match.\(^ {30}\)

The goal of these grandiose constructions is questionable as well in light of these modest numbers. The stadiums have been built to accommodate much larger crowds than the current ones; for example, the stadium of the Felcsút team Puskás Akadémia, called Pancho Arena, can
hold up to 3,500 spectators, while the average match attendance in the 2013/2014 season was around 1,400. The stadium of the Debreceni Vasas Sport Club, based in Debrecen, can potentially welcome 20,000 visitors, but attendance is nowhere near that number, with a match average of 3,400, and some 7,500 spectators for the most popular match.\textsuperscript{31}

The reopening ceremony of the Ferencvárosi TC football club’s stadium was a public event, at which the world-famous UK team Chelsea played against the local team, numerous Hungarian dignities visited the game and some of the air force’s jet fighters flew past during the inauguration ceremony.\textsuperscript{32} The Ministry of Defence, when requested to reveal the cost of the fly-past, answered at first that the flight was no more than a regular and pre-scheduled pilot-training exercise – a surprising reaction in light of Budapest’s restricted airspace. Later the ministry announced that it had classified all relevant information until 2044.\textsuperscript{33}

The need for new or newly refurbished sports arenas is especially contestable in light of Hungarian domestic football clubs’ extremely poor performances in the Champions League and the Union of European Football Associations (UEFA) Cup, and the national soccer team’s lamentable results in the European and World championship qualifying rounds. Moreover, there are sound reasons to suspect that the government’s determination to have so many sports stadiums constructed may be camouflage to disguise questionable transactions taking place in the allocation of public funds, achieved by bending the rules of public procurement so as to favour businesses that contribute to politicians’ campaigns or by fulfilling other wishes, such as donating to a particular sports club.

As stadium construction is funded from public resources, entrepreneurs are selected through public procurement – one of the most corrupt areas in Hungary.\textsuperscript{34} Therefore, bias can easily develop in the selection process, putting public spending at risk of misappropriation. For
example, the stadium in Felcsút35 was built mainly on land owned by Orbán’s wife, adjoining his family house. A large proportion of the construction work for the Felcsút stadium has been allocated to companies that belong to the interest group of this municipality’s mayor and CEO of the Felcsút Foundation for the Promotion of Young Athletes, Lőrinc Mészáros, who is undisputedly one of Orbán’s closest allies. Though almost bankrupt in 2007,36 he is now Hungary’s 86th richest person, with a wealth of approximately HUF 8.4 billion (almost €27 million).37 He claimed publicly in an interview that he owed his breathtaking enrichment to God, good luck and his friendship with the premier.38

Notes

1 Miklós Ligeti is Legal Director, Transparency International Hungary. Gyula Mucsi is Project Manager, Transparency International Hungary.
2 Fidesz is a right-wing party that belongs to the EU-wide European People’s Party. Fidesz has been using nationalist conservative rhetoric with an anti-EU tone since 2010.
8 Amendments introduced in 2013 expect donor companies to pay a mandatory fee called a ‘supplementary sport sponsorship’, which amounts to 75 percent of the value deducted from the donor company’s pre-tax profit. The goal of this was to encourage traditional sport sponsorships while keeping the new tax scheme appealing to companies.
9 Transparency International Hungary publicly criticised this law: see http://korupcio.blog.hu/2014/12/16/gratulalunk_a_kormanynak.


16 During the 2011/2012 season the Hungarian Basketball Federation received HUF 700 million (some €2.2 million) in donations, the Hungarian Handball Federation HUF 500 million (€1.6 million), the Hungarian Ice Hockey Federation HUF 400 million (€1.3 million) and the Hungarian Water Polo Federation HUF 200 million (just over €0.6 million); www.nupi.hu/tao/jegeyzeck; http://atlatszo.hu/2013/10/25/jovore-sem-enyhul-a-stadionepitesi-laz-kozel-szazmilliard-forint-sportletesitesmenyekre.

17 The branches of sport referred to here are table tennis, athletics, wrestling, rowing, judo, kayaking/canoeing, cycling, skating, boxing, the pentathlon, volleyball, shooting sports, tennis, gymnastics, swimming and fencing.

18 II444! (Hungary), ‘Megfelelő emberek érkeztek az elnöki székbe, jöhet a százmilliárd a sportszövetségekhez’ ['Now that the right people are in the presidential seats, it’s time for the hundred billion forints for the federations’], 19 January 2015, http://444.hu/2015/01/19/megfelelo-emberek-varjak-a-tizmilliardok-at-a-sportszovetsgek-elen.


21 Ibid.


25 Ibid.

26 Ibid.


28 Hungarian Spectrum, ‘No good players, no spectators but more and more stadiums’, 6 December 2013, http://hungarianspectrum.org/2013/12/06/no-good-players-no-spectators-but-more-and-more-stadiums.

29 These are not exact numbers but an estimate based on the tickets sold in each season.


34 PricewaterhouseCoopers EU Services, Identifying and Reducing Corruption in Public Procurement in the EU: Development of a Methodology to Estimate the Direct Costs of Corruption and Other Elements


37 Heti Világgazdaság [World Economy Weekly] (Hungary), ‘Még mindig Csányi a leggazdagabb magyar, Simicska a 10, Mészáros Lőrinc a 86’ [‘Csányi is still the most richest Hungarian, Simicska is 10th, Lőrincz Mészáros is 86th’], 14 May 2015, http://hvg.hu/vallalat_vezeto/20150514_Meg_mindig_Csanyi_a_leggazdagabb_magyar.

38 Index.hu (Hungary), ‘A Jóisten is szerepet játszott Mészáros Lőrinc meggazdagodásában’ [‘Even God had a hand in the enrichment of Lőrinc Mészáros’], 24 April 2014, http://index.hu/belfold/2014/04/24/a_joisten_is_szerepet_jatszott_mezrasor_lorinc_meggazdagodasaban.