

Strategic Report

on the implementation of

EEA Financial Mechanism 2009-2014

in Hungary

1 January 2014 – 31 December 2014

March 2015

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LIST OF ABBREVIATIONS

AA	Audit Authority
APR	Annual Programme Report
ARS	Automatic Reimbursement Scheme
CA	Certifying Authority
CoE	Council of Europe
CC	Cooperation Committee
DPP	Donor Programme Partner
EC	European Commission
EEA	European Economic Area
EU	European Union
FC	Fund Committee
FM	Financial Mechanism
FMC	Financial Mechanism Committee
FMO	Financial Mechanism Office
IA	Implementing Agency
KSH	Hungarian Central Statistical Office
MAICP	Managing Authority for International Co-operation Programmes
MCS	Management and Control System
MoU	Memoranda of Understanding
NFBR	National Fund for Bilateral Relations
NFP	National Focal Point
NMFA	Norwegian Ministry of Foreign Affairs
PA	Programme Agreement
PIA	Programme Implementation Agreement
PO	Programme Operator
PWG	Planning Working Group
R&D	Research and Development
SMEs	Small and Medium Enterprises
SZPO	Széchenyi Programme Office

1. EXECUTIVE SUMMARY

The **purpose of the Strategic Report 2014** is to give updated information on the works executed and the status of the programmes under the EEA Financial Mechanism (FM) 2009-2014 in Hungary. The report covers only the programmes belonging under the responsibility of the Hungarian National Focal Point (NFP) granted by the EEA FM. The report does not contain information on the programmes operated by Donor State entities, since due to the institutional changes the relevant summaries could not be provided to the newly dedicated NFP.

The period covered by this report is **1 January 2014 – 31 December 2014**. The milestones of the reporting period are summarized herewith.

At the beginning of 2014 all programme area had signed Programme Agreements. From the programmes belonging under the responsibility of the NFP two Programme Implementation Agreements have been signed and the implementation has started.

Preparing for the upcoming EU financial period (2014-2020), the Hungarian Government decided to reorganize the institutional structure dealing with development policy in Hungary. As a consequence of these **institutional changes**, the **National Development Agency (NDA) ceased its operation by 31 December 2013**. The tasks along with the colleagues responsible for the NFP tasks have been transferred to the **Széchenyi Programme Office Non-profit Ltd.** (hereinafter: SZPO) with legal succession. The **main and most important goal** of SZPO was to **ensure the continuous implementation of the FMs** during the transition period and afterwards as well. Hungary **deemed it crucial that the re-negotiation of the MoU and the conciliation on the amended description of the MCS could start and be finalized at the earliest convenience in 2014**.

Avoiding further delay in the implementation until the successful agreement with donors, the NFP was intent on contacting the Financial Mechanism Office (FMO) in January, 2014. After the **unsuccessful attempt** it became clear that until reaching the agreement between parties **the donors were not willing to support the operational implementation**. Therefore **the NFP has faced a difficult situation** and made strong efforts to ensure the appropriate conditions to the implementation. These activities could support the internal implementation but could not promote the bilateral cooperation which would have been needed to the normal progress. In addition, the internal support by NFP was only **partially successful**, regarding the fact, that NFP insisted on the operation according to the regulations, but due to the lack of agreement **most of the contracting activity** for which a partner recognised by the donors was required, **could not continue**. Consequently, from the programme areas under the responsibility of NFP, the possibility of normal operation exists in those areas which have **Programme Implementation Agreements**. However, keeping the operation according to the regulations, in these programmes the NFP also had to consider that the contracting was **possible only parties who were entitled under the MoU concluded originally**.

Meanwhile the Hungarian Government has initiated **the conciliation with personal meetings and high-level correspondence**. Because of the controversial elements between Hungary and Donor States substantive negotiations aimed at modification of MoU has not been held after

June 2014.

The **main disputed issues** between Hungary and donors:

- the set-up of NFP;
- issues of operation framework of the Implementing Agency;
- responsibilities of the parties regarding the NGO Fund.

The Government has fulfilled the requirement of donors and **the NFP has been transferred to the Prime Minister's Office** from August 2014. After the closure of examination of Government Control Office on the NGO Fund the **Minister of Prime Minister's Office initiated the renewal of negotiations** in October 2014 to conciliate the different points of view in order to the successful agreement. Unfortunately the negotiations did not continue during the second half of 2014.

In this difficult situation the NFP assist and observe the implementation according to the regulations. **The following events and activities have fulfilled in 2014:**

- the submission of APRs prepared by POs and checked by NFP until 15 February, 2014
- the submission of Annual Strategic Report prepared by NFP until 31 March, 2014
- the submission of IFRs prepared by POs and NFP in timely manner during 2014
- organisation of Monitoring Committee Meeting in April, 2014
- coordination, observation of activities of programme areas
- making comments and recommendations on project contract, partnership agreements, templates, implementation and financial procedures and processes for POs and IA
- participation in meetings organised by POs as observer according to the Regulation
- organisation meetings for POs, IAs and other institutions responsible for the FMIs or projects of the Grants in Hungary
- co-operation with institutions responsible for control of development policy activities
- regularly and ad hoc information of several governmental institutions and other regarding the FMIs.

In addition, expecting for the agreement, **the NFP has started to prepare the framework of legislation** and regulatory changes in order to establish the necessary background for the acceleration of implementation, including the assessment and collection of necessary modifications or signature of PIAs, Pas and other documents.

The above mentioned situation caused by the institutional changes of Hungarian development policy, including the different approaches of concerned parties, endangers the successful implementation, therefore **the NFP made efforts to mitigate the risks** during 2014. For the mitigation of the risk the following measures have been applied:

- The tasks of NFP have been transferred to a state-owned non-profit Ltd – SZPO - which has a necessary overall experience in management of EU funds;
- In order to ensure the continuity of NFP activities the most part of the NFP staff

responsible for the Grants has been transferred to the SZPO;

- In order to accelerate the implementation the human resource capacity of the NFP increased in the SZPO;
- In order to successful agreement with donors, parallel with the handover process the preparation of negotiation started;
- The NFP observed the activities of POs and IA closely in order to intervene;
- After the suspension of funds the Government has undertaken the financing of the project implementation from the Hungarian central budget in order to ensure the progress in the changed circumstances;

After the recognition of donor expectations the Hungarian Government modified the institutional system and the tasks of **NFP have been transferred to the Prime Minister's Office in August, 2014**. Meanwhile the assistance of the implementation was continuous in the programme areas which have Programme Implementation Agreements.

As it was mentioned earlier, from January 2014 the donors suspended the contact with NFP and refused to recognise the NFP. Consequently further delay has occurred in the implementation. The NFP has made every effort to promote the further progress and to abide by the rules. Therefore **the following programme areas could progress adequately**:

- HU08 Scholarship Programme

Partial progress has been made in the following programme areas:

- National Fund for Bilateral Relations: published calls for proposals; preliminary evaluation of applications; preparation of project contract of pre-defined project
- HU06 Children and Youth at Risk: approval for pre-defined projects by NFP
- HU07 Conservation and Revitalisation of Cultural and Natural Heritage: two published calls for proposals; two implemented projects for strengthening bilateral relations.

Regarding the fact that the donors were not in the position to cooperate with the Focal Point, special measures should have been taken in 2014, particularly the following areas of cooperation damaged:

- strengthening bilateral relations both at national and programme level
- conclusion of PIAs on the programme areas HU02; HU03; HU07.

Regarding the **bilateral co-operations**, the experience of institutions responsible for the implementation of the Grants is different. Totally the activities targeted the bilateral relations did not work as well as one of the overall objectives should have been operated. The FMO essentially refused the co-operation, but most of the DPPs continued to support the activities of POs.

As a result of the known reasons, the progress of **National Fund for Bilateral Relations (NFBR)** was not appropriate.

The implementation period of the pre-defined project (National Media and Infocommunication Authority) was **terminated at 31 January 2014**. The implementation completed but the Project Contract has not been concluded.

Regarding the COOPER modality the **submission deadline** for the applicants **was 31 January 2014**, whilst the submission of the application **in the PIERO was continuous**. The evaluation of submitted applications has been fulfilled mostly, but due to the lack of agreement with donors, the Fund Committee did not work, which was the obstacle of making grant decisions.

The fourth part of the NFBR, the implementation of the *Automatic Reimbursement Scheme* (ARS) has to be re-scheduled.

According to the provisions set in the Work Plan and Implementation Set-up for NFBR the NFP **submitted the Work Plan** to the FMO on 3 March 2014 requesting recommendations for finalization, but no reply was received.

The implementation of the **Communication Strategy was limited to inform the inquirers** and the initiation of activities by NFP was not typical during 2014.

2. ASSESSMENT OF THE EFFECT OF THE GRANTS

2.1 Cohesion

2.1.1 Economy and society of Hungary in 2014

2.1.1.1 Gross domestic product of Hungary in 2014

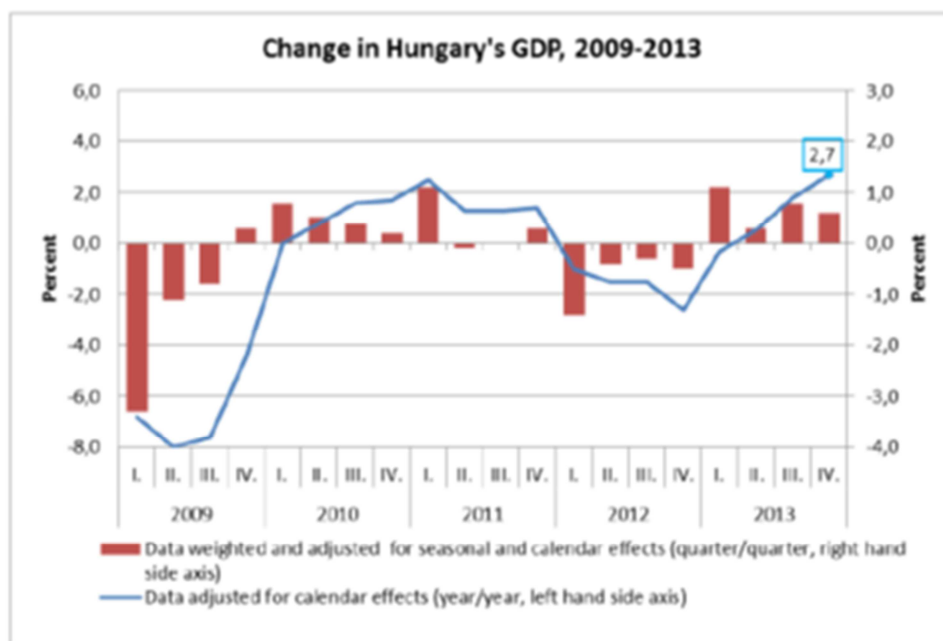
Hungary **emerged from recession** in 2014 with GDP growing by 3.6 %. After numerous governmental measures and the recovery of public investment and agriculture Hungary exceeded the previous expansion. In 2014 investment turned positive mainly as a result of public investment, and corporate investment also started to accelerate on the back of the acceleration in the absorption of EU funds and to some extent the central bank's continuously extended Funding for Growth Scheme (providing subsidised lending to SMEs). A sharp decline in inflation contributed to increase the households' real disposable income.

3.1.17. Contribution to GDP growth (production approach), calculated from indices compared to the corresponding period of previous year (10/10)

(percentage point)

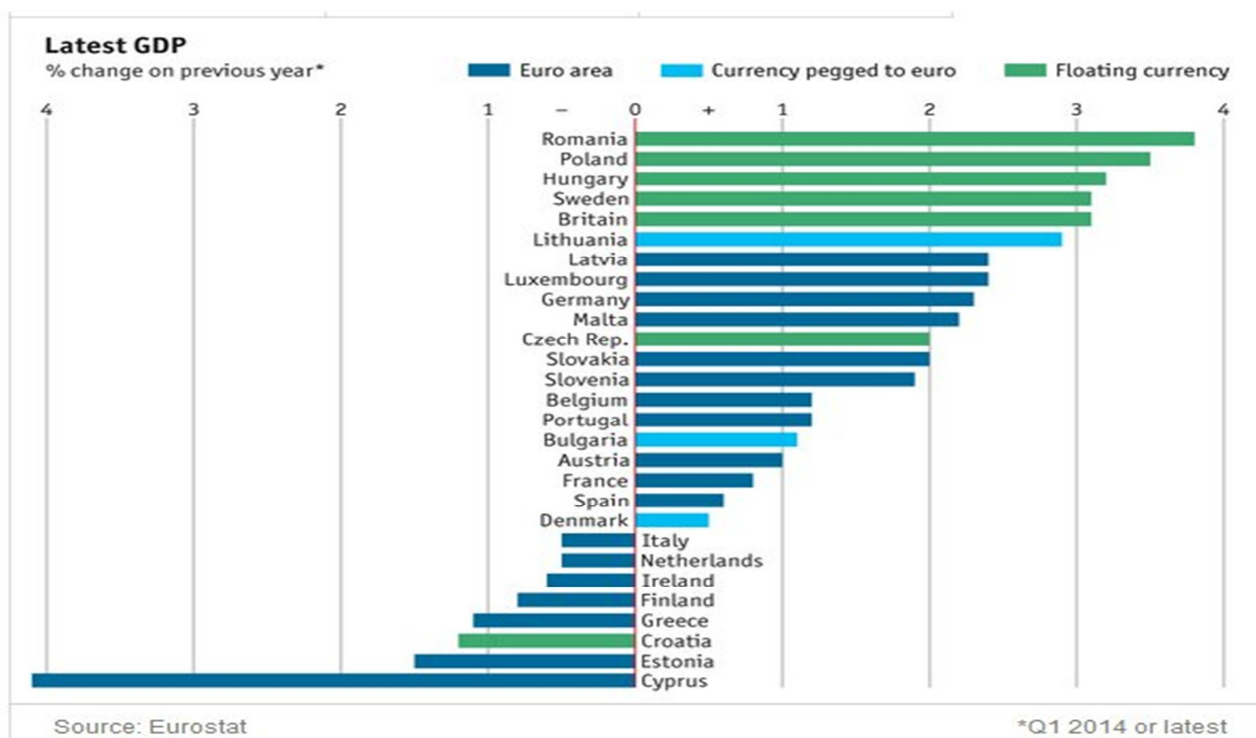
Industries	2014				
	Q1	Q2	Q3	Q4	Total
Agriculture, forestry and fishing	0.2	0.5	0.7	0.4	0.5
Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	1.2	1.4	1.1	1.0	1.2
Of which: Manufacturing	1.5	1.6	1.1	1.1	1.3
Construction	0.5	0.6	0.4	0.3	0.5
Services, total	1.2	1.2	0.8	1.2	1.1
Wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service activities	0.3	0.3	0.3	0.5	0.4
Transportation and storage	0.2	0.3	0.2	0.2	0.2
Information and communication	0.1	0.1	0.1	0.1	0.1
Financial and insurance activities	0.0	0.0	0.0		0.0
Real estate activities	-0.1	-0.1	0.0	0.1	0.0
Professional, scientific and technical activities; administrative and support service activities	0.7	0.5	0.2	0.3	0.4
Public administration and defence; compulsory social security; education; human health and social work activities	-0.1	0.0	0.0		0.0
Arts, entertainment and recreation, repair of household goods and other services	0.1	0.1	0.0	0.1	0.1
Taxes less subsidies on products	0.6	0.3	0.4	0.4	0.4
Gross domestic product, total (at purchaser's prices)	3.8	4.1	3.3	3.4	3.6

Source: Hungarian Central Statistical Office, KSH, www.ksh.hu



Source: Hungarian Central Statistical Office, KSH, www.ksh.hu

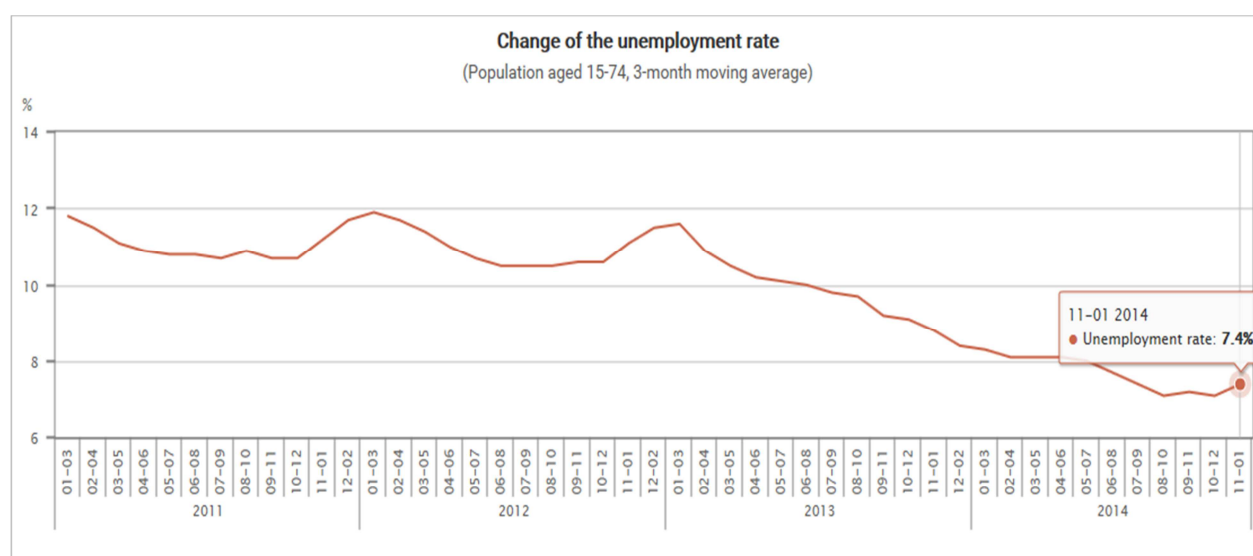
As seen from the tables Hungary's economic growth has gathered speed. **GDP gained 3.6 percent in the last quarter of 2014.** Among the Visegrád Four, Hungary achieved the best result while Hungarian economic growth was 3.6 percent; the same indicator was 3.3 percent in Poland, 2.4 percent in Slovakia and 2.0 percent in the Czech Republic.



2.1.1.2 Unemployment rate of Hungary in 2013

Despite a continuous increase in the participation rate, **unemployment dropped below 10%** by the fourth quarter of 2014. During the reporting period **different measures** were started by the Government in order to guide back the unemployed people to the world of work with the extension of public works and improvement of the social aid system. In the period of January 2014 – January 2015, the number of unemployed people was 330 thousand, 54 thousand less than a year earlier, and the unemployment rate decreased by 1.4 percentage points to 7.4%. The unemployment of men and women was nearly equal, but women were characterized by a greater improvement.

Source: Hungarian Central Statistical Office, KSH, www.ksh.hu

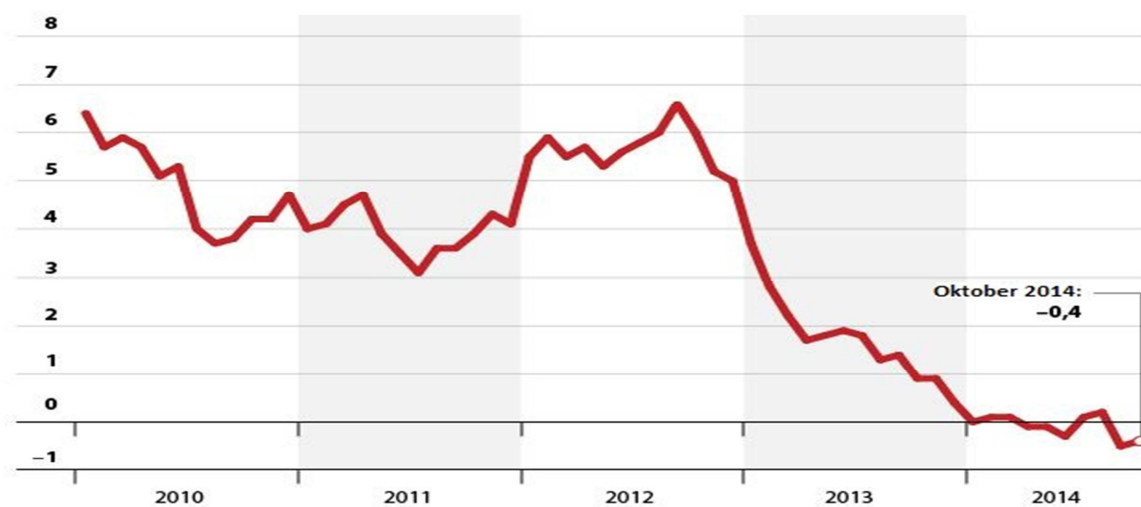


2.1.1.3 Inflation rate of Hungary in 2014

Inflation reached a **historically low rate of 0.4%** in the last quarter of 2014 reflecting three successive waves of cuts in regulated energy and other utility prices. Underlying inflation has also been on a downward trend, due to a negative output gap and declining imported inflation. However, as the output gap closes and the effect of utility price cuts fades away, inflation is expected to increase gradually towards the central bank's 3% target by 2015. To the end of 2014 **consumer prices decreased** by 1.4% compared to January 2014. During this period significant price decrease was observed in case of motor fuels as well as electricity, gas and other fuels. Beside the decreased prices of food, clothing, footwear and consumer durable goods price rise was observed in case of services as well as alcoholic beverages and tobacco. According to the data of the Eurostat and the Hungarian National Bank the nominal inflation rate of Hungary was -0.2%.

Consumer price index

(on the basis of the equal period of the previous year)



Source: KSH

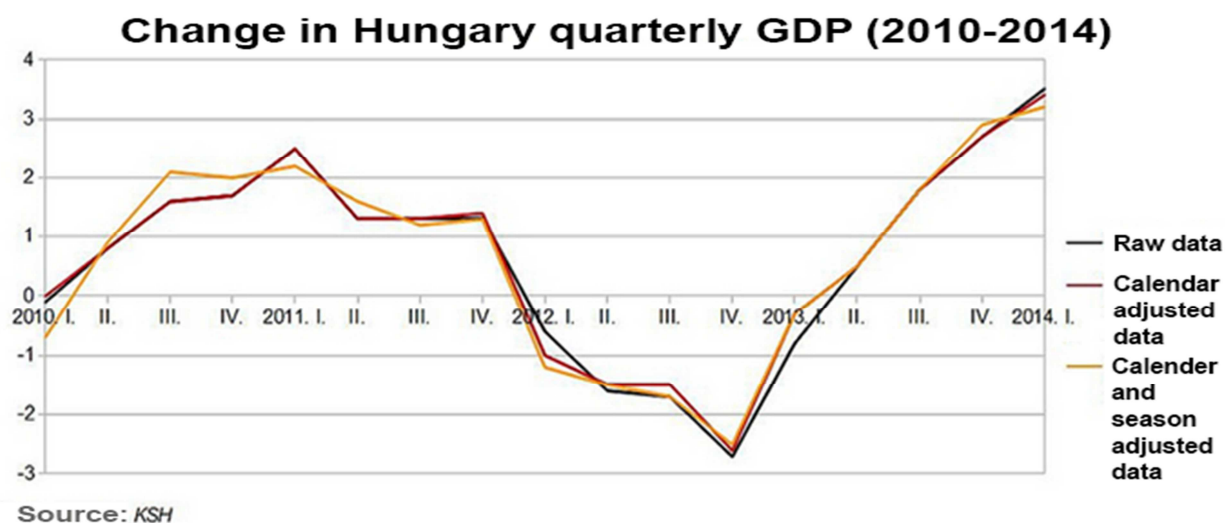
Source: Hungarian Central Statistical Office, KSH, www.ksh.hu



Source: Hungarian Central Statistical Office, KSH, www.ksh.hu

2.1.1.4 Gross output of industry of Hungary in 2014

The volume of gross domestic product increased by 3.4% in Hungary in the fourth quarter of 2014 compared to the corresponding period of the previous year. The performances of manufacturing, construction and agriculture grew significantly. According to seasonally and calendar effects adjusted data, economic performance in the fourth quarter of 2014 was up by 3.4% compared to the corresponding quarter of the previous year and by 0.8% compared to the previous quarter. In 2014 as a whole the value added of the economy was up by 3.6% compared to the previous year.

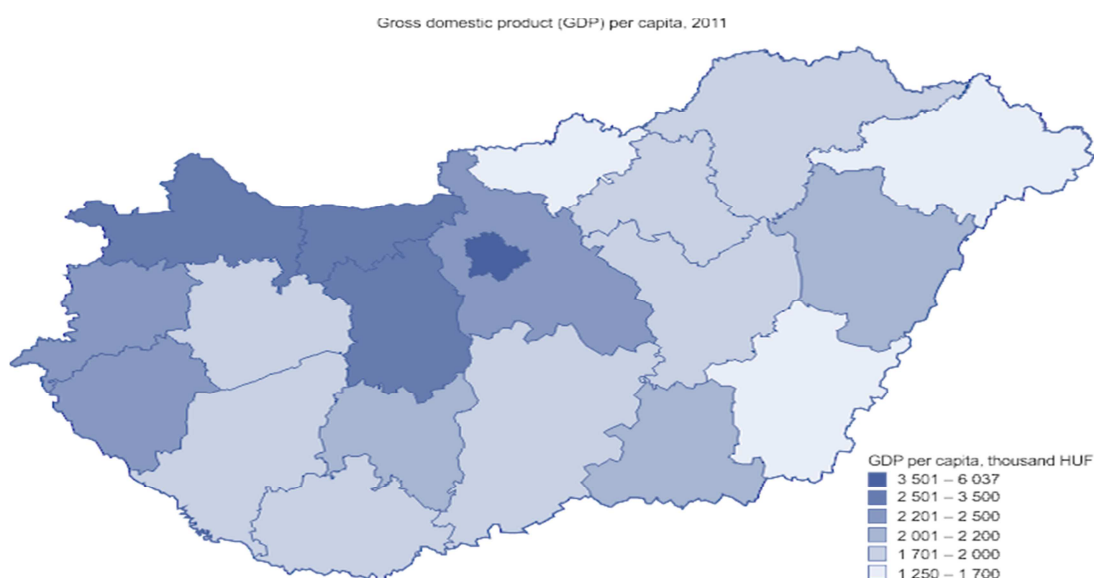


Source: EUROSTAT

2.1.1.5 Trends in socio-economic and territorial disparities, including inter regional disparities below national level

In socio-economic development significant disparities evolved between the many different parts of the country, which were influenced by the different natural endowments of various areas as well as by historical effects. As it mentioned in the last report, the most developed part of Hungary is the region of Central Hungary, comprising the capital. Western areas are usually more developed than the eastern regions, and a north-south split can also be detected. These disparities are apparent in settlement structure, demographic trends, the state of economic development and circumstances of life. The population is concentrated in Central Hungary, (30%) and the **distribution of population, development, settlement structure, socio-economic and territorial features is very diverse in different parts of the country.**

The governmental measures, as the increased EU-support in the period 2014-2020 for small and medium companies, could result the overall long-term development and catching up of underdeveloped counties. In Hungary a **major public administration reform** has been taking place since the change of the government in 2010. The restructuring and the reforms started at the central governmental level, but afterwards touched upon the regional and local level of public administration as well. On the basis of the new municipality law (Law about the municipalities of Hungary 2011. CLXXXIX.) the duration of the work of body of representatives has changed to five years because of the altered range of duties of municipalities. According to the mentioned changes, the autonomy of the municipalities in certain fields has changed although they are the basis of the public sector. Some of the duties are delegated to township/district offices, some of them to the state level. The root cause of the task rearrangement was the decreasing of debt and risks of the municipalities. The administration reform is ongoing.



Sources: Hungarian Central Statistical Office, KSH, www.ksh.hu

Expectedly with the improvement of economic and social environment **the trend of population decline will be improved. The status of migration** from certain parts of the country to the central region, as it has been pointed out in the last report will be improved.

2.1.1.6 Social status in Hungary in 2014

Average earnings increased by 3.0% at corporations employing at least 5 persons, budgetary and designated non-profit institutions compared to the same period of the previous year. The monthly average **gross earnings** of full-time employees were HUF 237,700, while the net amount was HUF 155,717 in 2014. In January–December 2014, average **net earnings** – excluding family tax benefits – were HUF 155,700 by national concept, (they were equal to HUF 106,300 in case of manual and HUF 210,900 in case of non-manual workers), 3.0% higher than in 2013. The changes of family tax benefits in 2014 resulted in another 0.8 percentage point rise in net earnings compared to the average of 2013. Taking into account family tax benefits, the net income is estimated to be HUF 162,500 on average.

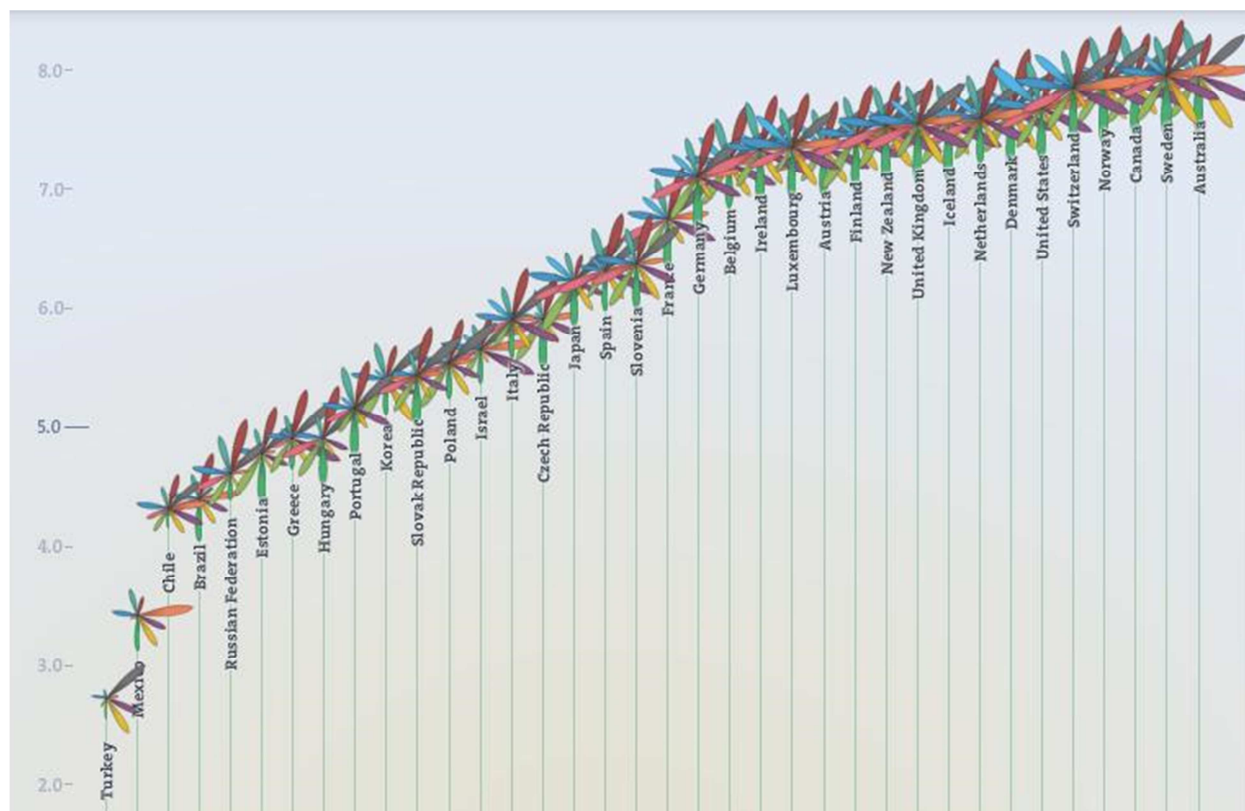
The **deceleration of inflation** was influenced by cuts in overhead costs as well as the decrease in the price level of durable consumer goods. Alcoholic beverages and tobacco prices continued to increase at the highest rate, while the price rise of food was lower. The **price index** for pensioners (1.5%) was lower than those for all other groups of the population. In December 2014 compared to December 2013 food prices decreased by 0.6%. The **overall reduce of home overheads** has a comprehensive effect on the budgets of families. On the basis of law LIV/2013, about the implementation of reducing of home overheads it is describable, that the Hungarian families have the possibility to decrease their consumption, to implement deferred investments.

In the upcoming years, the Hungarian **health care system** needs to be improved, mostly because of the bad healthcare infrastructure, the bad health status of inhabitants. The system-wide development of the prevention and the learning new methods on the field of health awareness are the major issues of development programs. The impacts of these measures expectedly improve the social status of population.

Numerous measures have been taken by the Government **to reduce the social disparities** including the **anti-poverty measures** from economic development to reduction of unemployment.

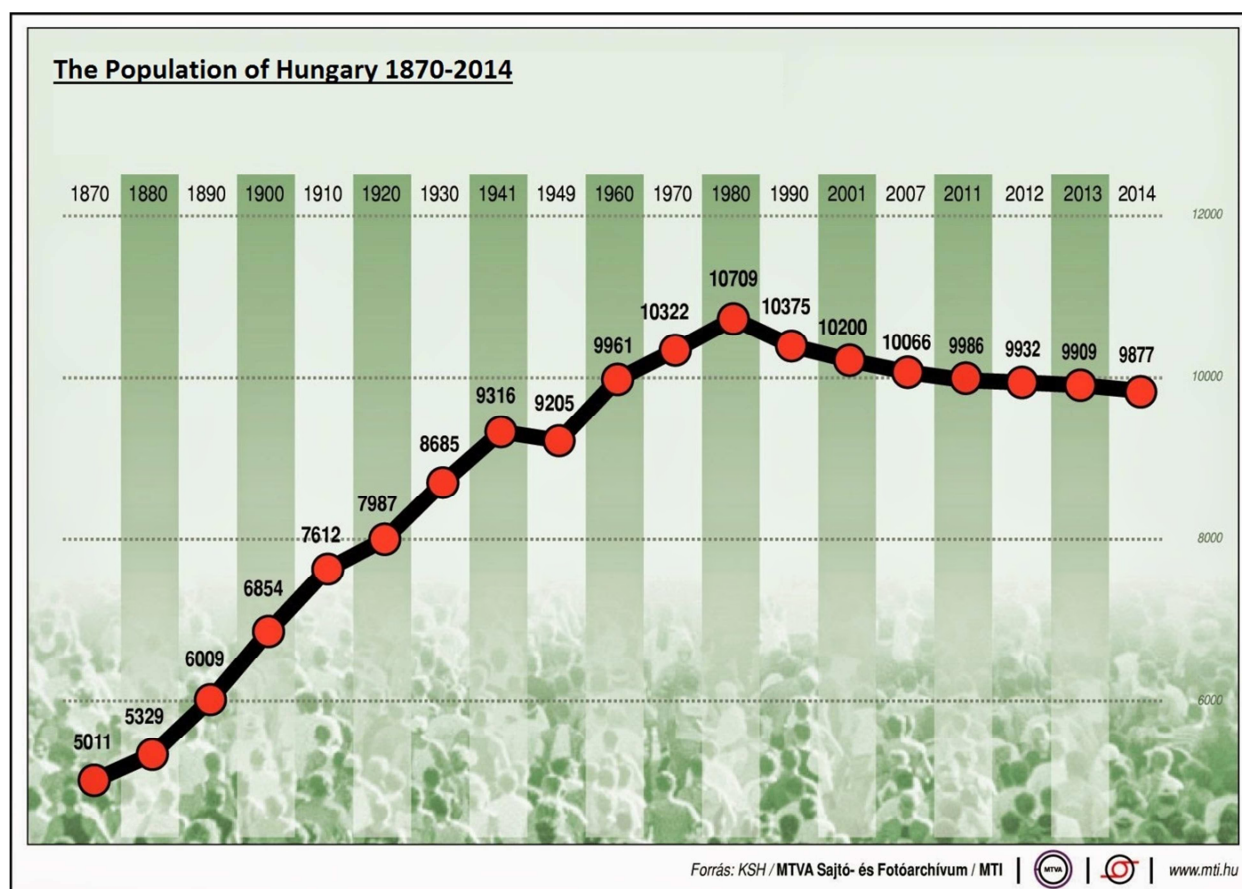
Although in the recent decades, it became more and more evident that **economic development** is not by all means synchronized with social processes and the improvement of life quality. Numerous studies urged to reconsider the traditional concepts of living conditions and well-being and highlighted subjective indicators measuring the satisfaction and well-being of people. When asked to rate their general satisfaction with life on a scale from 0 to 10, Hungarians gave it a 4.9 grade, one of the lowest in the OECD where the average life satisfaction is 6.6.

There is a little difference in **life satisfaction** levels between men and women across OECD countries. In Hungary, however, men reported being somewhat happier than women, rating their lives at 5.1, compared with 4.8 for women. Education levels do also influence subjective well-being. Whereas people who have only completed primary education in Hungary have a life satisfaction level of 4.5, this score reaches 6.1 for people with tertiary education.



Source: OECD

On 31 December 2014, **the number of the population** was 9 million 877 thousand in Hungary, 30.1 thousand less than a year earlier. Among major vital events, the number of births and deaths slight increased, there were more new marriages and less divorces, while the number of induced abortions considerably fell. According to preliminary data, 91,500 children were born in 2014, 3.2 percent more than a year earlier. The 126,100 deceases registered in 2014 meant a decrease of 0.5 percent compared to 2013.



Source: www.ksh.hu

The natural decrease was 34,600, nearly 3,500 persons lower than a year earlier. According to preliminary data, **more children were born, while the number of deceases declined**. Thanks to the government policy the number of births is expected to increase in the future, which can contribute positively to the future supply capacity of the population, which measures were justified and recognized **at the 59th meeting of the UN Commission** on the Status of Women.

2.1.2 National trends related the programme areas of the EEA Financial Mechanism

NFP took into consideration the national development trends, and listed **how the FMs 2009-2014 contribute to the main strategic objectives of the Hungarian government** in several sectors. The **New Széchenyi Plan** is the cornerstone of the Hungarian development policy, that highlights the importance of a knowledge based society, and the greening of the economy. Besides, the aim of reduction of social inequalities throughout the country, a sustainable and equal society is also reiterated in governmental strategies. The **National Spatial Plan Hungary** determines the conditions of the utilization of the land in the different areas of the country and the spatial order of coordinated technical and infrastructural networks in accordance with the

principle of sustainable development and with the aim of preserving regional, natural ecological and cultural facilities and values and protecting resources. The **National Strategy for Innovation 2020** the strategy focuses on enterprises. It concludes that R&D expenditure will reach 1.8% of the GDP by 2020, and by 2030 it will be increased to 3% of the GDP. (In 2011 the state and enterprise expenditure of R&D altogether grew to 1.2 % of the GDP). It marks as a supplementary target that R&D expenditure of enterprises will grow to 1.3% by 2020. The **National Environmental Technology Innovation Strategy** foresees the renewal and implementation of the country's research and development and innovation programme. The government's vision is to facilitate environmental industries and technology, to focus on environmental innovation, to reduce primary material use and encourage reuse and recycling, and to ensure a paradigm shift from an “end-of-pipe” approach to environmental issues to prevention of problems. The **National Development and Territorial Development Concept**, which is based on the social, economic, sectorial as well as regional development needs of the country, the concept defines the long term vision for the future as well as sets targets and principles of the Hungarian development policy and defines the national focuses of the development policy for the time frame 2014-2020.

These objectives coincide with the overall objectives of the Grants, and enable to identify specific objectives reflecting national priorities. The **programme areas** agreed in the MoU **will contribute to the following specific objectives:**

- contribution to a knowledge based, green and **sustainable economy**;
- equal access to public services and cultural values in a **sustainable society**;

The above mentioned objectives reflect the contents of the programmes of the EEA Grants in Hungary, and it can be showed in the following table:

Overall objectives of the FMs	Contribution to the reduction of economic and social disparities & Strengthening bilateral relations	
Specific objectives reflecting national priorities	Contribution to a knowledge based, green and sustainable economy	Equal access to public services and cultural values in a sustainable society
Programme areas	Adaptation to climate change	Children and Youth at Risk
	Energy Efficiency	Civil Society (NGO Fund)
	Renewable energy	Cultural Heritage
	Scholarship	

Highlighting clearly the linkage and added value of the Grants to national policies shows that **the Grants can be used based on the existing needs of the country.**

National trends concerning the fields of the programmes financed by the EEA FM 2009-2014

Programme HU02 - Energy Efficiency

In Hungary besides industrial production, transportation and energy production, households and the **public sector** have the highest greenhouse gas emission levels, which is mostly due to the energy demand of buildings.

Today, buildings consume 40% of all energy used in Hungary and roughly two-thirds of that can be accounted to heating and cooling. **Almost 70% of residential and public buildings are not in line with functional technical and heating technology requirements**, and there are only a few hundred buildings with 0 energy demand. Among the EU Member States, Hungary is one of the top ten countries with the highest specific heat energy use: in **comparison to the European average (220 kWh/m²/year)**, heat energy use of **public institutions is 340 kWh/m²/year**, so the goal of the programme is the building energy modernisation of public buildings.

However the goal of the programme is the energy modernisation of public schools and the indicators were determined considering the approach of the ideal European average value, the main risk in the programme is **not to achieve the determined indicators** related to the CO₂ reduction. Probably the reason of the low interest of potential applicants is the ambitious target value. Therefore the solution can be the survey on the intention of the interested but not applied potential applicants and the modification of the indicator value in agreement with the Donor States if it is necessary.

Programme HU03 - Renewable Energy

Hungary has set an **ambitious target for its renewable energy** use by 2020 based on the National Renewable Energy Action Plan; therefore the implementation of the Renewable Energy Programme Area is important to contribute to the diversification of conventional energy supply and to promote renewable energy sources. Since the submission of the Programme proposal no significant influence arose in the renewable energy sector in Hungary, therefore the relevance of the programme is up-to-date and essential. The following table shows the share of renewable energy in gross final energy consumption.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	TARGET 2020
Hungary	4.4	4.5	5.0	5.9	6.5	8.0	8.6	9.1	9,57	14.65

As the renewable energy sector is fairly wide and innovative, the legislation framework developed dynamically in 2013 in Hungary, but **major effects related to the programme development are not expected**.

It should be mentioned that the rules of the EU related to the state aid changed in the middle of 2014 which can effect on the projects. However the main condition of the successful implementation is the arrangement of the earlier mentioned issues regarding the Grants.

Programme HU06 - Children and Youth at risk

As it was already described in the previous APR, the main trends are valid until now.

The **number of children at risk has increased** in the last years in Hungary. The number of children altogether is increasing. Also the number of children in childcare institutions has increased. The **measures of Government** target the extension of kindergartens from the age of 3, which will improve the service for children and will probably affect the life circumstances.

The targets of the programme can serve **the improvement of the quality of child welfare systems**, the protection and efficient measures in several health and social services in order to increase the **equal access** of stakeholders and reduce the number of children and youth at risk. The trend level risk which may affect the achievement of objective is the possible changes in national legislation and regulatory framework, and/or the change in political commitment towards the implemented projects. The tools to mitigate these risks may be the regular information of the stakeholders, including public health institutions, the line ministry, the monitoring of the implementation and immediate intervention if necessary.

As it is known, in the last **years institutional changes** were implemented in Hungary which affected the scope of the eligible applicants. Management and maintenance structures of schools, health services, and social and childcare institutions changed: centralised background institutions of the ministries took charge. Primarily, this meant the local governments as former maintainers shifted responsibility for management and/or maintenance to designated central institutions. These changes also may affect the achievement of targets but the monitoring tools indicated above can mitigate this risk.

Programme HU07 – Cultural heritage

In addition to the specific features described in the APR, 2014 couple of legal and organizational changes were introduced to the cultural sector. According to the Government Decree no. 152/2014. (VI. 6.) on the rules and responsibilities of governmental bodies, the responsible body for governance of cultural heritage protection is the **Prime Minister's Office**. The division of tasks therefore ceased in the sector for more efficient governance both on ministerial level and both institutional level. The responsible institute for providing professional competency under the Prime Minister's Office is the **Gyula Forster National Centre for Cultural Heritage Management**. In that period by the Government Decree no. 1663/2014. (XI.20.) the **National Castle Programme** was introduced that is the main basis of the sectorial touristic developments of the 2014-2020 programming period of the EU Funds.

In the target period the Act LXIV. of 2011 on the protection of cultural heritage changed two times, the holistic simplification of the legal background of the cultural heritage management has started. Additionally, the definition of cultural heritage was amended referring in the legislation, therefore now the military historical assets are also part of the cultural heritage.

The cultural and arts affairs are still governed by the **Ministry of Human Resources**.

The sectorial changes occurred in 2014 **do not endanger** the implementation of the Programme.

Programme HU08 – Scholarship

Legislation concerning **education mostly remained unchanged** in 2014. A new Higher Education concept paper had been prepared by the Ministry of Human Capacities, and approved by the Government in December 2014. Two main tendencies unfolded last year: in higher education the management structure of higher education institutions has changed. **Chancellors were appointed** by the government to manage the finances of all public higher education institutions, rectors remained responsible for academic affairs. Academic matters and institutional procedures remained more or less the same; therefore participation rates are not expected to fall in either measure. Internationalisation of higher education is very high on the agenda of the government; the national policy context is favourable for international cooperation.

In the field of **vocational education (VET)**, last year brought similar developments as in school education sector: the new teacher career path model was introduced here as well. During the year, the importance of vocational education was emphasized several times by members of the government, and a plan for setting up a new, only VET focused maintenance centre was announced, i.e. in 2015 all VET schools will be moved from Klebelsberg Institution Maintenance Centre to a new VET maintenance centre. Also in line with the new governmental policy on VET, background institution of VET sector, National Labour Office was split into different institutions in December 2014. Effects of these institutional reorganisations are not visible yet, however the main aim of the changes is to make VET sector more productive and effective.

Mr Tibor Navracsics, Hungary's ex-foreign minister has been appointed to serve as **EU commissioner for education, culture, youth and sport**. These fields in Hungary are expected to step into the spotlight more often than before, which might result in some more governmental level decisions pushing forward the abovementioned fields, including education.

2.2 Bilateral relations

Overall progress within the four outcome areas

One of the overall objectives regarding the EEA and Norway Grants is **strengthening the bilateral co-operations** between the Beneficiary and Donor States. Both the NFP and POs regard the bilateral relations as priority in the implementation. Since the National Focal Point was not acknowledged by the Donor States, the development of bilateral relations suffered in the reporting period. The four outcome areas – extent of cooperation; shared results; improved knowledge and mutual understanding; wider effects - are further recognised as the main fields of cooperation, but the implementation could not run adequately.

As it is known, in Hungary in the framework of the Grants, except for one programme area (EEA Grants: HU02 – Energy Efficiency), all programmes under the responsibility of the NFP have **DPPs**. During the normal operation, **DPPs participate in the implementation as advisory capacity** and assist the POs, including the implementation at project level, but also in enhancement of the bilateral aspects of programme areas.

Due to the situation of the Grants in Hungary, the **programme level bilateral cooperation was different in the programme areas**.

According to the PO, in the programme HU07 the cooperation with the DPP was excellent. However the DPP did not participate in the Cooperation Committee, it reviewed all the texts related to the call for proposals and its annexes, Partnership Agreement.

In the programme HU08 communication between PO and DPP was **not continuous but regular** during 2014. DPPs were informed about Preparatory Visit results and they were included on decision making in case of Measures 2, 3 and 4. A Cooperation Committee meeting was held in January 2014, where 2 out of 3 DPPs were present at the meeting. The PO participated in the annual meeting for Programme Operators in Madrid on 22-24 October. **Communication could have been more frequent and targeted** in case of the virtual contact seminar between DPPs and PO.

Besides the programme level cooperation, **bilateral relations used to be intensive between the NFP and Donor State entities**, especially with the Royal Norwegian Embassy in Budapest.

During the reporting period, due to the actual situation **the bilateral activities were limited to the high level official correspondence and meetings** in the reporting period.

Key events and meetings at national level

Since the bilateral relations were limited in 2014, the following events and meetings can be mentioned, which could have been contributed to the progress **at national level** between Hungary and the Donor States:

Date	Participants	Aim/Main subjects of the event/visit
22 January, 2014	Programme Director of SZPI; representatives of donors	Information on the institutional changes and expression of willingness of cooperation by official e-mail
24 March, 2014	Delegation of the Prime Minister's Office of Hungary, leader: Ms Eszter Vitályos State Secretary; representatives of SZPO; representatives of FMO	Commencement of negotiations for modification of MoU
12 June, 2014	Delegation of the Prime Minister's Office of Hungary; representatives of FMO	Negotiation on the issues in dispute
From January to September 2014	Correspondence between the Hungarian and donor sides: State Secretary of the Prime Minister's Office of Hungary; Minister of the Prime Minister's Office of Hungary; Director of FMO; Chairman of FMC; Minister of EEA and EU Affairs	Clarification of the issues; determination of conditions

Main risks and mitigation

The **main risk is the delay of the agreement between the Hungarian Government and Donor States**. The lack of agreement does not allow the implementation in the area of bilateral relations, because according to the donors they are not in the position to cooperate with Hungary as far as the agreement will be modified. The deadline of the project implementation is 30 April, 2016, therefore the execution period is shortened. Considering the short implementation period the effectiveness is questionable and the results probably will not be reached.

The actions needed **to mitigate** these main risks are **the acceleration of the negotiation and the rapid agreement between the parties**.

Reporting on the implementation of the NFBR

In the framework of the NFBR the following activities were planned in the reporting period:

Key priorities	Budget (EUR)	Status
1. European fundamental values–Pre-defined project – Media legislation	99,462.46	Completed, but no Project Contract
2. Social welfare and gender equality – Open call	150,000	Announced, but no evaluation
3. Environment – Tackling of climate change – Open call	150,000	Announced, but no evaluation
4. Reinforcing the bilateral elements of programmes – “ARS”	166,500	No progress

NFP prepared the calls for proposals based on the Work Plan approved by the Donors and the POs elaborated the base of the successful bilateral relations at programme level, but real progress has not been made due to the known reasons.

In detail the **pre-defined project of the National Media and Infocommunication Authority** with donor project partner Council of Europe was completed and the preparation of the Project Contract has been executed in the first quarter of 2014. Since the organizational changes affected the representatives of signatories, the contract has not been concluded; therefore the costs of project could not be accounted.

During the reporting period the NFP, fully in line with the agreed schedule of Annual Working Plan 2013, executed the preparation of evaluation of open calls on the **second and third professional fields of NFBR**.

Regarding the **COOPER modality** the **submission deadline** for the applicants **was 31 January 2014**, whilst the submission of the application **in the PIERO was continuous** until funds are available.

In the COOPER modality 22 applications were submitted until 31 January 2014. After the eligibility check all applications could be made available for evaluation. Some details on the applications:

- Equal opportunities for women: 7 applicants, total amount of requested grant: EUR 263,629.94
- Tackling climate change: 15 applicants, total amount of requested grant: EUR 615,770.20

Detailed table of submitted applications for COOPER modality: Attachment 1B

Regarding the PIERO modality with continuous submission deadline 5 applications were submitted until April, 2014. The eligibility checks were executed by the Implementation Agency and the evaluations were carried out by the National Focal Point. The NFP has prepared the documentation for the Fund Committee, but due to the known reasons the grant decision could not be made. Some details on the applications:

- Equal opportunities for women: 1 applicants, amount of requested grant: € 1,775.80
- Tackling climate change: 4 applicants, total amount of requested grant: € 58,569.61

The situation on the Grants did not allow the progress of the activities regarding the national fund for bilateral relation neither in the field of modalities managed by the NFP, nor the implementation of the ARS.

Accordingly reporting on the implemented activities and its results and impacts could be provided probably in the later stage.

According to the provisions set in the Work Plan and Implementation Set-up for the National Fund for Bilateral Relations (NFBR) of the EEA and Norway Grants 2009-2014 the **NFP shall draft an annual work plan** (hereinafter: AWP) **each year** in which expected actions under NFBR shall be described. The AWP of 2014 covered the period from 1 March 2013 to 28 February 2014 regarding the reporting, while regarding the planning covered the period from 01 July 2014 to 30 June 2015. The **NFP submitted the AWP** to the FMO on 3 March 2014 requesting recommendations until 2 April, 2014, but no reply was received.

3. REPORTING ON PROGRAMMES

3.1 Overview of Programme status

In general, it should be mentioned that not only the long preparation processes but also the current situation regarding the Grants cause the shortening of the remaining phase, therefore it seems to be necessary to extend the implementation period at project level; otherwise the successful project completion would be jeopardized.

Calls published in 2014

Programme area	OPEN Calls			Pre-defined projects approved in 2014
	Title of the call	Date of launching	End of submission	
HU02 - Energy efficiency	Improved energy efficiency in buildings	30/09/2013	06/01/2014	NO
HU03 - Renewable energy	Implementation of Geothermal Based District Heating Systems – Replacing Existing Fossil Fuel Based District Heating	04/02/2014	07/04/2014	NO
	Grant for Supporting Participation in Courses on the Utilization of Renewable Energy Solutions: Sub-programme 1: Supporting Participation in MSc, MA Course	14/02/2014	15/04/2014	
	Grant for Supporting Participation in Courses on the Utilization of Renewable Energy Solutions: Sub-programme 2: Supporting Participation in Short Course	14/02/2014	30/06/2014	
HU06 - Children and Youth at Risk	-	-	-	Pre-defined project 2: YES by PO, NO by donors yet
HU07 - Conservation and Revitalisation of Cultural Heritage and Natural Heritage	Preservation of urban built cultural heritage (A1)		21/05/2014	NO
	Preservation of rural cultural and natural heritage (A2)		21/05/2014	
	Promoting bilateral cooperation (C1)		07/05/2014	
HU08 - Scholarship	Preparatory visits EUR 44.562	2013 and 2014	5 deadlines	NO
	Mobility Projects in Higher Education		05/05/2014 30/10/2014	
	Mobility Projects in Other Educational Institutions and Education Related Institutions		05/05/2014	
	Inter-institutional Cooperation Projects		05/05/2014	

Regarding the HU02, HU03 and HU06 programme areas the planned calls for proposals have not been launched. In programme area HU06 the pre-defined project, namely “New approaches on the social integration area” was submitted to the NORA system, of which the maximum grant amount is EUR 753,358. The project was approved by the PO and the NFP submitted to the donors and is waiting for the notice of FMO. According to the interest the most successful programme area is HU07, where almost 200 applicants submitted their applications for the calls for proposals.

3.2 Individual Programme summaries

3.2.1 Programme area HU02 – Energy efficiency

Overall progress

The **main goals** of the programme area: reduced emissions of greenhouse gases and air pollutants and its outcomes: Improved energy efficiency in buildings, improved capacity at national, regional and local level to undertake energy-efficiency measures and increased awareness of and education in energy efficiency.

Programme Implementation Agreement (PIA) has not been concluded during 2013. During 2014 has not been concluded either thanks to the circumstances detailed above (e.g. in default of modification of MoU). Even though the programme should be in the middle of the project implementation is still in the starting phase: **proposals submitted** until the 1st quarter of 2014 **are not evaluated yet**.

Due to the lack of PIA (and the lack of finance) the **Implementing Agency suspended its activity** related to the programme in February 2015, the project selection have been stuck. Common solution is still awaited.

Progress towards expected outcomes and outputs achieved

Only 7 applications have been submitted until the deadline to the first call for proposals (the requested grant amount is less than the half of the budget of the call). Thus it would be necessary to launch another call for proposals to achieve the targets above and cover all the budget of the call. The demand of improvements of public school buildings is still high; however during 2015 the calls of Operative Programmes of 2014-2020 period will be launched, probably with larger amount of budgets and preferable requirements. In order **to meet demand the requirements of the call for proposals (and of the programme) need to be reconsidered**.

Also according to the Programme Agreement, the estimated CO₂ reduction and/or avoidance is 2,375 tonnes/year and the estimated energy saving is 9,089 MWh/year. These values are calculated based on ca. 9 granted projects also, thus the same action is needed.

As PO mentioned earlier, the targets of the programme (related to CO₂ reduction and/or avoidance and energy saving) are really ambitious, based on the experience of the first call for proposals seems to be difficult to achieve, but it is not impossible for now. Reconsideration is probably needed.

It is necessary to carry out a more detailed research about the intention and conditions of potential beneficiaries and those potential applicants, who registered in NORA, but did not submitted any application until the deadline. Based on this it is necessary to analyse and reconsider the requirements of the call for proposals again. (Also see in Annex I.)

Programme operator has to face also a changing institutional and regulatory background of the financial mechanism, which are also major risks that endanger the achievement of the expected outcomes. As it is mentioned earlier, common solution is awaited. If the conditions are known the programme operator can redesign the programme cooperation with donor parties.

Potential risks

In addition to the above mentioned risks on the **changing institutional and regulatory background** and the ambitious targets of the programme, the PO should handle the risk of the **insufficient number of proposals** submitted to the Improving Energy Efficient Public Schools call for proposals.

Major deviations from the plan

Due to the organizational changes regarding the development policy the Ministry of National Development has taken over the PO function of the programme. The organisational changes made necessary the modification of the MoU and the PA. Due to this and other several reasons, the Financial Mechanism has been suspended in May, 2014.

Programme Implementation Agreement (PIA) has not been concluded during 2014; the IA suspended its activity, therefore the project selection has been stuck. Common solution is still awaited.

Use of funds for bilateral relations at programme level

As it is stipulated in the Programme proposal, the concept of the programme fits to the comprehensive goal of the EEA Financial Mechanism as the main goal of the programme area is to reduce public buildings and household energy consumption through the beneficiary public organisations and multiplier effects. Together the progress of programme the activities of bilateral relations will be continued.

3.2.2 Programme area HU03 – Renewable energy

Overall progress

The Programme Area was planned to contribute to the overall goal of the EEA grants and to the fulfilment of the Hungarian National Renewable Energy Action Plan's targets, especially in terms of geothermal energy, awareness-raising and education in the field of renewable energy. Three calls for proposals were launched, but afterwards further progress has been stopped.

Progress towards expected outcomes and outputs achieved

After modification of definition of the eligible applicants in the Programme Agreement, there were **three calls** launched in the first half of 2014.

As the National Focal Point has not been recognized and the Donor States have decided to suspend further disbursements of the EEA and Norwegian Financial Mechanisms in Hungary on 9 May 2014, the **implementation process has stopped**.

The **Programme Implementation Agreement was not signed**. The PO has been pre-financing its tasks since November 2011. Although reported in last year's APR, the PO's incurred costs are still not reimbursed. The IA has suspended its activity. Neither the evaluation of the applications nor further launch of calls for proposals is possible.

The **full achievement of the proposed outcomes is threatened by further delays** as the implementing period for the projects gets shorter and shorter and in some cases this may cause the implementation to become impossible. Major investments in the geothermal field and especially earning Master degrees have a minimum timeframe to implement the projects, therefore the re-launch of the calls is necessary at the earliest possible date or the prolongation of the eligibility period may serve as another solution.

Potential risks

Due to the actual situation described above, from the undertaken objective, as for example increasing renewable energy production and increased awareness of and education in renewable energy solutions could be **threatened by further delays in the implementation** of the Programme as the implementing period for the projects gets shorter and shorter. The likelihood of this is more than 75 %.

Another unachieved number of target indicators related to the gender equality of men and women participating in exchange visits between the Beneficiary and Donor States are also endangered, likelihood of this is moderate.

Use of funds for bilateral relations at programme level

The work of PO is assisted by Orkustofnun (OS), the Icelandic National Energy Authority (hereinafter referred to as "Donor Programme Partner") as Donor Programme Partner.

Preparatory visits have been planned by a separate call for proposal related to each main call for proposal to strengthen bilateral relations between the Beneficiary and Donor State entities, but the call could not be finalized and approved yet.

Bilateral relations should be strengthened both on institutional and programme level since there were no common events in 2014.

3.2.3 Programme HU04 – Adaptation to climate change

This Programme area is under the responsibility of the FMO.

3.2.4 Programme HU05 – Civil society – NGO Fund

This Programme area is under the responsibility of the FMO.

3.2.5 Programme area HU06 - Children and Youth at Risk

Overall progress

By the end of the first quarter of 2014, the **transfer of the PO** to the Ministry of Human Resources had been successfully carried out. Considering the Children and Youth at Risk programme, **essentially everything was in place** by that time to start the planned pre-defined projects and open calls. The PA and PIA has already been signed; the Implementing Agency has been set up and working, providing the necessary services; the two planned pre-defined projects has also been prepared and agreed on in principle by both the donor project partner and the Hungarian project promoter. Preparatory work on all four of the intended open calls has been started and was on its way. A good working relationship between the PO and the project promoters of the pre-defined projects has developed.

Progress towards expected outcomes and outputs achieved

After the suspension of the EEA and Norway Grants in Hungary in May 2014, the PO was mainly **limited to in-house management** issues and reporting tasks. The preparation of the pre-defined projects and open calls were discontinued.

Since the pre-defined projects and the open calls were not launched, there was no progress towards the planned outcomes.

Potential risks

With regard to the PO, the risks that the institutional change had been anticipated to pose were successfully mitigated and presently do not exist. According to the PO the successful implementation of **the programme cannot be achieved within the original parameters**, mainly because of the time constraint posed by the set closure of the projects in 2016. It is also the view of the PO that a stringent risk management of the programme may only be considered after the international negotiations on the EEA and Norway Grants has come to an end.

Use of funds for bilateral relations at programme level

Due to the suspension of the Children and Youth at Risk programme, **there was no progress** on bilateral relations neither at project level, nor at programme level.

3.2.6 Programme HU07 – Conservation and Revitalisation of Cultural Heritage and Natural Heritage

Overall progress

In 2014 the **institutional changes** executed were the most outstanding events in the framework of the programme. Therefore from the 1st of January 2014 the National Development Agency ceased, therefore the PO 'Managing Authority for Regional Operational Programmes' continued its activity in the **Ministry for National Economy**. For the management of the programme, a separate unit was set up dealing with EEA granting using the existing human capacity ensuring continuous programme implementation on PO level.

Regarding the objectives of the Programme, two main Calls for Proposals of Programme Area 16 were launched as '**Preservation of urban built cultural heritage**', '**Preservation of rural cultural and natural heritage**' and a horizontal Call in the framework of the Funds for bilateral relations at programme level called '**Promotion of bilateral relation**' for facilitating donor partnerships in the development phase of the project proposals. For the bilateral Call 6 applications, for the main Calls for Proposals 51 and 125 applications were submitted. It means that in sum more than **96 million EUR was requested** in the framework of the two main Calls for Proposals that it is a **huge interest compared to the 8 million EUR allocated**.

Regarding the two sequent Calls for Proposals of Programme Area 16, the planning procedure was going on within the PWG involving the competent public actors. After the discussion held in the Cooperation Committee the '**Preservation of Jewish cultural heritage**' was launched for public consultation, and '**Digitalisation of cultural heritage**' is also prepared for publication. The launch of Calls for Proposals was delayed in June according to the general suspension of Norway and EEA Grants in Hungary.

For the Programme Area 17 additional **Planning Working Group** was established for involving the competent actors on the field of performance arts and social inclusion as well. In the second Planning Working Group the departments of Ministry of Human Resources dealing with culture and social integration, the institution dedicated for managing national funds on culture (Directorate of the National Cultural Fund of Hungary) and several NGOs were involved both responsible for culture and funding. The elaborated Calls for Proposals '**Promoting bilateral cooperation in contemporary performing arts**' and '**Promoting intercultural – Roma/non-Roma – dialogue**' was discussed in the Cooperation Committee and prepared for publication. The launch of Calls for Proposals was delayed in June according to the general suspension of Norway and EEA Grants in Hungary.

Progress towards expected outcomes and outputs achieved

The progress on the calls for proposals was described above. The launching and evaluation process have been stopped. In 2014 no project contract was concluded with the potential beneficiaries, therefore the expected contribution of awarded projects to programme outcomes is based on the preparatory works and estimations.

Major deviations from the plan

Because of the institutional changes and the suspension of the Grants the programme implementation is in one-year-delay according to the timetable planned.

Need for adjustments of plans, including risk mitigation actions

The highest risk factor regarding the achievement of expected outcomes is the **delay** in the programme implementation. As the re-structuring of programme management system is still not agreed with Hungary and the Donor countries, the programme implementation is in one-year-delay according to the timetable planned. The lack of agreement disables the proper operation of the implementation system therefore the 30th of April 2016 as a final deadline of the eligibility of costs in the projects cannot be met.

Use of funds for bilateral relations at programme level

The **cooperation with the Donor Programme Partner** is excellent, the DPP does not just participate in the Cooperation Committee, but it reviews all the texts related to the Call for Proposals and its annexes, Partnership Agreement. DPP has strong advisory role, all the decisions are made in close cooperation. The DPP after the CC hold in the April of 2014 also involved the Arts Council of Norway in the preparatory work, therefore also arranged to provide professional assistance and capacity not just for the Programme Area 16, but for the Programme Area 17 as well.

Regarding **complementary actions**, in June 2014 Programme Operator participated in a joint workshop on the Programme Area 17 organised by the Polish Programme Operator of PA16 and PA17 in Krakow, Poland. The main topics of the workshop were the experiences and practises on programming process, implementation of the programmes (e.g. roles in the managing system, amendments to the programmes, cross-cutting issues), design of Call for Proposals and selection procedure and bilateral partnership.

In 2014 **Measure A** of Funds for bilateral relations at programme level was opened in order to facilitate donor partnerships in the development phase of the project proposals. In 2014 **Measure B** of the Bilateral Funds was not opened because of the fact that no project was contracted in the framework of the main Calls.

3.2.7 Programme area HU08 - Scholarship

Overall progress

The implementation of the Scholarship programme entails continuous human and social development for the benefit of Hungarian and Donor States' education related institutions through individual mobility and inter-institutional projects. During 2014 they have **reached more than 40 Hungarian institutions all over the country** from different sectors of the education in all the four measures. The great majority of the applicants are traditional education institutions but 21% of the applicants are engaged in non-formal education. This means the wider range of institutions is involved, the wider scope of teaching/training

methods, teaching materials can be exchanged and a wider public can benefit from the outcomes of the programme.

Progress towards expected outcomes and outputs achieved

Measure 2: The approved projects in the first application round shall contribute to the outgoing mobility of 86 Hungarian **staff persons (154 for outgoing and incoming mobility altogether)** and 69 **students (116 for outgoings and incomings altogether)**. The targets set in the Programme Agreement have been reached (154 staff versus 60; 116 students versus 100). These indicator values were supposed to be refined in the amendment, i.e. new target indicators shall be much higher than the growth. 90% of the projects will implement staff mobility and 80% of them will organise student mobility. Concerning geographical spread, we can state that project promoters can be found in central Hungary (50%) and in convergence regions (50%). As the implementation phase of the projects has not started in 2014, monitoring visits were not carried out to measure the cooperation between partners. Projects approved in the second application round could not start in 2014 (for more information please see point 4).

Measure 3: Selected projects shall implement 33 outgoing and 12 incoming staff mobility. **The total 45 mobility equals to 39% of the output indicator** set for this measure. Concerning geographical spread, we can state that project promoters can be found mainly in central Hungary (60%) but also and in convergence regions (40%).

Measure 4: There are **two selected projects that focusing on cooperation between higher education institutions and enterprises**. If the implementation of these projects is successful, we can state that the **set target was met in 100 %** (n.b. the end date of these projects is in 2016). The number of new teaching materials will be measured through institutional reports in a later phase. When looking at the geographical spread, we can see that almost every project promoter is located in Central Hungary (Budapest) and only one is from convergence region (14%). These (or similar) projects shall be more promoted in non-central regions in the next Financial Mechanism.

Potential risks

The major risk in the Programme is **lack of agreement** between Donor States and Hungary, which is not solvable on the level of the Programme. Furthermore the necessary amendment of the Programme Agreement and the networking with DPP-s are not feasible.

Major deviations from the plan

Unfortunately neither the Programme Agreement, nor the Programme Implementation Agreement was not amended yet accordingly in 2014. The suspension of the Funds increase the uncertainty about the Programme.

Need for adjustments of plans, including risk mitigation actions

The modification of the Programme Agreement and the Programme Implementation Agreement is necessary. If the amendment of these agreements takes place at the final stage of the present Financial Mechanism, there will be a high risk of not absorbing the funds.

Use of funds for bilateral relations at programme level

Bilateral relations between Donor States and Hungary are facilitated by means of the **bilateral funds at programme level, i.e. Preparatory Visits (Measure 1)** in HU08 programme. In 2014 altogether 20 applications were submitted in Preparatory Visits action.

In order to help the establishment of partnerships between Hungarian and Donor States' institutions, **contact seminars** were organized. The event held on 3rd-4th February took place in Oslo. This contact seminar was organized by the DPP, the Norwegian Centre for International Cooperation in Education (SIU), where the representatives of higher education institutions from all Beneficiary and Donor States were invited. We made an observation that the interest for cooperation with foreign partners is quite low among Donor States; it is difficult to find partners.

4. MANAGEMENT AND IMPLEMENTATION

4.1 Management and control systems

From 1 January, 2014, by preparing for the upcoming financial period of the EU, the Hungarian Government **reorganised the institutional system of the development policy**. The aim of the transformation is to set-up an increasingly effective and transparent system that supports the efficient use of the EU and international funds, moreover to move towards a less centralized but efficiently coordinated solution. As a result the tasks of the deceased NDA have been transferred to organisations strategically responsible for the different development areas, namely to ministries or other state-owned organisations. The units performing the horizontal tasks such as human issues, legal remedies, financial chapter management, procurement control, IT monitoring and communication have been taken over by the Prime Minister's Office.

The Széchenyi Programme Office Non-profit Ltd. had been appointed as the **legal successor** of the Managing Authority for International Co-operation Programmes (MAICP) of NDA regarding its tasks of the FMs, namely **to fulfil the tasks of the NFP**. SZPO is a 100% state-owned company operating under the supervision of the Prime Minister's Office.

SZPO is responsible for facilitating the effective and proper use of the EU, international and national funds, thus contributing to increase employment, to the creation of competitive economy and to the reduction of social and territorial disparities. SZPO operates a nation-wide network of consultants who provide assistance for potential applicants and beneficiaries of approved projects and monitor project implementation. Furthermore, besides acting as National Focal Point in the implementation of the EEA and Norwegian Financial Mechanisms, SZPO was responsible for fulfilling the tasks of the National Coordination Unit in point of the Swiss-Hungarian Cooperation Programme and hosting the Budapest Danube Contact Point. The supervision of the Prime Minister's Office ensured that the NFP operated as a part of central governmental body.

The **Prime Minister's Office was responsible** for the appropriation and resource management of Chapter XIX of the Hungarian central budget, namely for the European Union and other

international funds chapter; therefore it takes part in the financial implementation tasks of NFP regarding the FMs.

The **International Department of the SZPO** was responsible for implementing the tasks of the National Focal Point. The Executive Director of the SZPO appointed the Head of the International Department as the Head of the National Focal Point. The **staff** to implement the tasks of NFP was transferred to the SZPO from NDA and was supplemented with experienced human resources to ensure the smooth reorganisation. Therefore the work of NFP continued with **adequate personal and technical conditions** with seven colleagues. In January 2014 the NFP contacted the FMO with intention to continue the cooperation, but the representatives of donors indicated that they were not in the position to cooperate with SZPO, therefore the negotiations on conditions of MoU modification could not start at that time.

The organisational changes effected further Managing Authorities of the NDA acting as POs in the implementation of the EEA FM until the end of 2013, namely the **Managing Authority for Human Resource Development programmes (PO for HU06)**, the **Managing Authority for Regional Development Programmes (PO for HU07)** and the **Managing Authority for Environmental Operative programmes (PO for HU02)**. The following table shows the **newly assigned institutions**:

Programme area	PO until 31 December 2013	PO from 1 January 2014
HU02 Energy Efficiency	NDA, Managing Authority for Environmental Programmes	Ministry of National Development
HU06 Children and Youth at Risk	NDA, Managing Authority for Human Resources Programmes	Ministry of Human Resources
HU07 Conservation and Revitalisation of Cultural and Natural Heritage	NDA, Managing Authority for Regional Operational Programmes	Ministry for National Economy

Since the taking over process was due in the beginning of 2014, the implementation of the FM somewhat slowed down. The **staff** which was responsible for the Grants at national and programme level fortunately **remained mostly the same**, thus the knowledge and experience could guarantee the appropriate implementation. Nevertheless the situation of the Grants in Hungary made difficult the effective execution, therefore the achievement of results is in danger.

As it is known, **the payment of the Grants was suspended by donors from 9 May, 2014**. The Government is committed to continue the implementation of the Grants in Hungary, therefore since then the resources for project implementation are **ensured from the Hungarian central budget**.

Because of the above institutional changes **the re-negotiation of the MoU and the modification of description of the national level management and control system were necessary and the programme level management system should be elaborated rapidly**. In

addition to the necessary modification of the legislative frames, regular negotiations with the representatives of the Donor States, permanent review of the processes and acceleration of the progress can handle the new situation.

Hungary as Beneficiary State made **great efforts to diminish the negative impacts of the transition period** on the implementation of the programmes as much as possible and to ensure the proper human capacity and environment for the smooth operation. However the willingness of both parties, including the donor side, is necessary.

The Hungarian Government was willing to make every effort in order to the fruitful cooperation, thus, perceiving the donor intention, the **tasks of NFP was transferred to the Prime Minister's Office with modification of the concerned Government Decree from 15 August, 2104**. The organisation of NFP belongs to the State Secretary responsible for the EU developments. The operational tasks of NFP are executed by the Unit for International and Swiss Contribution under the supervision of Head of Deputy State Secretary responsible for international affairs.

Meanwhile the disputed situation between the donors and Hungary remained unchanged, because other conditions have been impose, e. g. regarding the examination executed by the Government Control Office (GCO) in respect of NGO Fund. After the publication of GCO report the Minister of the Prime Minister's Office invited the Minister in Norway responsible for the EU and EEA and Norway Grants to renew the negotiations.

4.2 Compliance with EU legislation, national legislation and the MoU

It can be emphasized that the **EU has accepted the Hungarian institutional changes** in the field of development policy. The newly established institutional system can manage the tasks of current phase and the preparatory works regarding the 2014-2020 period. Most of Hungarian operational programmes have been approved by EU.

Parallel with the institutional changes **national legislation** has changed accordingly. However the **Government Decree 326/2012. (XI.16.)** on the implementation of the EEA and Norwegian Financial Mechanisms 2009-2014 should be modified in accordance with the modification of MoUs. After this modification the amendment of national level MCS and the elaboration of programme level MCSs will be necessary. Meanwhile not only the Programme Implementation Agreements should be concluded or modified accordingly, but also the other regulations, guidelines, template, e. g. Eligibility Guideline, General Application guide, templates of contracts and agreements.

State aid rules have to be taken into consideration by modification of regulation and relevant documents in detail as well, since new state aid rules have come into effect in 2014.

4.3 Irregularities

Since during the reporting period there hasn't been significant progress in the field of implementation of the Programmes, thus **there was not any irregularity to be reported** regarding the year 2014.

4.4 Audit, monitoring, review and evaluation

In the framework of the monitoring activities the **NFP followed closely the programme implementation work of the POs as well as IA.**

Generally the representatives of the NFP participated at the **meetings of the CC and PWG** as an observer and assist their work if it was necessary.

NFP has **followed closely the programme implementation process**, provided comments, opinions to the draft documents prepared by POs and IA, **made recommendations** for the POs related to their requests and necessary additional information.

According to the PIAs NFP fulfils the following tasks normally:

- monitor and assess the progress of programmes with special regard to the fulfilment of the obligations undertaken in the MoU and in the PAs,
- control the regularity of the operation of the POs and the IA with regard to the applicable laws, contracts, regulations and rules of procedure,
- make recommendations to the POs and IA for the documents to be elaborated by them and check and assess them,
- review the settlements submitted by the IA and the verification of the incurred expenditures, prepare a verification report and submit it to the Certifying Authority (CA) through the POs on the verification activity performed in relation to the expenditures of the IA,
- check the progress report of the POs,
- ensure the necessary actions in case of irregularities, may apply financial correction from the grant, may reclaim any unlawfully used grant, may suspend the disbursement of the grant within the framework of the programmes,
- inform the Monitoring Committee on the progress of the programme.

The PIAs contain provisions that ensure that the NFP has **sufficient measures in order to monitor, control, audit and evaluate the progress** and quality of the implementation of the programme, and **to apply the necessary measures** in order to ensure that the programme contributes to the set objective, expected outcomes and outputs to be delivered. An important element of the PIAs is for that reason the right of the NFP to access to information and documents related to the programmes, and the obligation of the POs to submit **regular progress reports** (every 2 months) to the NFP on the implementation of the programme. According to the PIAs NFP may make **comments on the APR** of POs which have to be taken into account before submitting the report by the POs to the Donors. The POs shall prepare and submit to the NFP an **Annual Work Plan** for the subsequent year by 15 December annually after the conclusion of the PIAs and has to take into account the comments of the NFP. In case of programme areas which have PIAs the above mentioned means have been applied, considering the progress of concerned programme. The POs which have PIAs completed their tasks determined in these Agreements.

NFP supports the professional operation of the POs with other means, like comments and recommendations in regard to documents, and organizing meetings in order to contribute to the successful implementation of the programmes.

During the reporting period the following **events were organized and information were sent by the NFP** for the POs and IA:

Event	Topics	Date
Meeting with IA	Negotiation on the institutional changes and tasks	27 January, 2014
Meeting with POs	Information on the institutional changes, further tasks and steps to ensure the progress, tasks regarding the submission of APRs	30 January, 2014
Meeting with each POs	Review of the progress of programme areas; problems and solutions	February 2014
Meeting with IA	Preparation of evaluation of applications submitted to the call for proposals of National Fund for Bilateral Relations	25 February, 2014
Meeting with POs and IA	Negotiation on the situation of the Grants on the occasion of Monitoring Committee Meeting	23 April, 2014
Meeting with PO of HU06 and HU12	Review of the progress of programme; further necessary activities	5 June, 2014

NFP **monitored closely the activities of IA** with several tools. First of all the **documents** prepared by IA in connection with the procedures regarding the Grants at implementation level **were checked** by the NFP (e. g. the financial regulation of IA regarding the separation of expenditures; guideline on complaint policy). The activities of IA were also monitored through the check of the **submitted progress report** on the eligible activities and eligible expenditures.

Considering the recent situation only those programmes in progress, which have PIAs, therefore the monitoring and audit of the programmes through means regulated in the PIAs will be planned at the later stage.

In the first half of 2015 the main tasks of NFP:

- controlling the regularity of the operation,
- making recommendations to the documents prepared by POs and IA
- providing assistance to the Government in promotion of negotiations with donors.

In the second half of 2015, in the programme areas where implementation is in progress, NFP plans to monitor of POs' activities through on-the-spot checks. The exact tasks regarding the on-the-spot monitoring will be determined according to the Monitoring Guide of EEA and Norwegian Financial Mechanisms 2009-2014 focusing on tools of result-based monitoring.

The activities mentioned above depend on the negotiation with donors, so the tasks of 20154 should be supervised at the later stage.

4.5 Information and publicity

The information and publicity activities at national level are based on the Communication Strategy for the EEA and Norwegian Financial Mechanisms 2009-2014.

Implementation of the Communication Strategy

As NFP bears overall responsibility for the FMs 2009-2014, it is crucial that the NFP ensures that the overall objectives of the FMs are known, understood by the stakeholders and experienced by the widest possible audience. NFP also considers informing governmental entities and POs not only on demand basis, using different forms, e.g.: forwarding templates and guidelines; organizing meetings for POs (see chapter 4.4 for more details).

The following main activities have been implemented in 2014, concerning general communication:

- meeting with external expert company which assists in the implementation of communication activities – March 2014;
- publishing news on the official web-site for the EEA and Norway Grants.

Due to the known situation the visibility of the EEA and Norway Grants increased in 2014, unfortunately not in really positive sense. Possibly the effect of reputation and the rate of popularity deserve further examination. Nevertheless the articles, news, interviews, published official letters and events regarding the GCO-examination of NGO Fund made popular the Grants in Hungary.

Consistent with the Communication Strategy the measurement of the public awareness was originally planned earlier, but due to the above, it had to be postponed and it depends on the future status of the FMs.

Results of the information and publicity measures in terms of visibility and awareness of the FM

On 10-11 March 2014 a communication workshop was organised by the FMO in Bucharest, Romania, where the representative of the Hungarian NFP participated as well. The aim of the workshop was to raise effectiveness and learn from the best practises utilised in the beneficiary countries of the FMs.

After April 2014, when the first official letter written by the Minister of Prime Minister's Office on the NGO Fund was published, several articles, news, interviews, summaries etc. released, and the statements of the donor side were published not only in media but also on the official web-site of Norway in Hungary. These events increased the visibility of the Grants certainly in Hungary. Although professional measurements were not made, the awareness of the FMs has not been in positive context for every target group.

At the beginning of 2014 the contracted external expert team has assisted to the POs in order to successfully meet the requirements and execute the communication activities. Fulfilling these horizontal and programme specific tasks the NFP organised a kick-off meeting with the experts in March, 2014.

Information and publicity activities implemented by the POs

NFP follows the work – including the communication activities - of the POs and the IA and monitors their operation by aggregating all data of progression. NFP participates in the meetings of CCs as observer and provides information to the POs and IA in order to assist their regular operation and to contribute to the effectiveness and adequacy.

During the reporting period targeted communication activities were executed. POs have informed the inquirers on the status of the progress and the expected events and consequences.

4.6 Work plan

The **indicative work** plan which can be applied by NFP depends on the agreement between the donors and Hungary.

The table contains activities that the NFP is in charge for.

Action	Planned timing	Responsible entity
Review and recommendation of APRs	February 2015	NFP
Submission of the Annual Strategic Report	March 2015	NFP
Monitoring Committee Meeting	May 2015	NFP
Annual Meeting	May 2015	NFP and Donor States
Signing the rest of PIAs	June 2015	NFP, POs and IA
Participation in CC, FC and Selection Committee meetings of programme areas as observer	continuous	NFP
Review and recommendation of calls for proposals of programmes	continuous	NFP

5. SUMMARY LIST OF ISSUES AND RECOMMENDATIONS

Having ensured the further successful implementation of the overall FMs and the programmes and for fulfilment of the duties arising from the increased responsibility of the Beneficiary State due to the programme level approach, the **NFP started to set-up the new institutional system and assist to continue the implementation on programme level** during the reporting period. Considering the changes regarding the institutional system of development policy, special attention has been paid to operate the FMs in Hungary.

It is still a challenge to operate an effective and efficient implementation set-up, considering the size of the Grants, its complexity and novelty, including many institutions at many levels. **In line with the MoUs, the Regulations and the main national legislations, the relevant documents in detail** – project contracts, partnership agreements, guidelines and templates - **were elaborated during the reporting period.**

For the mitigation of the risks regarding the delays and the change of the institutional system of EEA and Norwegian FMs, the **measures summarized** in the Executive summary (page 5.) have been applied, which could have been support the effective progress in the implementation.

From January 2014 the donors suspended the contact with NFP and refused to recognise the NFP. From this period the effectiveness of the Grants has become questionable, among others considering the fact, that one of the overall objectives is strengthening the bilateral co-operations. **In case of co-operative approach** in operative level **mutually** with the donor side the loss could have been reduced which is considerable until now.

6. ATTACHMENTS TO THE STRATEGIC REPORT

1. For each Programme, a table showing the breakdown in respect of applications received and projects selected / contracted, as well as the types of intervention supported, including the table with data on COOPER modality of NFBR (Attachment 1B)
2. For each Programme, a table providing information in respect of donor partnership projects (names of Donor State entities, number and proportion of partnership projects).
3. A summary table on Donor partnership projects on the Beneficiary State level.
4. A list of irregularities detected at the Beneficiary State level and at Programme level during the reporting period and financial corrections made.
5. For each Programme, a list of irregularities detected at project level during the reporting period and financial corrections made.
6. A plan setting out the monitoring and audit activities in the Beneficiary State for the coming reporting period (non-public attachment).
7. A risk assessment at the national and programme levels (non-public attachment).

Annex 7/a: Risk assessment at the national level

The risk assessment at the national level regards risks to the two overall objectives and overall operations of the Grants.

Type of objective ¹	Description of risk	Likelihood ²	Consequence ³	Mitigation planned/done
Cohesion objective:	Lack of agreement between the Donor States and Hungary	3	4	<ul style="list-style-type: none"> - Acceleration of the willingness to negotiate; - Preparation of necessary legislation and documents
Bilateral objective:	Lack of agreement, capacity, interest, motivation and time on both sides	3	4	Review the opportunities of the bilateral relations; establishment of the proper
Operational issues:	The implementation has slowed down due to several reasons	4	4	Elaboration of the new system, ensuring the necessary human resources, elaborated documents for the operation, assistance to change the regulation framework and participation in the negotiations with the representatives of donors to solve the existing situation

¹ The risks should be categorised in one of 3 ways, depending on whether it poses a risk to the cohesion objective, the bilateral objective, or is more of an operational issue.

² Each risk should be described as to whether it poses a risk to the cohesion objective, the bilateral objective, or is more of an operational issue, where 4 = Almost certain (75 – 99% likelihood); 3 = Likely (50 – 74%); 2 = Possible (25 – 49%); 1 = Unlikely (1 – 24%)

³ Assess the consequence(s) in the event that the outcomes and/or crucial operations are not delivered, where 4 = severe; 3 = major; 2 = moderate; 1 = minor; n/a = not relevant or insignificant.

Annex 7/b: Risk assessment of the programmes

The table shows the most prominent risks of the programme areas based on the APRs. The detailed risk assessment of each programme can be seen in the APRs.

Programme #	Type of objective ⁴	Description of main risk	Likelihood ⁵	Consequence ⁶	Mitigation planned/done
HU02 Energy efficiency	Cohesion (Programme) outcomes: Improved energy efficiency in buildings	Delays in programme implementation as well as indicator targets are not achieved due to the institutional changes and the suspension of the financial mechanism	4	4	Responsibility of the donor states and national level institutions.
HU03 Renewable energy	Cohesion (Programme) outcomes: Increased renewable energy production and Increased awareness of and education in renewable energy solutions	The achievement of the outcomes can be threatened by further delays in the implementation of the Programme as the implementing period for the projects gets shorter due to the lack of agreement between Hungary and donors	4	4	Regarding the outcomes the assessment of the risk factor and indication of it to the relevant stakeholders; condition: agreement between the parties.
HU06 Children and Youth at Risk	Cohesion (Programme) outcomes:	The APR does not contain table on the risk assessment	-	-	-
HU07 Cultural Heritage	Cohesion (Programme) outcomes:	The delay of the amendment of MoU,	3	3	Taking every effort to the agreement by the stakeholders.

⁴ The risks should be categorised in one of 3 ways, depending on whether it poses a risk to the cohesion outcomes, the bilateral outcomes, or is more of an operational issue.

⁵ Each risk should be described as to whether it poses a risk to the cohesion outcomes (programme outcomes), the bilateral outcome or crucial operational issues 4 = Almost certain (75 – 99% likelihood); 3 = Likely (50 – 74%); 2 = Possible (25 – 49%); 1 = Unlikely (1 – 24%)

⁶ Assess the consequence(s) in the event that the outcomes and/or crucial operations are not delivered, where 4 = severe; 3 = major; 2 = moderate; 1 = minor; n/a = not relevant or insignificant.

	Cultural and natural heritage restored, renovated and protected	the lack of agreement between Hungary and the Donor countries and the implementation due to the suspension of Grants			
HU08 Scholarship	Cohesion (Programme) outcomes:	Lack of agreement between Donor States and Hungary	4	4	Not applicable on programme level
All programmes	Bilateral outcome(s):	Lack of interest or capacity for cooperation	4	4	Assistance to find the appropriate field of cooperation for the potential applicants and project partners; giving possibility to the establishment of bilateral relations; requesting assistance from the donor side (DPPs, representatives of donor countries)
Most of all programmes	Operational issues:	Organisational changes at national level institution of Grants	4	4	Acceleration of the agreement between Hungary and the donors.
HU02 Energy efficiency HU03 Renewable energy HU06 Children and Youth at Risk HU07 Cultural Heritage	Operational issues:	Organisational changes at POs concerned with restructuring can slow down the programme implementation	3	3	Acceleration of the process with contribution to the establishment a proper organization; preparing the necessary documentation and participating in the negotiations to mitigate possible legal and financial problems