National Focal Point

Reg. number: 12/3 - 34/2013
Budapest, 20 December 2013
Administrator: Katalin Csíre
Tel.: 00-36-474-92-25

Stine Andresen
Director
Financial Mechanism Office
Rue Joseph II, 12-16
B-1000 Brussels, Belgium

08 JAN. 2014

Subject: Signing of Programme Agreement for HU03 – Renewable Energy programme

Dear Ms Andresen,

On behalf the Hungarian Focal Point, I would like to render thanks that the Donors accepted and signed the Programme Agreement for HU03 – Renewable Energy programme.

Please find enclosed one copy of the Programme Agreement signed by the representative of the Hungarian National Focal Point.

I am looking forward to the further effective co-operation and the successful implementation of the EEA and Norwegian Financial Mechanisms 2009-2014 in Hungary.

Yours sincerely,

Balázs Simó
Head of the Hungarian National Focal Point

National Development Agency
Address: H-1077 Budapest, Wesselényi u. 20-22.
Phone.: +36 40/638-638 (+36-1-474-9180)
E-mail: nfu@nfu.gov.hu
Website: www.nfu.hu
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EEA Financial Mechanism 2009-2014

PROGRAMME AGREEMENT

between

The Financial Mechanism Committee
established by Iceland, Liechtenstein and Norway

and

The Managing Authority for International Cooperation Programmes, National Development Agency,
hereinafter referred to as the "National Focal Point",
representing Hungary,
hereinafter referred to as the "Beneficiary State"
together hereinafter referred to as the "Parties"

for the financing of the Programme "Renewable Energy"
hereinafter referred to as the "Programme"
Chapter 1
Scope, Legal Framework, and Definitions

Article 1.1
Scope

This programme agreement between the Financial Mechanism Committee (hereinafter referred to as the FMC) and the National Focal Point lays down the rights and obligations of the Parties regarding the implementation of the Programme and the financial contribution from the EEA Financial Mechanism 2009-2014 to the Programme.

Article 1.2
Legal Framework

1. This programme agreement shall be read in conjunction with the following documents which, together with this programme agreement, constitute the legal framework of the EEA Financial Mechanism 2009-2014:
   a. Protocol 38b to the EEA Agreement on the EEA Financial Mechanism 2009-2014;
   b. the Regulation on the implementation of the EEA Financial Mechanism 2009-2014 (hereinafter referred to as the "Regulation") issued by the Donor States in accordance with Article 8(8) of Protocol 38b;
   c. the Memorandum of Understanding on the Implementation of the EEA Financial Mechanism 2009-2014 (hereinafter referred to as the "MoU"), entered into between the Donor States and the Beneficiary State; and
   d. any guidelines adopted by the FMC in accordance with the Regulation

2. In case of an inconsistency between this programme agreement and the Regulation, the Regulation shall prevail.

3. The legal framework is binding for the Parties. An act or omission by a Party to this programme agreement that is incompatible with the legal framework constitutes a breach of this programme agreement by that Party.

Article 1.3
Definitions

Terms used and institutions and documents referred to in this programme agreement shall be understood in accordance with the Regulation, in particular Article 1.5 thereof, and the legal framework referred to in Article 1.2 of this programme agreement.

Article 1.4
Annexes and hierarchy of documents

1. The programme decision, including the financial plan (Annex I), and the operational rules (Annex II) form an integral part of this programme agreement. Any reference to this programme agreement includes a reference to its annexes unless otherwise stated or clear from the context.

2. The provisions of the annexes shall be interpreted in a manner consistent with this programme agreement. Should the meaning of any provision of the said annexes, so interpreted, remain inconsistent with this programme agreement, the provisions of the former shall prevail, provided that these provisions are compatible with the Regulation.

3. Commitments, statements and guarantees, explicit as well as implicit, made in the programme proposal are binding for the National Focal Point and the Programme Operator unless otherwise explicitly stipulated in the annexes to this programme agreement.

Chapter 2
The Programme

Article 2.1
Co-operation

1. The Parties shall take all appropriate and necessary measures to ensure fulfilment of the obligations and objectives arising out of this programme agreement.

2. The Parties agree to provide all information necessary for the good functioning of this programme agreement and to apply the highest degree of transparency, accountability and cost efficiency as well as the principles of good governance, sustainable development, gender equality and equal opportunities.

3. The Parties shall promptly inform each other of any circumstances that interfere or threaten to interfere with the successful implementation of the Programme.

4. In executing this programme agreement the Parties declare to counteract corrupt practices. Further, they declare not to accept, either directly or indirectly, any kind of offer, gift, payments or benefits which would or could be construed as illegal or corrupt practice. The Parties shall immediately inform each other of any indication of corruption or misuse of resources related to this programme agreement.
Article 2.2
Main responsibilities of the Parties

1. The National Focal Point is responsible and accountable for the overall management of the EEA Financial Mechanism 2009-2014 in the Beneficiary State and for the full and correct implementation of this programme agreement. In particular, the National Focal Point undertakes to:
   a. comply with its obligations stipulated in the Regulation and this programme agreement;
   b. ensure that the Certifying Authority, the Audit Authority, the Monitoring Committee and the Programme Operator properly perform the tasks assigned to them in the Regulation, this programme agreement and the programme implementation agreement;
   c. take all necessary steps to ensure that the Programme Operator is fully committed and able to implement and manage the Programme;
   d. take the necessary measures to remedy irregularities in the implementation of the Programme and ensure that the Programme Operator takes appropriate measures to remedy irregularities in Projects within the Programme, including measures to recover misspent funds;
   e. make all the necessary and appropriate arrangements in order to strengthen or change the way the Programme is managed.

2. The FMC shall, subject to the rules stipulated in the legal framework referred to in Article 1.2 of this programme agreement, make available to the Beneficiary State a financial contribution (hereinafter referred to as "the programme grant") to be used exclusively to finance the eligible cost of the Programme.

Article 2.3
Objective and outcomes of the Programme

1. The programme decision sets out the objective, outcome(s), outputs, indicators and targets for the Programme.

2. The National Focal Point shall ensure that the Programme Operator implements and completes the Programme in accordance with the objective, outcome(s), outputs, indicators and targets set for the Programme.

Article 2.4
Programme grant

1. The maximum amount of the programme grant, the programme grant rate, and the estimated eligible cost of the Programme shall be as specified in the programme decision.

2. In case the Programme is also supported by the Norwegian Financial Mechanism, this programme agreement shall be interpreted in conjunction with the agreement regulating that support.

3. The financial plan shall:
   a. contain a breakdown between the Programme’s budget headings using the description put forward in the template for the programme proposal;
   b. indicate the agreed advance payment, if any.

4. The management cost of the Programme Operator shall not exceed the amount specified in the programme decision.

Article 2.5
Special conditions and programme specific rules

1. The programme decision shall list any conditions set by the FMC with reference to paragraph 3 of Article 5.3 of the Regulation. The National Focal Point shall ensure compliance with these conditions and, in a timely manner, take the necessary steps to ensure their fulfilment.

2. The National Focal Point shall ensure compliance with any other programme specific rules laid down in the operational rules.

Article 2.6
Programme implementation agreement

1. With reference to Article 5.8 of the Regulation and without prejudice to paragraph 2 thereof, the National Focal Point shall, before any payment is made to the Programme, sign a programme implementation agreement with the Programme Operator. The National Focal Point shall notify the FMC of such signing.

2. The signed programme implementation agreement shall be identical to the draft programme implementation agreement confirmed by the FMC in accordance with paragraph 5 of Article 5.8 of the Regulation with regard to the content required according to paragraph 3 thereof. The National Focal Point shall inform the FMC of any deviation from that confirmed draft which may be subject to a new confirmation according to paragraph 5 of Article 5.8 of the Regulation prior to any payment to the Programme.

Article 2.7
Reporting

The National Focal Point shall ensure that the Programme Operator provides financial reports, annual programme reports and a final programme report in accordance with Chapter 8 and Articles 5.11 and 5.12 of the Regulation as well as statistical reporting in accordance with the Programme Operator’s Manual (Annex 9 to the Regulation).
Article 2.8
External monitoring

The external monitoring and audit referred to in Articles 10.1, 10.2, 10.3 and 10.4 of the Regulation shall not in any way relieve the National Focal Point or the Programme Operator of its obligations under the programme agreement regarding monitoring of the Programme and/or its projects, financial control and audit.

Article 2.9
Modification of the Programme

1. Unless otherwise explicitly stipulated in this programme agreement, any modification of the Programme is subject to prior approval by the FMC.

2. Modifications that do not affect the objective, outcomes, outputs, indicators or targets of the Programme are permitted without FMC’s prior approval provided that they are limited to the following:

a. cumulative transfers between budget headings related to outcomes of an amount less than 10% of total eligible expenditure of the Programme or € 1,000,000, whichever is higher, and

b. changes of internal practices of the Programme Operator that are not stipulated in the programme agreement.

3. Programme specific exceptions from paragraphs 1 and 2, if any, are set in the operational rules.

4. Expenditures incurred in breach of this article are not eligible.

5. Should there be a doubt as to whether the proposed modifications require approval by the FMC, the National Focal Point shall consult the FMC before such modifications take effect.

6. Requests for modifications shall be submitted and assessed in accordance with Article 5.9 of the Regulation.

Article 2.10
Communication

1. All communication to the FMC regarding this programme agreement shall take place in English and be directed to the Financial Mechanism Office (hereinafter referred to as the FMO), which represents the FMC towards the National Focal Point and the Programme Operator in relation to the implementation of the Programme.

2. To the extent that original documents are not available in the English language, the documents shall be accompanied by full and accurate translations into English.

3. The National Focal Point shall bear the responsibility for the accuracy of the translation that it provides and the possible consequences that might arise from any inaccurate translations.

4. The FMC shall ensure that the National Focal Point is informed about communication between the FMC and the Programme Operator that is relevant for the responsibilities of the National Focal Point under this programme agreement.

Article 2.11
Contact information

1. The contact information of the National Focal Point and the Programme Operator is as specified in the programme proposal.

2. The contact information for the FMC and the Financial Mechanism Office are:

   Financial Mechanism Office
   Attn: Director
   EFTA Secretariat
   Rue Joseph II, 12-16
   1000 Brussels
   Telephone: +32 (0)2 286 1701
   Telefax (general): +32 (0)2 211 1889
   E-mail: fmo@efta.int

3. Changes of or corrections to the contact information referred to in this article shall be given in writing without undue delay by the Parties to this programme agreement.

Article 2.12
Representations and Warranties

1. This programme agreement and the awarding of the programme grant is based on information provided by, through, or on behalf of the National Focal Point to the FMC in the programme proposal or other communication prior to the signing of this programme agreement.

2. The National Focal Point represents and warrants that the information provided by, through, or on behalf of the National Focal Point in the programme proposal, in connection with the programme proposal, the implementation or conclusion of this programme agreement are authentic, accurate and complete.
Chapter 3
Projects

Article 3.1
Selection of projects

1. The National Focal Point shall ensure that the Programme Operator selects projects in accordance with Chapter 6 of the Regulation and the operational rules.

2. Eligibility of applicants is stipulated in Article 6.2 of the Regulation and, in accordance with paragraph 3 thereof, subject only to the limitations stipulated in the operational rules.

3. Pre-defined projects shall be outlined in the operational rules.

4. The National Focal Point shall take proactive steps to ensure that the Programme Operator complies fully with Article 6.6 of the Regulation.

Article 3.2
Project contract

1. For each approved project a project contract shall be concluded between the Programme Operator and the Project Promoter.

2. In cases where a project contract cannot, due to provisions in the national legislation, be made between the Programme Operator and the Project Promoter, the Beneficiary State may instead issue a legislative or administrative act of similar effect and content.

3. The content and form of the project contract shall comply with Article 6.7 of the Regulation.

4. The National Focal Point shall ensure that the obligations of the Project Promoter under the project contract are valid and enforceable under the applicable law of the Beneficiary State.

Article 3.3
Project partners and partnership agreements

1. A project may be implemented in a partnership between the Project Promoter and project partners as defined in paragraph 1(w) of Article 1.5 of the Regulation. If a project is implemented in such a partnership, the Project Promoter shall sign a partnership agreement with the project partners with the content and in the form stipulated in Article 6.8 of the Regulation.

2. The partnership agreement shall be in English if one of the parties to the agreement is an entity from the Donor States.

3. The eligibility of expenditures incurred by a project partner is subject to the same limitations as would apply if the expenditures were incurred by the Project Promoter.

4. The creation and implementation of the relationship between the Project Promoter and the project partner shall comply with the applicable national and European Union law on public procurement as well as Article 7.16 of the Regulation.

5. The National Focal Point shall ensure that the Programme Operator verifies that the partnership agreement complies with this article before the signing of the project contract.

Article 3.4
Reallocation of funds

1. Reallocation of unused or cancelled financial contributions to projects shall be made in compliance with Article 6.9 of the Regulation.

2. Project grants not reallocated shall be reimbursed to the FMC in accordance with Article 6.9 of the Regulation.

Chapter 4
Finance

Article 4.1
Eligible expenditures

1. Subject to Article 7.6 of the Regulation, eligible expenditures of this Programme are:

a. management costs of the Programme Operator in accordance with the detailed budget in the financial plan;

b. payments to projects within this Programme in accordance with the Regulation, this programme agreement and the project contract;

c. expenditure of funds for bilateral relations in accordance with Article 7.7 of the Regulation;

2. Expenditure related to the categories referred to in subparagraphs (d), (e) and (f) of Article 7.1 of the Regulation are eligible in accordance with Chapter 7 thereof if such expenditures are explicitly approved by the FMC in the programme decision. The implementation of the activities under these categories shall be in compliance with the operational rules.

3. Eligible expenditures of projects are those actually incurred by the Project Promoter or project partners, meet the criteria set in Article 7.2 of the Regulation and fall within the categories and fulfill the conditions of direct eligible expenditure set in Article 7.3 of the Regulation as well as indirect costs in accordance with Article 7.4 of the Regulation.
4. The first date of eligibility of expenditures in projects shall be set in the project contract in accordance with Article 7.14 of the Regulation. The first date of eligibility of any pre-defined projects shall be no earlier than the date on which the National Focal Point notifies the FMC of a positive appraisal of the pre-defined projects by the Programme Operator in accordance with paragraph 3 of Article 5.5 of the Regulation.

5. The maximum eligible costs of the categories referred to in paragraphs 1 and 2 are set in the programme decision. Programme specific rules on the eligibility of expenditure set in the programme decision or in the operational rules shall be complied with.

Article 4.2
Proof of expenditure

Costs incurred by Programme Operators, Project Promoters and project partners shall be supported by documentary evidence as required in Article 7.13 of the Regulation.

Article 4.3
Payments

1. Payments to the Programme shall be made when all relevant conditions for payments stipulated in this programme agreement and the Regulation have been fulfilled.

2. Payments to the Programme shall take the form of an advance payment, interim payments and payment of the final balance and shall be made in accordance with Articles 8.2, 8.3 and 8.4 of the Regulation.

3. Payments of the project grant to the Project Promoters may take the form of advance payments, interim payments and payments of the final balance. The level of advance payments and their off-set mechanism is set in the operational rules.

4. The National Focal Point shall ensure that payments are transferred in accordance with paragraph 2 of Article 8.1 of the Regulation.

5. Chapter 8 of the Regulation shall apply to all aspects related to payments, including currency exchange rules and handling of interests on bank accounts.

Article 4.4
Transparency and availability of documents

The National Focal Point shall ensure an audit trail for financial contributions from the EEA Financial Mechanism 2009-2014 to the Programme in accordance with Article 8.8 of the Regulation.

Article 4.5
Irregularities, suspension and reimbursements

The FMC has the right to make use of the remedies provided in the Regulation, in particular Chapter 12 thereof. The National Focal Point has a duty to take all necessary measures to ensure that the provisions in Chapter 11 and 12 of the Regulation regarding irregularities, suspension of payments, financial corrections and reimbursement are complied with.

Chapter 5
Final provisions

Article 5.1
Dispute settlement

1. The Parties waive their rights to bring any dispute related to the programme agreement before any national or international court, and agree to settle such a dispute in an amicable manner.

2. If a demand for reimbursement to the FMC is not complied with by the Beneficiary State, or a dispute related to a demand for reimbursement arises that cannot be solved in accordance with paragraph 1, the Parties may bring the dispute before Oslo Tingrett.

Article 5.2
Termination

1. The FMC may, after consultation with the National Focal Point, terminate this programme agreement if:

   a. a general suspension decision according to Article 12.6 of the Regulation or a decision to suspend payments according to paragraph 1(h) of Article 12.1 of the Regulation has not been lifted within 6 months of such a decision;

   b. a suspension of payments according to Article 12.1 of the Regulation, other than under paragraph 1(h), has not been lifted within one year of such a decision;

   c. a request for reimbursement according to Article 12.2 of the Regulation has not been complied with within one year from such a decision;

   d. the Programme Operator becomes bankrupt, is deemed to be insolvent, or declares that it does not have the financial capacity to continue with the implementation of the Programme; or

   e. the Programme Operator has, in the opinion of the FMC, been engaged in corruption, fraud or similar activities or has not taken the appropriate measures to detect or prevent such activities or, if they have occurred, nullify their effects.
2. This programme agreement can be terminated by mutual agreement between the Parties.

3. Termination does not affect the right of the Parties to make use of the dispute settlement mechanism referred to in Article 5.1 or the right of the FMC to make use of the remedies provided in Chapter 12 of the Regulation.

Article 5.3
Waiver of responsibility

1. Any appraisal of the Programme undertaken before or after its approval by the FMC, does not in any way diminish the responsibility of the National Focal Point and the Programme Operator to verify and confirm the correctness of the documents and information forming the basis of the programme agreement.

2. Nothing contained in the programme agreement shall be construed as imposing upon the FMC or the FMO any responsibility of any kind for the supervision, execution, completion, or operation of the Programme or its projects.

3. The FMC does not assume any risk or responsibility whatsoever for any damages, injuries, or other possible adverse effects caused by the Programme or its projects including, but not limited to inconsistencies in the planning of the Programme or its projects, other project(s) that might affect it or that it might affect, or public discontent. It is the full and sole responsibility of the National Focal Point and the Programme Operator to satisfactorily address such issues.

4. Neither the National Focal Point, the Programme Operator, entities involved in the implementation of projects, nor any other party shall have recourse to the FMC for further financial support or assistance to the Programme in whatsoever form over and above what has been provided for in the programme agreement.

5. Neither the European Free Trade Association, its Secretariat, including the FMO, its officials or employees, nor the FMC, its members or alternate members, nor the EFTA States, can be held liable for any damages or injuries of whatever nature sustained by the National Focal Point or the Beneficiary State, the Programme Operator, Project Promoters or any other third person, in connection, be it direct or indirect, with this programme agreement.

6. Nothing in this programme agreement shall be construed as a waiver of diplomatic immunities and privileges awarded to the European Free Trade Association, its assets, officials or employees.

Article 5.4
Entry into force and duration

1. This programme agreement shall enter into force on the date of the last signature of the Parties.

2. This programme agreement shall remain in force until five years have elapsed after the date of the acceptance of the final programme report.

This programme agreement is drawn up in two originals in the English language.

For the FMC

Signed in ___________ on ___________.

[Signature]

Anders Erdal
FMC Chairman

For the National Focal Point

Signed in ___________ on ___________.

[Signature]

Balázs Simó
Director General // Acting Vice-President for International Affairs of NDA
Annex I - Programme Decision

1. Expected Outcomes & Indicators for Outputs

Expected Outcome(s): Increased renewable energy production

Output

Geothermal based district heating system(s) where a district heating system is already in place.

<table>
<thead>
<tr>
<th>Output indicator(s)</th>
<th>Baseline</th>
<th>Target</th>
<th>Source of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of geothermal based district heating systems.</td>
<td>0</td>
<td>2</td>
<td>The project implementation reports.</td>
</tr>
</tbody>
</table>

Output

Completion of the geothermal district heating doublets.

<table>
<thead>
<tr>
<th>Output indicator(s)</th>
<th>Baseline</th>
<th>Target</th>
<th>Source of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of geothermal doublets.</td>
<td>0</td>
<td>2</td>
<td>The project implementation reports.</td>
</tr>
</tbody>
</table>

Expected Outcome(s): Increased awareness of and education in renewable energy solutions

Output

Awareness raising campaigns.

<table>
<thead>
<tr>
<th>Output indicator(s)</th>
<th>Baseline</th>
<th>Target</th>
<th>Source of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of awareness raising campaigns.</td>
<td>0</td>
<td>8</td>
<td>Documentation of events, participation lists, electronic documentation.</td>
</tr>
<tr>
<td>Number of actively reached persons.</td>
<td>0</td>
<td>6000</td>
<td>Documentation of events, participation lists, electronic documentation.</td>
</tr>
<tr>
<td>Number of passively reached persons.</td>
<td>0</td>
<td>1000000</td>
<td>Documentation of events, participation lists, electronic documentation.</td>
</tr>
</tbody>
</table>

Output

Participation in educational programmes on renewable energy.

<table>
<thead>
<tr>
<th>Output indicator(s)</th>
<th>Baseline</th>
<th>Target</th>
<th>Source of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Masters degrees earned.</td>
<td>0</td>
<td>8</td>
<td>Attendance sheets, report on the achieved results, certification and diplomas.</td>
</tr>
<tr>
<td>Number of participants in courses for practising experts.</td>
<td>0</td>
<td>8</td>
<td>Attendance sheets, report on the achieved results, certification and diplomas.</td>
</tr>
<tr>
<td>Number of staff participating in short courses to improve their skills to perform their duties.</td>
<td>0</td>
<td>80</td>
<td>Attendance sheets, report on the achieved results, certification and diplomas.</td>
</tr>
</tbody>
</table>

2. Conditions

2.1 General

1) A methodology on the calculation of the flat rate to be applied to indirect eligible costs (overheads) in accordance with Article 7.4.1(b) of the Regulation shall be submitted to the FMO no later than two weeks prior to the deadline for providing to the FMC the text of the call for proposals, as required by Article 6.3.4 of the Regulation.

2) Any interest earned at any level on EEA FM funds in Hungary, held by National Authorities until they are transferred to the Programme Operators or by Programme Operators and intended for re-granting, is a resource for the FMC and shall be reported on and reimbursed to the FMC in line with the procedures foreseen in Article 8.7 of the Regulation.
3) The National Focal Point shall ensure that the Programme Operator ensures that Project Promoters who have, in line with this Agreement, received an exception from the general rule in Article 7.3.1(c) of the Regulation with respect to any equipment (the excepted equipment):
- Keep the excepted equipment in their ownership for a period of at least five years following the completion of the project and continue to use that equipment for the benefit of the overall objectives of the project for the same period;
- Keep the excepted equipment properly insured against losses such as fire, theft and other normally insurable incidents both during project implementation and for at least 5 years following the completion of the project; and
- Set aside appropriate resources for the maintenance of the excepted equipment for at least 5 years following the completion of the project. The specific means for implementation of this obligation shall be specified in the project contract; provided however that the Programme Operator may release any Project Promoter from the above obligations with respect to any specifically identified excepted equipment where the Programme Operator is satisfied that, having regard to all relevant circumstances, continued use of that equipment for the overall objectives of the project would serve no useful economic purpose. The National Focal Point shall furthermore ensure that the Programme Operator keeps a list of the excepted equipment for each project.

4) The National Focal Point shall ensure that the Programme Operator ensures that Project Promoters:
- Keep any buildings purchased, constructed, renovated or reconstructed under the project in their ownership for a period of at least 5 years following the completion of the project and continue to use such buildings for the benefit of the overall objectives of the project for the same period;
- Keep any buildings purchased, constructed, renovated or reconstructed under the project properly insured against losses such as fire, theft and other normally insurable incidents both during project implementation and for at least 5 years following the completion of the project; and
- Set aside appropriate resources for the maintenance of any buildings purchased, constructed, renovated or reconstructed under the project for at least 5 years following the completion of the project. The specific means for implementation of this obligation shall be specified in the project contract.

5) Bilateral, output and outcome indicators shall be reported on in the annual programme report.

6) The National Focal Point shall ensure that any public support under this Programme complies with the procedural and substantive state aid rules applicable at the time when the public support is granted. The National Focal Point shall, by way of the programme implementation agreement, ensure that the Programme Operator maintains written records of all assessments concerning compliance with state aid rules, particularly decisions to award grants and set grant rates, and provides such records to the FMC upon request. The approval of the Programme by the FMC does not imply a positive assessment of such compliance.

7) The National Focal Point shall ensure that the Programme Operator ensures that any residual or extracted material from project activities is reused, recycled, treated and/or deposited in an environmentally sound manner.

8) The National Focal Point shall ensure that the Programme Operator consults with and coordinates the implementation of sub-measure B of the small grant scheme (Scholarship Component) with the Programme Operator of the Hungarian Scholarships Programme funded under the EEA Grants 2009-2014.

9) The pre-defined project shall be audited by an independent and certified auditor, certifying that the claimed costs are incurred in accordance with the Regulation, the relevant national law and accounting practices once the project is completed.

2.2 Pre-eligibility
Not Applicable.

2.3 Pre-payment
Not applicable.

2.4 Pre-completion
Not applicable.

2.5 Post-completion
Not applicable.

2.6 Other
Not applicable.

3. Eligibility of costs
3.1 Eligibility of costs - period
Eligibility of costs (excluding prog prep costs): 24/05/2013-30/04/2017

3.2 Grant rate and co-financing

| Programme estimated total cost (€) | €9,071,765 |
| Programme estimated eligible cost (€) | €9,071,765 |
| Programme grant rate (%) | 85.0000% |
| Maximum amount of Programme grant (€) | €7,711,000 |

3.3 Maximum eligible costs (€) and Advance payment amount (€)

<table>
<thead>
<tr>
<th>Budget heading</th>
<th>Eligible expenditure</th>
<th>Advance payment*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme management</td>
<td>€897,176</td>
<td>€136,076</td>
</tr>
<tr>
<td>Increased renewable energy production</td>
<td>€6,289,787</td>
<td>€0</td>
</tr>
<tr>
<td>Increased awareness of and education in renewable energy solutions</td>
<td>€1,683,367</td>
<td>€0</td>
</tr>
<tr>
<td>Fund for bilateral relations</td>
<td>€136,076</td>
<td>€0</td>
</tr>
<tr>
<td>Complementary action</td>
<td>€20,000</td>
<td>€0</td>
</tr>
<tr>
<td>Preparation of programme proposal</td>
<td>€45,359</td>
<td>€45,359</td>
</tr>
<tr>
<td>Reserve for exchange rate losses</td>
<td>€0</td>
<td>€0</td>
</tr>
<tr>
<td>Total</td>
<td>€9,071,765</td>
<td>€181,435</td>
</tr>
</tbody>
</table>

* The advance payment is composed of €154,220 in grant amount and €27,215 in co-financing.

3.4 Retention of management costs

| Retention of management costs - percentage of the management costs | 10.00% |
| Retention of management costs - planned Euro value | €76,260 |

3.5 Small Grant Scheme

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Increased awareness of and education in renewable energy solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Amount Reserved</td>
<td>€1,433,367</td>
</tr>
<tr>
<td>Grant Amount at Project Level</td>
<td>€3,000 – 120,000</td>
</tr>
<tr>
<td>Duration of the Project</td>
<td>0 – 30 months</td>
</tr>
<tr>
<td>Maximum Grant Rate at Project Level</td>
<td>100.00%</td>
</tr>
</tbody>
</table>
Annex II - Operational Rules

1. Eligibility

1.1 Eligible measures
The NKEK National Environmental Protection and Energy Center Non-Profit Limited Liability Company is the Programme Operator. Certain tasks related to implementation and monitoring of the programme will be delegated to the Implementing Agency (IA) which is the International Development and Fund Coordination Agency. The Icelandic National Energy Authority is the Donor Programme Partner for the programme.

The Programme shall be implemented by way of the following measures:

1. One call for proposals "Geothermal based district heating systems". The call will provide funding for the replacement of fossil fuel by direct use of geothermal energy in existing district heating systems.

2. One small grant scheme focused on the awareness of and education in renewable energy solutions. The small grant scheme shall consist of two sub-measures:
   (a) Increased awareness on the sustainable use of renewable energy;
   (b) Increased education in the field of the sustainable use of renewable energy – scholarship component.

3. One pre-defined project.

1.2 Eligible applicants:

The rules on eligibility of applicants are set in Article 6.2 of the Regulation.

By way of further specification, public entities, including government organisations and universities, as well as non-commercial organisations are eligible applicants under sub-measure(b) of the Small Grant Scheme "Increased education in the field of the sustainable use of renewable energy – scholarship component". Natural persons will be entitled to support as final beneficiaries of the aforementioned eligible applicants.

1.3 Special rules on eligibility of costs:
Costs are eligible in accordance with Chapter 7 of the Regulation, with the following exceptions:

a) In-kind contributions are not considered eligible expenditure.

b) By way of exception from Article 7.3.1(c) of the Regulation, the entire purchase price of new and second hand equipment will be eligible in projects where the equipment is installed at the end of the project and the utilisation of the equipment starts after the closure of the project and/or in those cases where the equipment’s use after project completion is limited to activities in line with the project’s objectives. This exception is not applicable to projects implemented under the Small Grant Scheme.

Indirect eligible costs can be claimed by the application of a flat rate of up to 15% of total eligible direct costs. The Programme Operator shall describe a methodology that shall ensure the fair apportionment of the overall overheads in the open call text. All Project Promoters or project partners must apply the methodology established by the Programme Operator when setting the precise level of this flat rate.

2. Financial parameters

2.1 Minimum and maximum grant amount per project in Open Call:
The minimum amount of grant assistance applied for under the call for proposals is €600,000; the maximum amount is €3,300,000.

The minimum amount of grant assistance applied for under the small grant scheme sub-measure (a) is €15,000; the maximum amount is €120,000.

The minimum amount of grant assistance applied for under the small grant scheme sub-measure (b) (scholarship component) is €3,000; the maximum amount is €30,000.

2.2 Project grant rate:

In the case of the projects selected under the call for proposals, the project grant rate shall not exceed 85% of the eligible costs of the projects and shall be set at a level that complies with the State Aid rules in force and takes into account any and all other forms
of public support granted to projects and/or the project promoter or partner, where relevant. The remaining costs of the project shall be provided or obtained by the Project Promoter.

In the case of the projects selected under the small grant scheme, the project grant rate may be up to 100% of the eligible costs of the projects and shall be set at a level that complies with the State Aid rules in force and takes into account any and all other forms of public support granted to projects and/or the project promoter or partner, where relevant. The remaining costs of the project shall be provided or obtained by the Project Promoter.

3. Selection of projects

3.1 Selection procedures in the Open Call:

All selection procedures carried out under this Programme shall be in accordance with the procedures specified in the Regulation. The independent and impartial experts required by Article 6.5.2 of the Regulation shall be independent of and impartial to both project applicants and the Selection Committee.

3.2 Open calls and availability of funds:

There shall be at least one call for applications under the call for proposals "Geothermal based district heating systems". The call shall be launched no later than in the fourth quarter of 2013 and make available at least €6,289,787. Should funds remain uncommitted as a result of the first call, a second call may be launched no later than in the third quarter of 2014 and shall make available any remaining funds for re-granting.

There shall be at least one call for applications under sub-measure (a) of the small grant scheme. The call shall be launched no later than in the fourth quarter of 2013 and make available at least €713,367. Should funds remain uncommitted as a result of the first call, a second call may be launched no later than in the third quarter of 2014 and shall make available any remaining funds for re-granting.

There shall be one continuous call for applications under sub-measure B (scholarship component) of the small grant scheme. The call shall be launched no later than in the fourth quarter of 2013 and make available at least €720,000. The call shall remain open until 31 December 2015.

3.3 Selection criteria:

The final project selection criteria to be applied shall be detailed in the framework of the calls for proposals in accordance with Article 6.3 of the Regulation. The criteria shall be based on the proposal of the Programme Operator, and shall be subject to the approval of the Donor Programme Partner. As a minimum, they shall include the following:
- Extra points will be awarded to projects implemented in partnership with one or more entities from the Donor States.

4. Payment flows, verification of payment claims, monitoring and reporting

4.1 Payment flows

Payments towards the end beneficiaries will be in the form of advance payments, interim payments and payments of the final balance.

The Project Promoters have the possibility to request an advance payment not exceeding 30% of grant amount in the case of the Normal Grant Scheme and 75% in the case of the Small Grant Scheme. Advance payments to projects under the scholarship component of the Small Grant Scheme advance payment may be up to 90% of the grant.

Payments towards the pre-defined project will be in the form of pre-financing and may be up to 100% of the projects awarded grant amount. The pre-financing schedule of the pre-defined project will be outlined in the Programme Implementation Agreement.

All advance and pre-financing requests by projects funded under the programme will need to be justified and are subject to approval by the Programme Operator. Where applicable the advance payment off-set mechanism will be adapted to each Project Promoter’s liquidity needs and included as part of the Project Contract.

4.2 Verification of payment claims

The payment request prepared by the Project Promoter will be reviewed by the Implementing Agency (IA). The IA will finish the verification process within 15 days after receiving all necessary supporting documents linked to the payment request. The conclusion of the IA on the eligibility of costs included in the payment request will be sent to the Programme Operator for final approval which should not take more than 5 days.
The rules and frequency of payment requests provided by the Project Promoter will be set in the Project Contract. In case of the Pre-defined Project it will be set in the Programme Implementation Agreement.

Proof of expenditure shall only be submitted with the payment claim for costs above a certain threshold to be determined by the PO/IA, in the range of €1,700 - €2,000 for the Open Call. Expenditures falling below this threshold should be summarized and will be controlled during on-the-spot audits.

Under the Scholarship components under the Small Grant Scheme, rather than checking invoices, the Programme Operator will verify that the activity in question has been carried out properly.

In case of the Pre-defined Project the Project Promoter will give grants in the form of 'lump sums' to the Donor Project Partner against submitted payment claims and according to the number of the participating fellows. The Project Promoter’s management cost will be verified on the basis of actual incurred expenditures and on an audit report by an independent and certified auditor where proof of expenditure is required. If the activities are deemed to have been realised in a satisfactory manner, the entire grant amount is approved. Detailed financial checks can be made in case there is any doubt regarding the proper realisation of the mobility project.

4.3 Monitoring and reporting
Project promoters shall submit project progress reports on project implementation and one final report following project completion.

The Programme Operator and the IA will monitor the projects by reviewing project reports and through monitoring visits and on-the-spot checks. Monitoring visits will be conducted by the Programme Operator and will assess whether the project is implemented in accordance with the project contract and all relevant regulations and will identify potential risks and related mitigation measures.

On-the-spot checks will be conducted every year by the Implementing Agency on a sample of projects selected on the basis of risk analysis or random sample. Monitoring activities will be supported by external experts.

The aim of the on-the-spot checks is to make sure that the project is implemented in accordance with the requirements of all relevant regulations and the project contracts, to verify procurement procedures and the cost efficiency of incurred expenditures. On-the-spot checks and monitoring visits on an ad-hoc basis will also be carried out when suspicions arise that the information provided by the Project Promoter is incorrect or misleading. On-the-spot checks on an ad-hoc basis can also be organised for other reasons. Information about the date of the ad-hoc on-the-spot checks should normally not be provided to the Project Promoter in advance.

Irregularities will be handled in accordance with Chapter 11 of the Regulation.

Information on Reporting and Monitoring shall be further outlined in the description of the Programme’s Management and Control System according to Article 4.8.2 of the Regulation.

5. Additional mechanisms within the programme

5.1 Fund for bilateral relations

The Programme Operator shall set aside a minimum of 1.5% of the total eligible expenditure of the programme for a fund for bilateral relations.

The details of the use of the bilateral fund, the indicative split between measures (a) and (b) of the bilateral fund as per paragraph 1 of Article 3.6 of the Regulation, the detailed procedures and criteria for awarding support from the fund, and any other relevant details will be developed by the Programme Operator in cooperation with the Donor Programme Partner and will be subject to the approval of the Cooperation Committee.

5.2 Complementary action

Complementary action under this programme shall be further defined by the Programme Operator in accordance with Article 7.11 of the Regulation. In particular, funds for complementary actions shall facilitate the participation of relevant stakeholders in events, seminars and activities agreed with the Donors.

The use of the funds for complementary actions shall be discussed and agreed in the Cooperation Committee.

5.2 Reserve for exchange rate losses
Not applicable.

5.4 Small Grant Schemes

One small grant scheme shall be implemented within the programme. The small grant scheme shall consist of two sub-measures:
(a) Increased awareness on the sustainable use of renewable energy;
(b) Increased education in the field of the sustainable use of renewable energy – scholarship component.

The scholarship component can fund scholarships for short courses (days/weeks) with the aim to train and raise the awareness of practising experts, decision makers and teachers on the sustainable use of renewable energy. It can also fund scholarships for higher education, with the aim to provide MSc degrees in the field of sustainable use of renewable energy.

The details for the implementation of the small grant scheme can be found in the relevant parts of this Programme Agreement.

6. Pre-defined projects

Pre-defined project name: Training at the Geothermal Training Programme of the United Nations University in Iceland (UNU-GTP).

Project Promoter: NKEK National Environmental Protection and Energy Center Non-Profit Limited Liability Company.

Donor Project Partner: The Icelandic National Energy Authority.

Maximum grant amount: €250,000
Grant rate: 100%
Estimated total project cost: €250,000

The pre-defined project will provide for scholarships which will fund the participation of Hungarian professionals at the UNU-GTP programme. The duration of the training is 6 months. Grant per person is €30,000, covering tuition fee, travel and subsistence. The pre-defined project will provide scholarships for 8 Hungarian professionals.

Main activities:
- Advertising the UNU-GTP among the relevant stakeholders in Hungary;
- Coordination of applications for participants in the training;
- Providing UNU-GTP with a shortlist of the eligible applicants;
- Oversight of training implementation.

7. Modification of the programme

Any modifications of the programme will follow the rules set forth in the Regulation and in Article 2.9 of the programme agreement.

8. Programme proposal version

Any reference to the programme proposal in this programme agreement shall be interpreted as the version signed by the Programme Operator on 18 June 2012 and shall include all subsequent correspondence and communication between the FMC, the Financial Mechanism Office, the National Focal Point and the Programme Operator.

9. Miscellaneous

Not applicable.