



## VISEGRAD INITIATIVE FOR TRANSPARENT MUNICIPALITY-OWNED ENTERPRISES

FKF NONPROFIT ZRT., BUDAPEST - HUNGARIAN CASE STUDY

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## 1. INTRODUCTION

Municipality-owned enterprises represent a specific type of organisations. These companies operate under public ownership, provide primarily public services, and receive occasionally public subsidies. In some other aspects, these entities operate, however, just as regular private enterprises - in many cases in a (quasi) market environment. All these circumstances make them vulnerable to corruption, political clientelism and to misuse of public funds.

The aim of this research initiative was to map and disseminate a best practice in public disclosure and business integrity solutions among municipality-owned enterprises (hereinafter referred to as MOE) in the Visegrad countries. The project defined municipality-owned enterprises as companies operating under 100% municipality ownership, exercised by one municipality or a group of municipalities.

First, project partners from the Visegrad countries (Oziveni/CZ, The Citizens Network Watchdog/PL, Transparency International Slovakia/SK and Budapest Institute/HU) analysed the public disclosure practices of MOEs in municipalities that were selected based on the level of economic development in the given region and on the population size of the municipality. Based on that a final Visegrad sample of MOEs of nine companies from each country was selected which represents public enterprises from a variety of less and more developed regions and with all the companies operating in the centre of the given region.

Second, the screened companies from the selected municipalities (in case of Hungary, the capital city, Budapest and two regional centres, Szeged and Miskolc) are from specific sectors (primarily, public transport, waste management, water supply) and all of them with a total revenue of over EUR 4 million. The project used this latter company selection criterion along with the observation that the given company is 100% owned by one or a group of municipalities as mandatory ones. In case there was no matching company in the region/city or in the preferred sectors, we replaced them by companies from other sectors from the same city and/or by companies from regions closest in terms of development.

Third, the project partners ranked the companies' transparency and public disclosure practices based on the analysis of the content of the company websites by using a set of standardized assessment criteria based on national and international recommendations (BI-TI Hungary 2016, EC 2016, OECD 2015, TI Slovakia 2015, TI-CRCB 2014) and picked the one with the highest ranking score for further, in-depth analysis. The transparency ranking of MOEs was assessed considering the following factors (each of them based on more specific, measurable evaluation indicators): access to information, ownership structure, economic indicators and performance criteria, management information, business integrity, selection procedures, grants and sponsorships, and property sales and leases. We applied a common assessment framework with transparency evaluation criteria counted with equal weights towards the specific transparency indexes for each local company. We relied on the content analysis of the company websites in the period December 2016 and on two structured personal interviews and written consultation with company representatives in the first half of January 2017. For more information on the selection and evaluation methods (including the codes for the content analysis, the assessment criteria on the company-level disclosure practices, and the



interview questionnaire), see Annex 1.

This case study summarises the results of our analysis of the public disclosure practices of Hungarian companies, with special attention to the in-depth analysis of the most transparent MOE in our HU sample. Along with the Hungarian results we also present the outcome of the V4 cross-country analysis. We close our paper with recommendation targeted at both the public owners and at the company management.

## 2. REGULATORY FRAMEWORK

In Hungary, the legal framework with regard to access to public sector information at the disposal of municipality-owned enterprises and to their public disclosure obligations is stipulated by several regulations. The Freedom of Information act (Act CXII of 2011 on Informational Self-determination and Freedom of Information, hereinafter referred to as FOI Act) defines the set of public interest information and data, sets the general rules for disclosing and accessing public sector information in general. The Appendix 1 of the FOI Act is the so-called General Disclosure List that details all the information and data subject to obligatory disclosure (e.g. basic company information, organisational and financial data, public procurement information). The FOI act also provides general rules for more pro-active disclosure subject to further (sectoral) regulations (see, provisions on so-called Discretionary and Unique Disclosure Lists).<sup>1</sup>

Another specific act (Act CXXII of 2009 on the Economical Operation of Public Business Organisations) regulates the disclosure of the salaries of the MOE's management and that of the members of the supervisory boards of municipal enterprises. The Public Procurement Act (especially, Article 31 of Act CVIII of 2011 on Public Procurement) sets the statutory base for disclosure obligations on public procurement procedures and data in the public sector.

In the case of MOEs owned by the City of Budapest, an additional local regulation (134/2015 (I.28.) Resolution of the City Council) is in effect since March 2015, requiring a pro-active disclosure of information concerning the sale of real estate owned by municipal enterprises in Budapest.

From an interview with one company representative, we know that the BVH Holding Zrt. (the owner company) introduced a new financial incentive in 2014. In case of non-compliance with regulatory obligations, they reduce the CEO's bonus in case the given MOE does not abide by the relevant disclosure obligations. This rule is not legally mandated but, we were told, it is consistently enforced. For the list of the relevant national and local regulations, see Annex 2.

## 3. TRANSPARENCY OF MOES IN HUNGARY IN THE V4 SAMPLE

According to our transparency ranking, the Hungarian municipally owned enterprises from our Visegrad sample of 36 companies perform on average better than the regional average (34.19%). While the average score for Hungarian MOEs is 40,63% - second only to the Czech

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<sup>1</sup> A ministerial decree from 2005 specifies the elements and the formal rules of disclosure on the elements of those additional disclosure lists (18/2005 Ministerial Decree).



MOEs (41.35%), it should be noted that it is still far below the maximum score of 100%.

The most transparent company in the Hungarian sample proved to be the *Fővárosi Közterület Fenntartó Zrt.* (hereinafter referred to as FKF Nonprofit Zrt.<sup>2</sup>), the waste management company of the City of Budapest, followed closely by *Miskolc Városi Közlekedési Zrt.*, the public transport company from Miskolc. The worst performer is the *Szegedi Környezetgazdálkodási Nonprofit Kft.*<sup>3</sup>, the waste management company of Szeged. For the overview of the results of the transparency ranking of all the 36 Visegrad MOEs, see Annex 3.

Table 1: Transparency ranking of Hungarian MOEs

COMPANY	REGIONAL RANK	SCORE	TOTAL REVENUE (2015, million)
Fővárosi Közterületfenntartó Zrt.	2	59.00%	119.60 €
Miskolc Városi Közlekedési Zrt.	4	51.67%	14.55 €
Szeged IKV Zrt.	5	49.00%	15.72 €
Fővárosi Vízművek Zrt.	8	43.00%	128.70 €
Budapesti Közlekedési Központ Zrt.	9	42.17%	307.46 €
Miskolci Vízmű Kft.	10	40.83%	14.52 €
Miskolci Regionális Hulladékgazdálkodási Közszolgáltató Nonprofit Kft.	17	35.67%	5.17 €
Szegedi Közlekedési Kft.	23	30.67%	7.50 €
Szegedi Környezetgazdálkodási Nonprofit Kft.	33	13.67%	11.21 €

In line with the findings of earlier research in the field (TIS 2015, TI-CRCB 2014), larger companies (measured in terms of total revenue) are more likely to publish more public information online. There are, however, other factors that may drive better transparency at the company level – such as strict ownership control, more specific national and local regulations, effective enforcement of the relevant disclosure rules, and last, but not least the companies' perception on public monitoring and scrutiny. In the Hungarian case our hypothesis was that national and local regulations, the application of effective incentives along with the stronger ownership control play a significant role in how municipal enterprises shape and manage their public disclosure policies.

The Hungarian MOEs in our regional sample publish the most important information on their ownership structure, are more transparent than their regional peers in regards to public procurement, management information and share general information on public disclosure (usually by providing one specific PSI menu point on their website). All but one of them share their economic indicators (e.g. annual reports, balance sheets, and profit and loss statements to be downloaded from the websites).

In regional comparison, however, they lag behind in publishing information on planned and actual performance criteria (such as, revenue & profit goals, or other performance indicators).

<sup>2</sup> [www.fkf.hu](http://www.fkf.hu)

<sup>3</sup> [www.szkht.hu](http://www.szkht.hu)



In general, there is no instance of publishing business plans and/ or information on strategic business objectives.

Finally, most of the Hungarian MOEs are reluctant to disclose information on their HR selection procedures, on outcomes of property transactions (sales or leases) and only few of them share information on recipients of their donations, sponsorship (with only one MOE with data broken down by specific grants and donations, see FKF Nonprofit Zrt.). Only one Hungarian MOE (Miskolci Vízmű Kft.) uploaded the company's code of ethics, and none of the companies provide information on business integrity policy and/ or on any other anti-corruption tool potentially in use, even if, based on our personal inquiries, we happen to know that some of them have some relevant initiatives in-house.

#### 4. THE MOST TRANSPARENT HUNGARIAN MOE – WASTE MANAGEMENT COMPANY, BUDAPEST (FKF NONPROFIT ZRT.)

The Fővárosi Közterület-fenntartó Zrt. was founded as the Office of Public Hygiene in 1895, and the company operates in its current form as a non-profit, closed limited company since 1997. The company operates under 100% public ownership exercised by one exclusive shareholder, the asset management holding company of the City of Budapest (the Budapest Városigazgatóság Holding Zrt., hereinafter referred to as BVH Zrt.). The Mayor of Budapest appoints the FKF's chief executive officer (CEO) based on the proposal of the Management Board of BVH Zrt. The company has a supervisory board composed of 6 members, all of them appointed by the Mayor of Budapest, also upon the proposal by the BVH Zrt.

The core activities of the FKF Nonprofit Zrt. are: waste disposal, management, and cleaning of the public road network in the administrative area of City of Budapest. In 2015 the company's total revenue was 36.528 billion HUF (119.6 million EUR) and operated with 2860 employees.

Within the company, the Legal Department is mainly responsible for compliance with the relevant information disclosure rules, and online publications are managed in collaboration with the departments in charge of PR and communication, and public procurements. The FKF Nonprofit Zrt. has a specific internal regulation concerning public disclosure of company information and data. First, it was adopted formally by the management board in 2014 and has been revised since twice. This stipulates the company-level rules and procedures for disclosing company data and information, competencies and tasks of the various departments (see above) involved. While the document was shared upon request with the experts of the Budapest Institute, it is not available on the website - as one of the company representative interviewee emphasized: "*This is an internal regulation clarifying the division of tasks and competences among our departments with no public relevance.*" (*Personal interview with one company representative, 6 January 2017.*)

Although the company has no compliance unit, following the deliberate decision of the new CEO in position since mid-2015, compliance tasks are systematically distributed among several departments, sometimes also with overlapping /parallel control and compliance competences – an outcome of the CEO's deliberate solution called “four/six-eyes approach”. “*Even at the*



*cost of a bit more administration, it is better to have parallel oversight and control rights.”*<sup>4</sup> Consequently, the Legal Department shares some compliance tasks with the Internal Audit and with the Security Departments. The task of this latter unit is among others to set up the Compliance Committee when there is need for assessment and management of specific fraud risks. The company-specific division of compliance tasks are set in the statute.<sup>5</sup> From the interviews we learnt that there had been a plan back in 2015 to set up a compliance department and to revise the internal division of competence in this respect, but this initiative has not been completed due changes in the management board and following the decision of the new CEO’s approach, see above.

In the V4 transparency ranking the FKF Nonprofit Zrt. is ranked as the second best among the national and regional peer companies, with a total score of 59,00%. While it is the most transparent Hungarian MOE and it provides some good practices to be checked by other MOEs both in Hungary and in the Visegrad region, the company has also areas where improvements are strongly recommended. In the following we highlight some of the good and bad practices of this company, thereby pinpointing to its strengths as well as to development opportunities with regard to public transparency.

The FKF Nonprofit Zrt. performs well with regard to sharing information on Ownership Structure, Public Procurements, Grants and Sponsorship, Property Sales and Lease. The company does not however publish any information on meeting its business objectives (performance criteria) and provides no insights to the public into its business ethics and integrity policy. As far as the other assessment criteria are concerned, only partial information is available on its website.

Table 2: Transparency of Waste Management Company, Budapest (*FKF Nonprofit Zrt.*)

ASSESSMENT CRITERIA	SCORE
1. Access to Company Information	4,00%
2. Economic Indicators	6,67%
3. Performance Criteria	<b>3,33%</b>
4. Management Information	5,00%
5. Ownership Structure and External Revenues	<b>10,00%</b>
6. Public Procurement	<b>10,00%</b>
7. Business integrity and ethics	0,00%
8. Selection Procedures	0,00%
9. Grants and Sponsorship	<b>10,00%</b>
10. Property Sales and Lease	<b>10,00%</b>
Total	59,00%

*Source: own calculations. Note: The maximum scores for each assessment criterion are 10%.*

**Special note:** In the second half of 2016 several online media reported on assumption of a potential corruption case related to public procurement of external expert services at the FKF

<sup>4</sup> Personal interview with the CEO, 10 January 2017.

<sup>5</sup> Not available on the company’s website, but shared with BI experts during interviews.



Nonprofit Zrt.<sup>6</sup> As the scope of this study is limited to the public disclosure practices of municipality-owned enterprises, our focus is limited in this sense, too. It is also beyond the time and budget constraints of this project to analyse corruption cases at the screened companies. It should however be noted that the Mayor of Budapest launched a public investigation in this case that will be concluded later in 2017.

## 4.1 GOOD PRACTICES

### Access to company information

The company's website has a specific section dedicated to provide a wide range of public service information and data (cf. menu item PSI7). This online entry point is easy to find, since it is directly under the 'About the company' section of the website, and it is also easy-to-follow, since it replicates the structure and items of the general checklist recommended by FOI Act (see the General Disclosure List in Appendix 1 of the regulation). It covers company information broken down in three clusters (organizational data, operational data, and business data). There is also a sub-site to be reached from here, called 'Archive,' whence historical company data and documents can be downloaded (at least for the last three years).

While most of the company data and documents are easy-to-locate, there is no special information on requesting public data from the company. Visitors may not find any information on the company-level contact to turn to in case of public data request, or on the procedures (including, deadlines, conditions, calculation of fees charged). During our interview, one company representative stressed that in their experience whoever requests company data directly from FKF Nonprofit Zrt. is "*pretty much aware of the procedures stipulated clearly by regulation*" and the customer service contact information shared on the website (in the Contact section) "*works perfectly also in cases of public data requests. We do not need to publish any information on the procedures, since those who usually ask for company data are aware of the general rules. We do not have enough time to even promote data requests (by sharing detailed information on the procedures and specific contact persons)*". (*Personal interview, firm representative, 6 January 2017*)

It is clear however that solutions applied for example by the public transport company from Miskolc and also by the most transparent Czech and Slovak MOEs would be very useful for any civil society stakeholder as much as it would also demonstrate the company's goodwill with regard to public transparency. Sharing information about a special PSI contact point, name, mail and telephone published<sup>8</sup> and providing detailed information on the data request procedure (especially concerning the fees charged<sup>9</sup>) would be a low-cost improvement for the company.

### Ownership structure and external revenues

The FKF Nonprofit Zrt. publishes sufficient online information on ownership issues and on financial assistance received from the government. The complete version of the company's

<sup>6</sup> Szalai, A. (2016), Egymásra borítják a kukákat a főváros hatalmasai. Népszabadság, 22 September 2016, p.1.

S.N. (2016), FKF-botrány: dokumentumok cáfoltak a vezérigazgató Csontos. Mandiner, 30 August 2016. URL: [http://mandiner.hu/cikk/20160830\\_fkf\\_botrany\\_dokumentumok\\_cafoljak\\_a\\_vezerigazgato\\_csontos](http://mandiner.hu/cikk/20160830_fkf_botrany_dokumentumok_cafoljak_a_vezerigazgato_csontos)

<sup>7</sup> <http://www.fkf.hu/portal/page/portal/fkfrt/vallalatrol/kozzettel>

<sup>8</sup> <http://www.mvkzrt.hu/kozerdeku-adatok>

<sup>9</sup> <http://www.mvkzrt.hu/sites/default/files/dokumentumok/kozerdeku-adatok/kozerdeku-adatok-megismerese.pdf>



statute can be downloaded.<sup>10</sup> Along with the Articles of Association (available on the website of the City of Budapest) it provides basic information on public owner and ownership share, organizational structure, on decision-making responsibilities and operational tasks of the various units. The founding document of the company (articles of incorporation) can be downloaded from the website of the City of Budapest and it gives further details on ownership rights.<sup>11</sup>

The annual reports account of the amounts of state aid received and on the past and ongoing development projects of the company financed by the national budget and/or co-financed by the European Structural and Investment Funds.<sup>12</sup> In addition, the PSI section of the website provides an overview of the EU co-financed development projects for the period 2011-2013<sup>13</sup> with detailed project-level information (title, administrative code, sum of the project). It is however not clear whether data for such projects for the last three years is missing or there were no such projects launched in the last period. It would be helpful to update and complete this information either by publishing new summaries with a special explicit note in case there were no further projects in the given period or by sharing links to relevant data in apposite public databases ([www.kozpenzpalyazat.gov.hu](http://www.kozpenzpalyazat.gov.hu)).

#### Public procurement

The company publishes a wide range of information on public procurement on its website in a specific section under the PSI menu point.<sup>14</sup> Annual public procurement plans, notices and results (statistical summaries) of tenders, and contracts are available here, with an archive covering related company documents for the last three financial years.

During our interview the company's CEO (who was appointed by July 2015) stressed that it was an explicit management demand to publish such a comprehensive set of public procurement documentation that complies completely with the regulatory provisions stipulated by the national regulation (Public Procurement and FOI acts). He also acknowledged our comment and recommendation that it would be helpful for visitors to structure these public procurement database, improve the searchability of the uploaded documents by clustering them chronologically, by types of services /goods procured, and/or install a more user-friendly interface or application to have a better overview of all the data and documents uploaded. He confirmed that this is one of the priorities of their upcoming website development project that is planned to re-design and re-boot the company's website in 2017. In addition, BI would also suggest to double-check available national and EU public procurement databases and use hyperlinks to specific data and documents, also available in those public datasets.<sup>15</sup>

The way in which the Prague public transport company provides an easy access to and good searching tool for company-specific public procurement data can also be an inspiring practice for the company. They used a link to a PP data provider portal where very specific searches on

<sup>10</sup> [http://www.fkf.hu/portal/page/portal/fkfvrt/vallalatrol/kozzetel/szervezet\\_szemelyzet\\_adat/SZMSZ%202015.09.30\\_1.pdf](http://www.fkf.hu/portal/page/portal/fkfvrt/vallalatrol/kozzetel/szervezet_szemelyzet_adat/SZMSZ%202015.09.30_1.pdf)

<sup>11</sup> [www.infoszab.budapest.hu](http://www.infoszab.budapest.hu)

<sup>12</sup> [http://www.fkf.hu/portal/page/portal/fkfvrt/vallalatrol/kozzetel/gazd\\_adatok/III\\_7](http://www.fkf.hu/portal/page/portal/fkfvrt/vallalatrol/kozzetel/gazd_adatok/III_7)

<sup>13</sup>

[http://www.fkf.hu/portal/page/portal/fkfvrt/vallalatrol/kozzetel/gazd\\_adatok/III\\_7/Az%20Eur%C3%B3pai%20Uni%C3%B3%20t%C3%A1mogat%C3%A1s%C3%A1val%20megval%C3%B3sul%C3%B3%20fejlesz.pdf](http://www.fkf.hu/portal/page/portal/fkfvrt/vallalatrol/kozzetel/gazd_adatok/III_7/Az%20Eur%C3%B3pai%20Uni%C3%B3%20t%C3%A1mogat%C3%A1s%C3%A1val%20megval%C3%B3sul%C3%B3%20fejlesz.pdf)

<sup>14</sup> [http://www.fkf.hu/portal/page/portal/fkfvrt/vallalatrol/kozzetel/gazd\\_adatok/III\\_8](http://www.fkf.hu/portal/page/portal/fkfvrt/vallalatrol/kozzetel/gazd_adatok/III_8)

<sup>15</sup> See, e.g. the national public procurement database (*Közbeszerzési Adatbázis*, [kba.kozbeszerzes.hu](http://kba.kozbeszerzes.hu)) or the EU database (TED, [simap.ted.europa.eu](http://simap.ted.europa.eu))



the company's public procurement profile can be launched (based for example on official registration number of the public order, types of procedure, phase of the procurement process).<sup>16</sup>

#### Grants and sponsorships

In accordance with the regulatory provisions stipulated by the FOI Act, the company provides detailed information on donations (each above the amount of 5 million HUF/ca. 16,000 EUR,<sup>17</sup> broken down by recipients, amount of donation, time period, and subject of the donation).<sup>18</sup> In the period 2013-2015 the company sponsored various cultural and sport organisations with a total sum of 662.7 million HUF (ca. 2.1 million EUR). Under the CSR menu point they also share information on the company's CSR priorities and projects.<sup>19</sup>

#### Property Sales and Lease

In 2015 the City of Budapest issued a resolution on requiring full public disclosure on sales and other market transactions of properties owned by the Municipality as well as by the municipal enterprises. Consequently, the FKF Nonprofit Zrt. lists this disclosure obligation as a separate item in the PSI section of the website (in fact, claiming explicitly that since January 2015 there was no such transactions initiated by the company).<sup>20</sup>

## 4.2 AREAS TO IMPROVE, DEVELOPMENT OPPORTUNITIES

#### Economic Indicators

There is both historic and current information on the company's main economic and operational indicators on the website. There is a special section dedicated to annual reports (including balance sheet, profit and loss statement) on the website for 2015 and for all other years in the online PSI archive.<sup>21</sup>

While international recommendations emphasise the importance of regular external and internal audits, the common Hungarian MOE practice is to contract independent, external auditors to double check the final annual report – as has been the case with the FKF Nonprofit Zrt. for the last three financial year.<sup>22</sup> It is rather rare among Hungarian MOEs that the public owners or the company management ask for a comprehensive external audit. The company publishes a list off certifications on international quality standards, qualifications and expert opinions, including also those on integrated management system in use by the company.<sup>23</sup> As one company representative stressed following our inquiry: „*We are not obliged to disclose the reports of the official audits run by the supervisory authorities*”, even if they have been audited on a yearly basis in the last period. (Personal consultation, company staff member, 19 January 2017) It would be exemplary both in the national and in the Visegrad context to pro-actively

<sup>16</sup> <https://www.tenderarena.cz/profil/detail.jsf?identifikator=DPP>

<sup>17</sup> Based on EUR exchange rate of the Hungarian National Bank (11 January 2017).

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[http://www.fkf.hu/portal/page/portal/fkfzrt/vallalatrol/kozzetetel/gazd\\_adatok/III\\_6/5%20milli%C3%B3t%20meghalad%C3%B3%20t%C3%A1mo-gat%C3%A1sok2013-2014.09.30%20k%C3%B6szöntés.pdf](http://www.fkf.hu/portal/page/portal/fkfzrt/vallalatrol/kozzetetel/gazd_adatok/III_6/5%20milli%C3%B3t%20meghalad%C3%B3%20t%C3%A1mo-gat%C3%A1sok2013-2014.09.30%20k%C3%B6szöntés.pdf)

<sup>19</sup> [http://www.fkf.hu/portal/page/portal/fkfzrt/vallalatrol/tars\\_felelosseg](http://www.fkf.hu/portal/page/portal/fkfzrt/vallalatrol/tars_felelosseg)

<sup>20</sup> [http://www.fkf.hu/portal/page/portal/fkfzrt/vallalatrol/kozzetetel/134\\_2015](http://www.fkf.hu/portal/page/portal/fkfzrt/vallalatrol/kozzetetel/134_2015)

<sup>21</sup> [http://www.fkf.hu/portal/page/portal/fkfzrt/vallalatrol/kozzetetel/gazd\\_adatok/III\\_1](http://www.fkf.hu/portal/page/portal/fkfzrt/vallalatrol/kozzetetel/gazd_adatok/III_1)

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[http://www.fkf.hu/portal/page/portal/fkfzrt/vallalatrol/kozzetetel/gazd\\_adatok/III\\_1/K%C3%B6nyvvizsg%C3%A1l%C3%B3i%20sz%C3%ADnes\\_1.pdf](http://www.fkf.hu/portal/page/portal/fkfzrt/vallalatrol/kozzetetel/gazd_adatok/III_1/K%C3%B6nyvvizsg%C3%A1l%C3%B3i%20sz%C3%ADnes_1.pdf)

<sup>23</sup> <http://www.fkf.hu/portal/page/portal/fkfzrt/vallalatrol/integralt>



publish summaries of the results of independent audit reports. The national regulatory provisions also promote sharing information on the timing and main public conclusions of external audits and controls in a pro-active way.<sup>24</sup> For a good practice in this area, we recommend to check the annual report of the waste management company from Pilsen. In this report the company shares detailed information on the subject, timing and findings of external audits.<sup>25</sup>

#### Performance criteria

Unfortunately, the company does not publish any information on its website on performance criteria, such as strategic target indicators on its revenues, profits or performance indicators concerning the subject of its business activity (e.g. number of clients, quality of services) neither for the current period nor for the past financial years. While in the annual report they evaluate how much they have accomplished short-term operational objectives, this does not provide the readers with insight into the strategic vision the company aims to realise.

Sharing information about revenues, profit and loss is necessary but not sufficient to evaluate the performance of the company providing important public services. During interviews with company representatives, they informed the BI experts that the company management pays special attention to customer satisfaction and that they regularly analyse and assess customer feedbacks and complaints on service delivery and quality of their services and these inputs guide their firm development projects. The company's business reputation and commitment to high-quality services could be improved by sharing information on more detailed business development goals and performance indicators and assess their fulfilment in a public and transparent way.

The disclosure practice of the Prague public transport company could be a good starting point. They share extensive information on their website (under a specific menu point) on the company's Service Quality Programme, including also their strategic goals along with information on the international quality standards applied within the company.<sup>26</sup>

#### Management information

Following a change in the regulatory framework (induced by a political scandal back in 2009), publication of the salaries, bonuses and other benefits of executive managers and those of the members of the supervisory boards is a common MOE practice in Hungary. In case of FKF Nonprofit Zrt. there is a detailed list of all these salaries broken down by positions and by persons in case of the members of the supervisory board and of the CEO and vice CEOs.<sup>27</sup>

The website offers a list (including photos and names) of all the high-level managers, but unfortunately there are no short bios or CVs available here. Interviewees from the company could not explain the reasons for this omission, but were open to upload the relevant information. For a user-friendly solution, we recommend to check the site of the Budapest Transport Company where we learn about the educational and professional experiences of all the chief executives and directors.<sup>28</sup>

<sup>24</sup> 18/2005 Ministerial decree, Annex 2. 3.1 Compliance audits and controls

<sup>25</sup> [http://www.ptep.cz/upload/File/VZ\\_2013/pt-vz-2013-Zprava-o-cinnosti.pdf](http://www.ptep.cz/upload/File/VZ_2013/pt-vz-2013-Zprava-o-cinnosti.pdf)

<sup>26</sup> <http://www.dpp.cz/en/quality>

<sup>27</sup> [http://www.fkf.hu/portal/page/portal/fkfvz/vallalatrol/kozzetetel/2009\\_evi\\_CXXII\\_torveny](http://www.fkf.hu/portal/page/portal/fkfvz/vallalatrol/kozzetetel/2009_evi_CXXII_torveny)

<sup>28</sup> <http://www.bkk.hu/magunkrol/igazgatosag>



## Business integrity and ethics

Although the company has a Code of Ethics (elaborated by the owner company, the BVH Holding Zrt., and shared with all the municipal enterprises as their common code) and a Board of Ethics, unfortunately, there is no information shared on these and on any other company initiatives aimed at promoting an integrity-based business approach.

During the interview, the CEO stressed that changing the corporate culture in this respect is one of the company's long-term objectives. He himself launched several initiatives with the aim to stimulate a more open-door policy within the firm. He installed so-called 'idea-boxes' within the firm in 2016, which serve as a tool to channel proposals and recommendations from the employees covering business issues, including also ethical and integrity issues. Development of the website, its update and re-structuring is one of his main business objectives for 2017. Along with several HR development initiatives, he also pushes forward the idea to elaborate and launch an integrity handbook and also to integrate transparency/integrity issues into the internal company-training program.

In sum, based on interviews it seemed that the company executive management (esp. the CEO) pays explicit attention to business integrity/ anti-corruption issues. While they also have some measures that could be inspiring for peer companies as well as it would signal the company's commitments to transparency in a credible way to clients and to the broader public, in fact based on their external communication (website) this commitment and approach is unfortunately hidden from the public.

It is strongly recommended to communicate more on all the ongoing and planned company initiatives in this field either via specific section on their website and/ or as part of a company note on business strategy and objectives (see recommendations shared under performance criteria). For a good regional reference, we recommend to consult the website of the Prague Public Transport Company, where they share information on the zero tolerance policy of the company (communication on the basis anti-corruption rules, crime prevention programme uploaded).<sup>29</sup>

## Selection procedures

The company publishes vacancies on the website, but provides no further information on selection procedures.<sup>30</sup> All of the company interviewees stressed that this would levy a considerable administrative burden on the company due to large company size (2870 full time employees) and to the large variety of positions and professions each of them with specific hiring requirements. Nonetheless, it would be exemplary both in the national and the international context to learn more about the company's HR policy framework and about the shared values important in shaping the strategic HR-decisions, and to publish a short description on the general HR selection rules and procedures – as presented in the case of the Miskolc Public Transport Company.<sup>31</sup>

## 5. SUMMARY OF FINDINGS, RECOMMENDATIONS

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<sup>29</sup> <http://www.dpp.cz/protikorupcni-pravidla>

<sup>30</sup> <http://www.fkf.hu/portal/page/portal/fkfvrt/vallalatrol/allasajlanlat>

<sup>31</sup> <http://www.mvkzrt.hu/karrier>



With regard to public transparency and public disclosure the best performing MOE in Hungary is the Budapest Waste Management Company, FKF Nonprofit Zrt. In the cross-regional comparison its transparency score of 59.00% ranks the company as the second best among the 36 V4 MOEs.

Based on the V4 transparency indicators, the company's performance varies significantly across the selected criteria. While they comply almost completely with the statutory disclosure obligations in effect in the Hungarian legislation (ownership structure, external revenue, public procurement, pay offs to the CEOs, managers and members of the Supervisory Board), the company website completely lacks information on performance criteria, HR selection procedures, and business integrity approach and solutions in use within the firm.

Based on the content analysis of the website and on interviews conducted with company representatives, while the current company management (esp. the CEO) acknowledges the strategic importance of public transparency and integrity issues, their main attention is on being in compliance with the necessary disclosure provisions stipulated by the national and local regulations rather than sharing insights on the company's strategic goals, values and actions with the broader public in a pro-active and user-friendly way. Their commitment though does not go beyond the necessary obligations and lack more pro-active measures. They also lack communication on interesting and more progressive internal company initiatives that might be inspiring for other MOEs, as well.

Despite of the CEO's commitment to public transparency and accountability and some good practices (identified mainly in the area of public procurement, EU grants, and donations/sponsorships) the company faces considerable challenges:

- **Moderate control and support by the public owner:** primarily regulation-based control with no specific body or unit at the municipality level to monitor and enforce more pro-active disclosure and promote business integrity approaches among the MOEs in Budapest.

The commitment to transparency and accountability issues at the municipality level is usually politically driven, i.e. it changes quickly with entry of new political actors and it depends clearly upon their priorities. Usually there is more explicit attention to these issues in election years - as was the case in 2014 in Budapest, when new rules on disclosing information in selling real estate under ownership of the municipality and MOEs in Budapest were put into effect and when there was an initiative to subcontract an independent legal firm for consultancy services on integrity issues available for MOEs in Budapest. Notably, this later initiative subsequently faded away due to "*change in the management of the asset management holding company*" (the company exercising the ownership rights).

- **Lack of an explicit strategic approach at the company level:** while the Chief Executive Officer of the FKF Nonprofit Zrt. is aware of the importance and potential benefits of public transparency and business integrity, these issues are not part of their business strategy, at least not explicitly. Internally, some pro-active albeit rather informal initiatives have been launched, but there is no external communication on these



actions and objectives towards clients, business partners, and citizens in general.

- **Dominantly reactive company-level approach, lack of any pro-active disclosure practices:** usually no denial of public request information – except requests related to personal information violating privacy rules, but very slow progress in introducing more advanced business solutions – for example, awareness raising within the company via integrity/transparency trainings or other HR development initiative in business integrity issues, lack of more advanced integrity-based tools (such as ethical hotline, fraud risk management, etc.).

Owner-specific recommendations (Municipality of Budapest, BVH Holding Zrt.):

- Development of online public databases, searchability functions in those databases (EU grants and assistance, public procurements, public asset management)
- More pro-active support for MOEs to install integrity tools: consultancy on ethical issues, ethical hotline provided by an independent NGO and/ or legal firm
- Design of positive (financial) incentives for more pro-active disclosure: regular publication of transparency rankings, integrating assessment of business transparency and integrity into the premium payments
- Involve civil society organisations and business organisations in monitoring and enforcing compliance and pro-active disclosure rules

Company-specific recommendations – potentially also relevant for other MOEs:

- Publish information on public request procedures, also including the name of the unit and staff member in charge
- Make it explicit in cases when no relevant company information or data is available in regards specific disclosure obligations (e.g. amount of EU co-financed supports/assistance for the period 2014-2016)
- Use hyperlinks to public online databases when relevant and it is complementary to discretionary disclosure (e.g. EU co-financed development projects, EU public procurements)
- Share information on the timing, objectives and summarise the results/ main conclusions of public audits in a pro-active way
- Inform the public about the company's strategic plans, performance criteria – covering at least the main business areas and objectives (e.g. publication of company information note with performance indicators in plain language) and also communicate more explicitly on the company's commitment to integrity and anti-corruption issues
- Publish information on the professional track record of the executive management (CVs or golden paragraphs, at least)
- Publish information on HR selection and promotion criteria and share also insights on the company's diversity policy to the public
- In general, inform the public on the company's commitment to transparency and business integrity, about the related initiatives, internal actions (e.g. publication of the Code of Ethics, summary of the operation of the Ethical Board, any further actions on fraud risk management and internal anti-corruption measures)
- Develop an English version of the company website while reshaping the website as



planned in 2017

## LIST OF REFERENCES

- BI-TI 2016. Az önkormányzati vállalatok átláthatósága és közzétételi gyakorlata. Szeged.
- OECD 2015. OECD Guidelines on Corporate Governance of State-Owned Enterprises, Paris.
- World Bank 2014. Corporate Governance of State-Owned Enterprises: A Toolkit.
- European Commision 2016. State-Owned Enterprises in the EU: Lessons Learnt and Ways Forward in a Post-Crisis Context. European Economy, Institutional Papers 031, July 2016.
- TI Slovakia 2015. Slovak companies owned by public sector remain nontransparent.
- TI Hungary-CRCB 2014. Hungarian state-owned enterprises: their transparency, integrity and compliance with disclosure requirements.



## ANNEXES

### Annex 1. Methodological annex

Table 1. Elements of the transparency indexes – assessment questions

ID	ASSESSMENT QUESTION	TRANSPARENCY SCORE
Q01	Does the company has a single and easy-to-find window to find public information (e.g. dedicated FoI / PSI menu point, public disclosure checklist with links to documents and other source of information) and Does the company has a single and easy-to-find window to submit public information request to the company (e.g. information on the company contact person to turn to (mail, phone), info on the procedure how to submit request and when the company will reply)?	Max. 10%
Q01a	Does the company has a single and easy-to-find window to find dedicated FoI / PSI menu point?	Max. 2%
Q01b	Does the company has a single and easy-to-find window to find public disclosure checklist with links to documents and other source of information?	Max. 2%
Q01c	Does the company has a single and easy-to-find window to submit public information request to the company - information on the company contact person to turn to (mail, phone)?	Max. 2%
Q01d	Does the company has a single and easy-to-find window to submit public information request to the company - info on the procedure how to submit request?	Max. 2%
Q01e	Does the company has a single and easy-to-find window to submit public information request to the company - when the company will reply?	Max. 2%
Q02	Does the company publish the annual reports (including balance sheet and profit and loss statement) for the past three years on its website and does the company share the results of internal or external audit of company from the last three years period?	Max. 10%
Q02a	Does the company publish the annual reports for the past three years on its website?	Max 3,33%
Q02b	Are the balance sheet and profit and loss statement for the past three years published on the website of the company (it can be included in the annual reports)?	Max 3,33%
Q02c	Does the company share the results of internal or external audit of company from the last three years period?	Max 3,33%
Q03	Does the company publish on its website plans of performance criteria, such as revenues, profits or indicators concerning the subject of its business activity for the current period and does the company publicly evaluate the fulfillment of performance criteria, such as revenues, profits or indicators concerning the subject of its business activity also retroactively (e.g. in form of audit reports, as part/chapter of annual reports or other type of performance-related reports) ?	Max 10%
Q03a	Does the company publish on its website plans of performance criteria, such as revenues, profits or indicators concerning the subject of its business activity for the current period?	Max 3,33%
Q03b	Does the company publicly evaluate the fulfillment of performance criteria, such as revenues, profits also retroactively (e.g. in form of audit reports, as part/chapter of annual reports or other type of performance-related reports)?	Max 3,33%



	Does the company publicly evaluate the fulfillment of performance criteria concerning the subject of its business activity also retroactively (e.g. in form of audit reports, as part/chapter of annual reports or other type of performance-related reports)?	Max 3,33%
Q03c	Does the company publish information regarding the salary, bonuses and other benefits of managers in the executive management, directorate and supervisory board and does the website disclose the professional CVs of managers in the executive management, directorate and supervisory board?	Max. 10%
Q04	Does the company publish information regarding the salary, bonuses and other benefits of managers in the executive management?	Max 2%
Q04a	Does the company publish information regarding the salary, bonuses and other benefits of managers in the directorate (executive board)?	Max 2%
Q04b	Does the company publish information regarding the salary, bonuses and other benefits of managers in the supervisory board?	Max 2%
Q04c	Does the website disclose the professional CVs of managers in the executive management?	Max 2%
Q04d	Does the website disclose the professional CVs of managers in the directorate (executive board)?	Max 2%
Q04e	Does the website disclose the professional CVs of managers in the supervisory board?	Max 2%
Q05	Does the company share information on the ownership structure, voting and decision-making responsibilities and rules of the company (e.g. online available statute) and does the company publish information on its website on financial assistance received from the state /from the EU funds and on any other financial commitments made on behalf of the company (e.g. grants, guarantees, subsidised loans)?	Max. 10%
Q05a	Does the company share information on the ownership structure, voting and decision-making responsibilities and rules of the company (e.g. online available statute) on their website?	Max 5%
Q05b	Does the company publish information on its website on financial assistance received from the state /from the EU funds and on any other financial commitments made on behalf of the company (e.g. grants, guarantees, subsidised loans)?	Max 5%
Q06	Does the company publish information on the public procurement activity (e.g. notices and the results of tenders, annual plan) on its website for the last three financial years?	Max. 10%
Q06a	Does the company publish information on the public procurement activity - notices of tenders - on its website for the last three financial years?	Max 3.33%
Q06b	Does the company publish information on the public procurement activity - the results of tenders - on its website for the last three financial years?	Max 3.33%
Q06c	Does the company publish information on the public procurement activity - the annual plan - on its website?	Max 3.33%
Q07	Does the company share information on its business integrity and/or anti-corruption policy (e.g. Code of Ethics, whistle blower regulation, ethical hot line, integrity officer, fraud prevention / investigation procedures)?	Max. 10%
Q07a	Does the company share information on its business integrity and/or anti-corruption policy - Code of Ethics?	Max 2.50%
Q07b	Does the company share information on its business integrity and/or anti-corruption policy - whistle blower regulation?	Max 2.50%
Q07c	Does the company share information on its business integrity and/or anti-corruption policy - ethical hot line, integrity officer?	Max 2.50%
Q07d	Does the company share information on its business integrity and/or anti-corruption policy - fraud prevention / investigation procedures?	Max 2.50%



	Are employees hired through selection procedures and does the company publish the results of selection procedures on its website? Max. 10%
Q08	Does the company publish on its website the amounts and recipients of grants, donations or sponsoring? Max. 10%
Q09	Does the company publicize offers to sell or rent property and the results of the procedures on its website? Max. 10%
Q10	

Table 2. Selection criteria for HU MOEs

Company name	MANDATORI SELECTION CRITERIA		ADDITIONAL SELECTION CRITERIA				
	Total revenues 2015 (million EUR)	Owner	NUTSII region	Regional GDP per inhabitant in PPP, 2014 (EUR)	City	Population	Sector
Budapesti Közlekedési Központ Zrt.	307	100% MOE	Central Hungary	29500	Budapest	1732000	public transport
Fővárosi Közterület-fenntartó Nonprofit Zrt.	120	100% MOE owned by the municipal holding company (BVH Zrt) of the city	Central Hungary	29500	Budapest	173200	waste disposal
Fővárosi Vízművek Zrt.	129	100% MOE owned by the municipal holding company (BVH Zrt) of the city	Central Hungary	29500	Budapest	1732000	water supply
Szegedi Közlekedési Kft.	7	100% MOE	Southern Great Plain	13000	Szeged	162010	public transport
Szegedi Környezetgazdálkodási Nonprofit Kft.	11	100% MOE	Southern Great Plain	13000	Szeged	162010	waste disposal
Szeged IKV Zrt.	16	100% MOE	Southern Great Plain	13000	Szeged	162010	real estate management
Szegedi Vízmű Zrt.*	21	Municipality of Szeged 51%, Veolia Eau 49% - NOT 100% MOE	Southern Great Plain	13000	Szeged	162010	water supply



Miskolc Városi Közlekedési Zrt.	15	100% MOE Owned by the municipal holding company	Northern Hungary	11600	Miskolc	163939	public transport
Miskolci Regionális Hulladékgazdálkodási Közszolgáltató Nonprofit Kft.	5	100% MOE Owned by a consortium of municipalities	Northern Hungary	11600	Miskolc	163939	waste disposal
Miskolci Vízmű Kft.	15	100% MOE Owned by the municipal holding company	Northern Hungary	11600	Miskolc	163939	water supply

*Source: Central Statistical Bureau, OPTEN company database*

*Note: The Szegedi Vízmű Zrt. was not selected, since the municipality's ownership share is less than 100%.*

Interview questionnaire (see attached file)

Annex 2. List of relevant regulations

Act CXII of 2011 on Informational Self-determination and Freedom of Information  
[net.jogtar.hu/jr/gen/hjegy\\_doc.cgi?docid=A1100112.TV](http://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=A1100112.TV)

Act CXXII of 2009 on the Economical Operation of Public Business Organisations  
[net.jogtar.hu/jr/gen/hjegy\\_doc.cgi?docid=a0900122.tv](http://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=a0900122.tv)

Act CXLIII of 2015 on Public Procurement  
[net.jogtar.hu/jr/gen/hjegy\\_doc.cgi?docid=A1500143.TV](http://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=A1500143.TV)

18/2005. (27.12.) Ministerial Decree on templates necessary for public disclosure of items listed on the disclosure lists  
[https://net.jogtar.hu/jr/gen/hjegy\\_doc.cgi?docid=a0500018.ihm](https://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=a0500018.ihm)

134/2015 (I.28.) Resolution of the City Council on selling real estates owned by municipality-owned enterprises  
[www.budapest-babszinhaz.hu/docs/fov.-kgy.-hatarozat-20150128\\_134.1424960729.pdf](http://www.budapest-babszinhaz.hu/docs/fov.-kgy.-hatarozat-20150128_134.1424960729.pdf)



### Annex 3. Transparency ranking of V4 MOEs

COMPANY	REGIONAL RANK	SCORE	COUNTR Y	TOTAL REVENUES (2015, Million EUR)
DP hl.m. Prahy a.s.	1	60.42%	CZ	714.259
Fővárosi Közterületfenntartó Zrt.	2	59.00%	HU	119.60
Public Transport Company Bratislava, Inc.	3	54.17%	SK	109.19
Miskolc Városi Közlekedési Zrt.	4	51.67%	HU	14.55
Szeged IKV Zrt.	5	49.00%	HU	15.72
Kolektory Praha, a.s.	6	47.67%	CZ	14.54
Teplárny Brno, a.s.	7	46.83%	CZ	95.58
Fővárosi Vízművek Zrt.	8	43.00%	HU	128.70
Budapesti Közlekedési Központ Zrt.	9	42.17%	HU	307.46
Miskolci Vízmű Kft.	10	40.83%	HU	14.52
Szybka Kolej Miejska Warszawa	11	40.50%	PL	40.66
Plzeňské městské dopravní podniky, a.s.	12	40.00%	CZ	50.34
Bratislava Water Company, Inc.	13	38.00%	SK	91.89
SAKO Brno, a.s.	14	37.58%	CZ	26.49
DP města Brna, a.s.	15	36.67%	CZ	114.33
Pražská vodohospodářská společnost a.s.	16	36.50%	CZ	200.71
Miskolci Regionális Hulladékgyazdálkodási Közszolgáltató Nonprofit Kft.	17	35.67%	HU	5.17
Plzeňská teplárenská, a.s.	18	35.50%	CZ	85.38
Public Transport Company Presov, Inc.	19	34.67%	SK	9.70
Tramwaje Warszawskie	20	34.00%	PL	198.62
The Eastern Slovak Water Company, Inc.	21	33.00%	SK	95.06
Vodárna Plzeň, a.s.	22	31.00%	CZ	46.25
Szegedi Közlekedési Kft.	23	30.67%	HU	7.50
Metro Warszawskie Sp. z o.o. (Ltd)	23	30.67%	PL	115.67
Warszawa - Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji	25	30.50%	PL	316.96
Removing and Disposal of Waste, Inc.	26	28.83%	SK	26.60
Technical Services of Presov, Inc.	27	28.00%	SK	4.85
Public Transport Company Zilina, Ltd.	28	26.83%	SK	9.39
Wrocław - Miejskie Przedsiębiorstwo Komunikacji sp. z o.o.	29	24.83%	PL	82.28
Wrocław - Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji S.A.	30	20.33%	PL	N/A
The Northern Slovak Water Company, Inc.	31	19.67%	SK	28.42
Katowicka Infrastruktura Wodociągowo-Kanalizacyjna Sp. z o.o.; Limited Liability	32	17.67%	PL	N/A
Szegedi Környezetgazdálkodási Nonprofit Kft.	33	13.67%	HU	11.21
Nitra Municipal Services, Ltd.	34	11.17%	SK	4.05
Ekosystem sp. z o.o. Wrocław	35	10.67%	PL	N/A
Poznań - Miejskie Przedsiębiorstwo Komunikacji sp. z o.o.	36	9.67%	PL	101.81