

Strategic Report

on the implementation of

EEA Financial Mechanism 2009-2014

in Hungary

1 January 2015 – 31 December 2015

March 2016

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LIST OF ABBREVIATIONS

AA	Audit Authority
APR	Annual Programme Report
ARS	Automatic Reimbursement Scheme
CA	Certifying Authority
CC	Cooperation Committee
DIICP	Department for implementation of International Cooperation Programmes
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
MCS	Management and Control System
MoU	Memoranda of Understanding
NDA	National Development Agency
NFBR	National Fund for Bilateral Relations
NFP	National Focal Point
NMFA	Norwegian Ministry of Foreign Affairs
PA	Programme Agreement
PIA	Programme Implementation Agreement
PMO	Prime Minister's Office
PO	Programme Operator
R&D	Research and Development
SMEs	Small and Medium Enterprises
SZPO	Széchenyi Programme Office

1. EXECUTIVE SUMMARY

The Hungarian government is committed to implement successfully the EEA and Norwegian Financial Mechanisms 2009-2014, including the overall objectives. Being aware the importance of the contribution to the overall objectives and expected results in Hungary, the Prime Minister's Office made every effort to support the implementation of the Grants in 2015. Regarding the ongoing programmes the government ensured the necessary sources from the central budget and the staff of PMO fulfilled the tasks determined for the Focal Point.

Considering the known circumstances of EEA and Norway Grants in Hungary, from the beginning of 2015 only the minor part of the FMs could operate, which meant great challenge to the Hungarian side. As it is aware, the second half of the year of 2015 could give the possibility of the normal implementation of the EEA and Norway Grants in Hungary in fact.

After the high level expert negotiation in June 2015, the representatives of donors and Hungarian Focal Point discussed in the **following technical meetings**:

- 29th June, 2015 – Budapest
- 13th August, 2015 – Brussels
- 23th September, 2015 – Brussels
- 17th November, 2015 – Budapest
- 30th November, 2015 – Brussels

On the technical meetings the representatives of the parties reviewed the status of the implementation of EEA and Norwegian Financial Mechanisms in Hungary, discussed the process of ongoing programmes, defined the programmes not to be continued and tasks to be performed.

During this period, the Focal Point, together with the institutional system in Hungary, has taken the necessary measures in order to restart the implementation with the following main actions:

- preparation of management and control system description at national level
- information and supporting the POs, AA, CA and IA on the progress
- preparation of the modification of Government Decree on the implementation of the FMs

Hungary intended to restart the implementation in the programmes which stopped or did not start due to the donor suspension, therefore our activities aimed to organise the Annual Meeting as soon as possible. As a condition for regulatory compliance the Focal Point organised the meeting of **Monitoring Committee** on **15 September, 2015**, where the

participants received information the status of the FMs and the future prospects and the members of the MC approved the Annual Strategic Reports.

Re-negotiation of the **MoUs** completed successfully on **24 November 2015** in Brussels on the Annual Meeting. The Prime Minister's Office was acknowledged as **NFP** as well as other institutional changes regarding some **POs**, and the decision on the reallocation of reserve between some programmes was presented in the MoUs. The suspension of the **Grants was lifted up from 9 December, 2015**. The changes of MoUs have been promulgated as Government Decree on 28 December, 2015.

In addition, on **8th December, 2015** in Budapest a technical meeting was held on the financial issues of the EEA and Norwegian FMs with participation of the financial representative of FMO and the concerned institutions in Hungary.

The necessary modification of Government Decree on the implementation of the FMs completed in December, 2015, with cooperation of the Hungarian institutional system.

Parallel with the above mentioned activities the necessary modification of Programme Agreements, Programme Implementation Agreements, other regulations, guidelines, templates restarted as well.

During the reporting period the NFP has followed closely the programme implementation process regarding the activities of POs as well as IA and supported the work of programmes without project implementation.

The main risk is the **remaining short implementation period**. The tight schedule for the revision of the professional content of programmes, the short period for the grant decisions and to conclude the Project Contracts can jeopardize the successful implementation. **The support of the Donor States in the extension of the projects is crucial** for effective implementation. The Focal Point intends to reduce the risks with application of proper human capacities, strengthen the supervision and monitoring activities regarding the programmes and accelerate the reconciliation and approval processes.

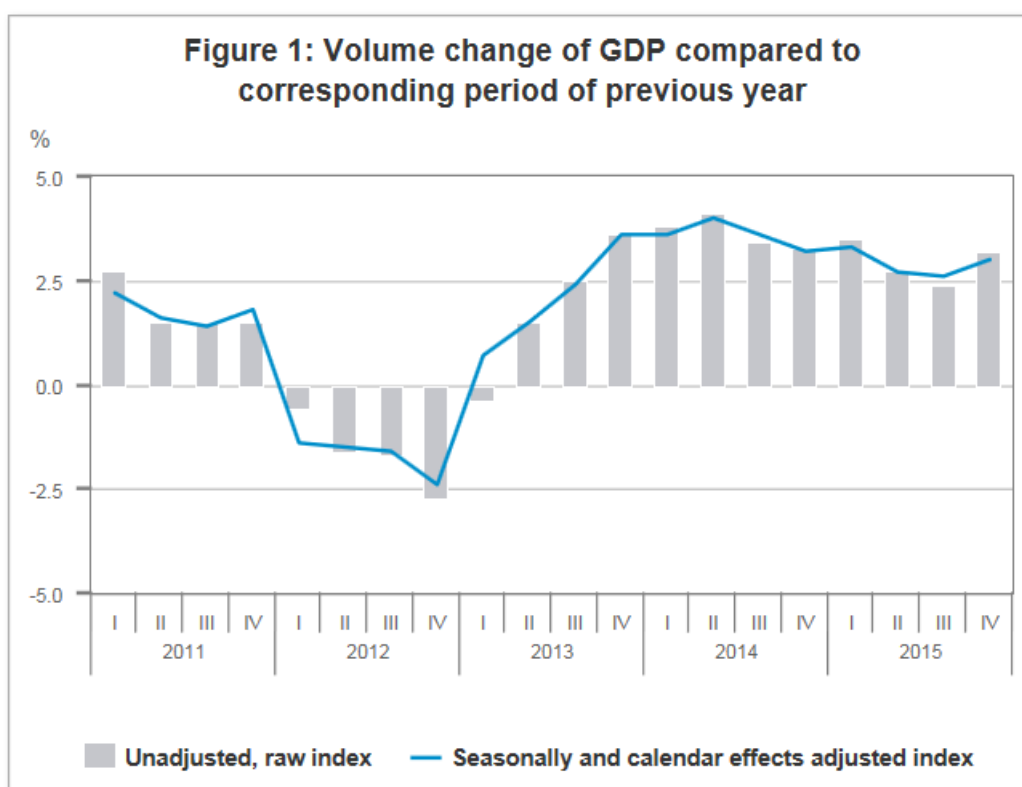
2. ASSESSMENT OF THE EFFECT OF THE GRANTS

2.1. Cohesion

2.1.1. Economy and society of Hungary in 2015

2.1.1.1. Gross domestic product of Hungary in 2015

The volume of gross domestic product increased by 3.2% in Hungary in the 4th quarter of 2015 compared to the corresponding period of the previous year. All industries except for agriculture and construction contributed to the increase. According to seasonally and calendar effects adjusted data, the performance of the economy was up by 3.0% compared to the corresponding quarter of the previous year and by 1.0% compared to the previous quarter. Economic performance in 2015 was 2.9% higher than a year earlier.



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

Comparing 2015 with the previous year:

- The performance of the economy was up by 2.9% compared to the previous year.
- According to the production approach, gross value added grew by 6.3% in industry, by 2.9% in construction and by 2.8% in services, and it decreased by 13% in agriculture.
- According to the expenditure approach, the actual final consumption of households went up by 2.6% and that of the government by 0.6%. As a result of these two items,

actual final consumption increased by 2.3%. Gross capital formation became 0.5%, within which gross fixed capital formation 1.9% higher, so domestic use as a whole rose by 1.9%. Exports increased by 8.4% and imports by 7.8%.

Volume indices of final use of gross domestic product (GDP)

(corresponding period of previous year = 100.0)

Items of use	2014	2015			
	Q4	Q1 ^R	Q2 ^R	Q3 ^R	Q4
Household final consumption expenditure	102.9	103.4	102.8	102.7	103.5
Social transfers in kind from government	100.0	99.1	99.2	101.9	101.9
Social transfers in kind from NPISHs	104.7	98.9	100.1	101.2	101.5
Actual final consumption of households	102.5	102.6	102.1	102.5	103.2
Actual final consumption of government	108.5	94.4	96.0	105.1	106.7
Actual final consumption, total	103.3	101.4	101.2	102.9	103.7
Gross fixed capital formation	101.4	94.5	105.0	98.6	106.5
Changes in inventories ^{a)}	X	X	X	X	X
Gross capital formation, total	102.1	104.3	100.6	97.2	101.6
Domestic use, total	103.2	101.9	101.1	101.4	103.2
Exports, of which:	106.4	108.7	108.8	108.6	107.7
Exports of goods	105.2	108.4	109.3	108.3	108.5
Exports of services	111.5	110.1	106.9	109.6	104.5
Imports, of which:	106.5	107.4	107.5	108.1	108.0
Imports of goods	107.7	106.9	107.5	108.1	107.2
Imports of services	100.5	110.3	107.4	108.2	111.8
External trade balance of goods and services ^{a)}	X	X	X	X	X
Gross domestic product (GDP), total	103.3	103.5	102.7	102.4	103.2

a) For these items, volume indices are not applicable.

^R: Revised data.

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

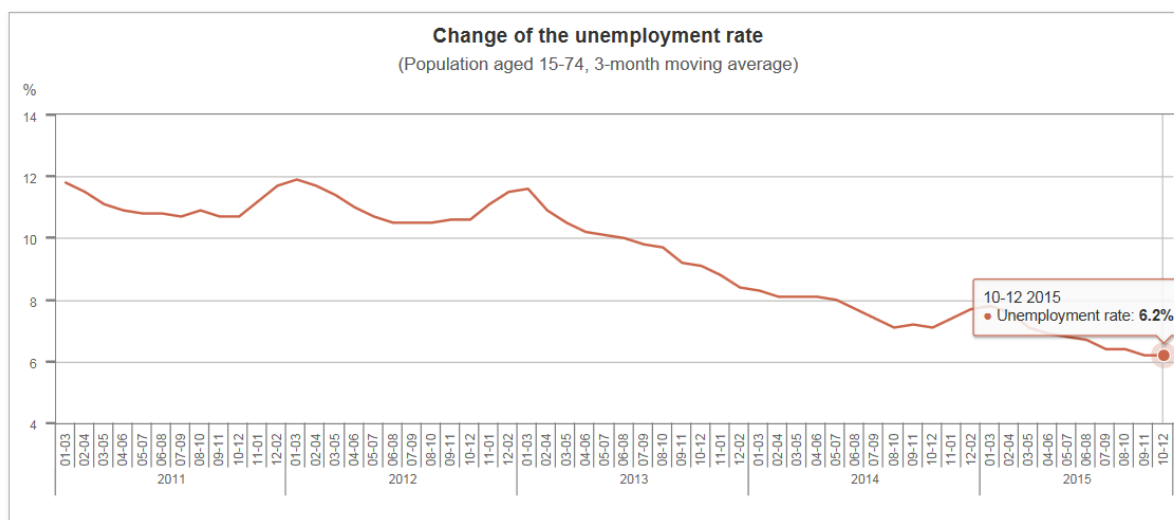
In the balance of external trade of the national economy a surplus of 623 billion forints was generated at current prices. Exports were up by 7.7% and imports by 8.0%. In trade in goods, exports grew by 8.5% and imports by 7.2%. Within the balance of external trade of the national economy the exports of services (including tourism) were 4.5% and their imports 12% higher than a year earlier.

Actual final consumption contributed by 2.6 percentage points and gross capital formation by 0.4 percentage point to the 3.2% growth of gross domestic product in the 4th quarter of 2015. External trade increased GDP growth by 0.2 percentage point.

2.1.1.2. Unemployment rate of Hungary in 2015

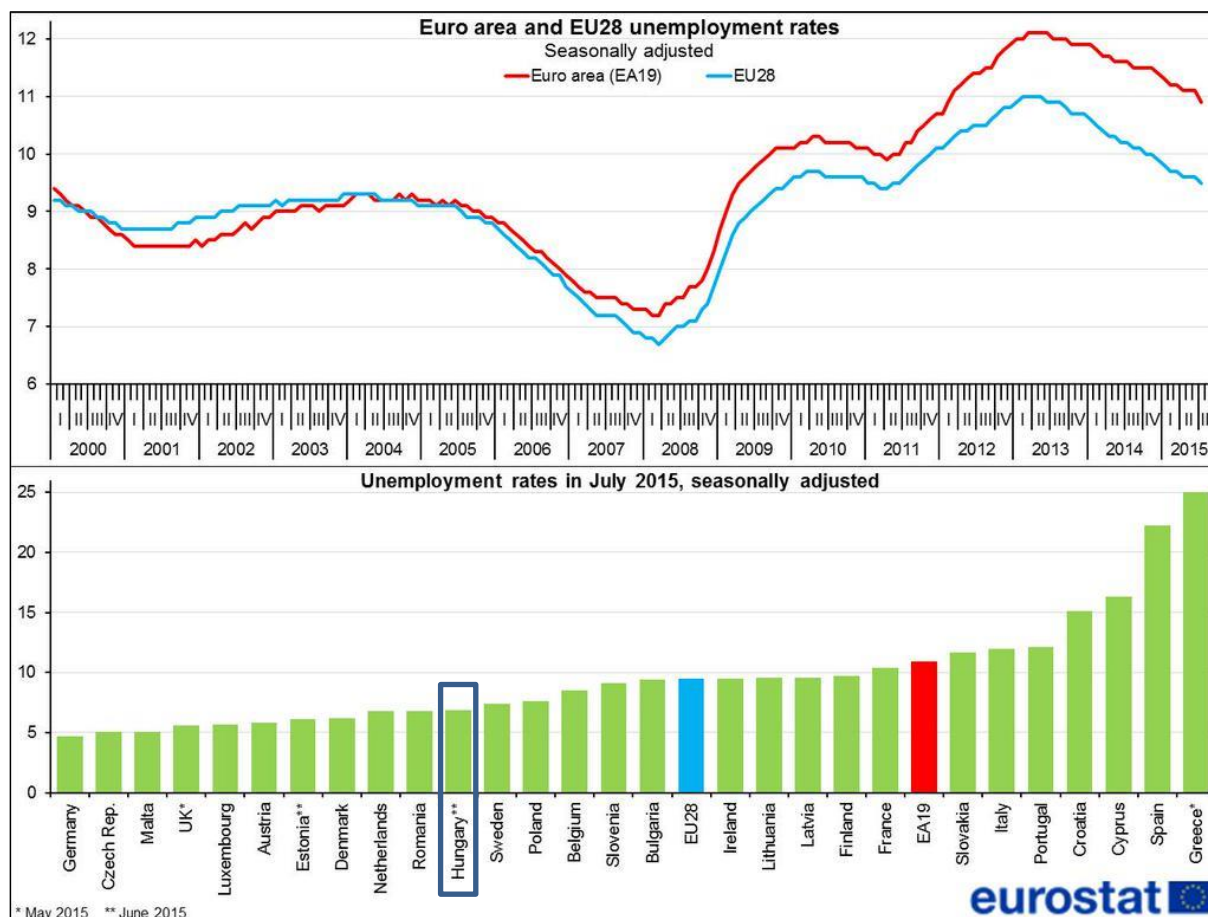
The annual average number of the unemployed was 308 thousand in 2015, 35 thousand fewer than in 2014. The unemployment rate decreased by 0.9 percentage point to 6.8% compared to the previous year.

In the last quarter of the year (October – December 2015) the number of unemployed people was 281 thousand, 38 thousand fewer than a year earlier, and the unemployment rate decreased by 1.0 percentage point to 6.2%. Men were characterized by a lower level of unemployment, and the improvement was also higher in their case.



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

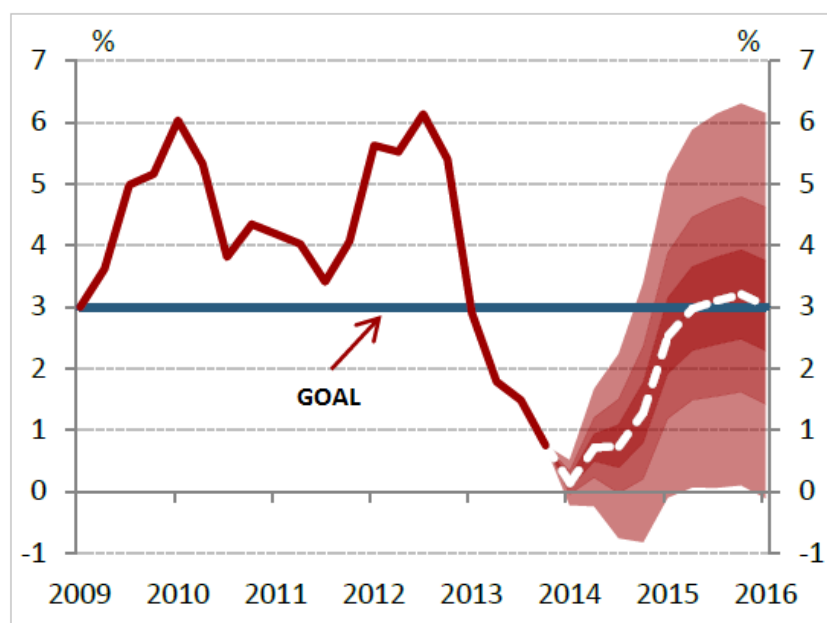
According to the latest, seasonally adjusted data compiled by Eurostat, in March 2016, the unemployment rate averaged 11,2 percent within the eurozone (19 member states), 9.7 percent within the EU (28 member states), while it was only 6.2 percent in Hungary.



Source: EUROSTAT

2.1.1.3. Inflation rate of Hungary in 2015

In 2015 the average inflation rate was -0,1%. Comparing 2015 with the previous year Consumer prices were cut by 0.1% on average. Food prices, overall, increased by 0.9%. The prices of alcoholic beverages and tobacco rose at the highest rate (by 3.1%). The prices of services rose by 1.9% and those of consumer durables by 0.8% on average. Clothing and footwear prices, overall, were unchanged. The prices of other goods decreased at the highest rate (4.6%), and the prices of electricity, gas and other fuels were reduced by 2.9%.



Forrás: MNB

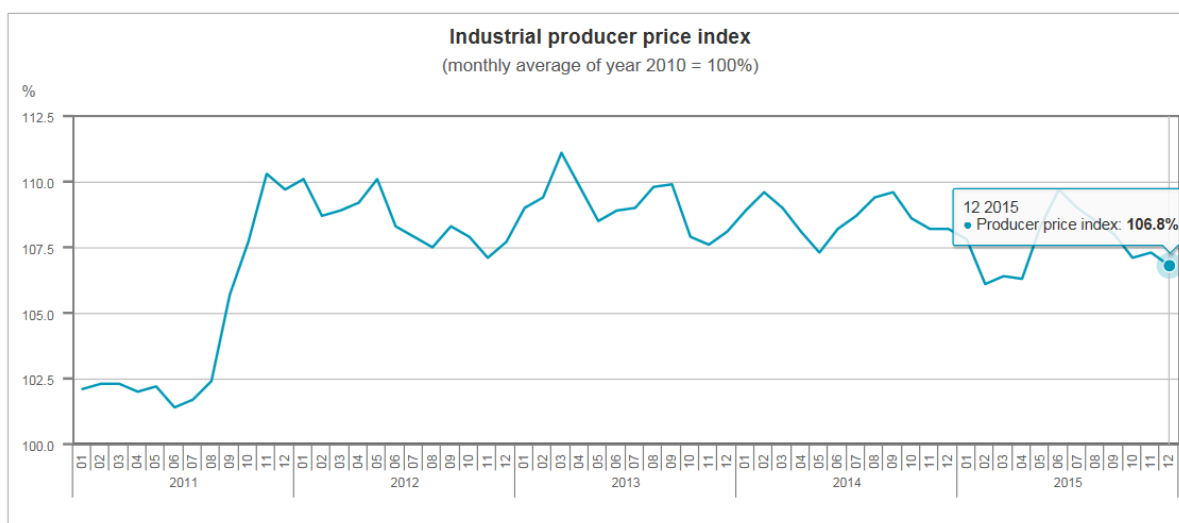
2.1.1.4. Gross output of industry of Hungary in 2014

The volume of gross domestic product increased by 3.2% in Hungary in the fourth quarter of 2015 compared to the corresponding period of the previous year.

In year 2015 compared to previous year the Industrial domestic sales prices were 3.1%, manufacturing prices 3.3% and prices in electricity, gas, steam and air-conditioning supply, representing significant weight, 3.1% lower.

In domestic sales, out of the end-use groups of the producer branches of industry, prices fell by 4.4% in energy and intermediate producer branches, rose by 1.3% in capital goods producer branches and were unchanged in consumer goods producer branches.

Industrial export sales prices – within which manufacturing prices as well – were 0.3% higher, while prices in electricity, gas, steam and air-conditioning supply 2.0% lower.



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

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

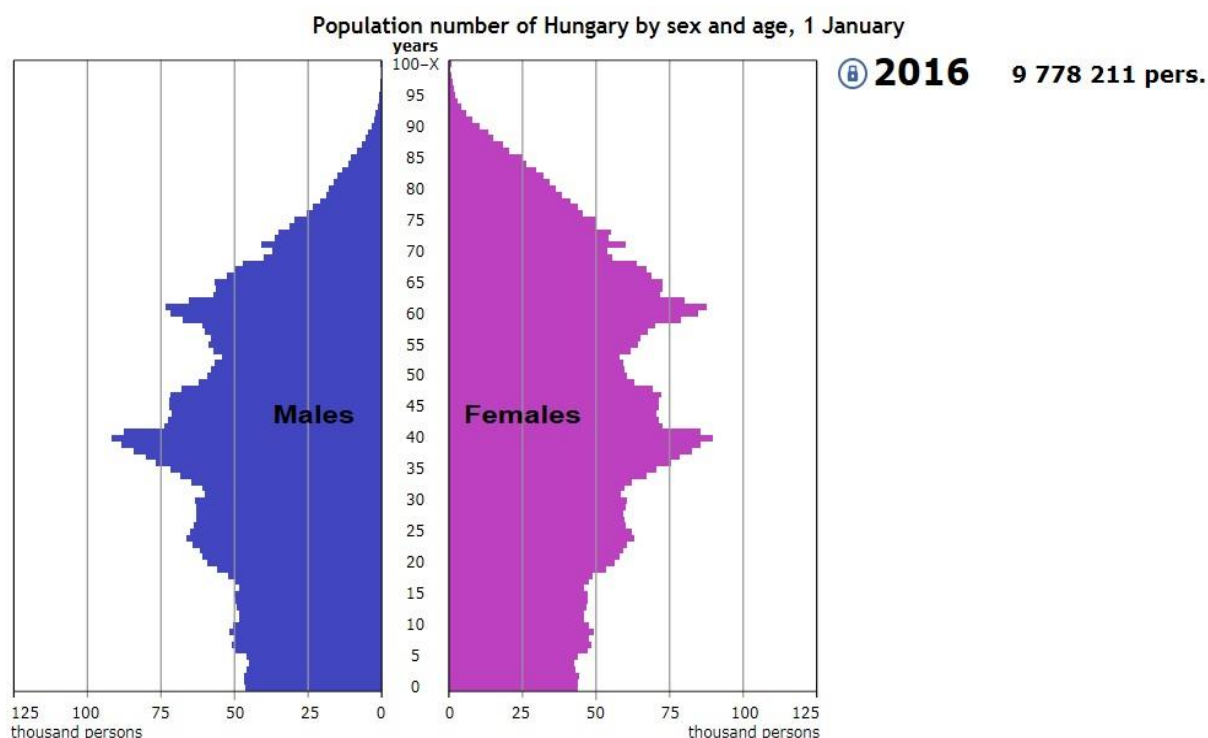
In regard to that there are not any significant change in 2015 Hungary at the socio-economic at the national level please find the detailed description in the Annual Strategic Report 2014.

2.1.1.6. Social status in Hungary in 2015

The estimated population number calculated further based on data of the 2011 population census and taking into consideration international migration was 9,823 thousand at the end of 2015.

Based on preliminary vital statistics 91,700 children were born in 2015, 0.2% (190 children) more than one year earlier, and the birth rate (9.3 per mille) was unchanged. The number of deceased people (131,600) was 4.2% (5,292) higher year on year, and the death rate – along with an increase of 0.6 per mille point – equalled 13.4 per mille. The natural decrease (39,900 persons) grew by 5,102 compared to 2014. The infant mortality indicator of 4.1 per mille in 2015 was 0.5 per mille point lower than a year earlier. The number of induced abortions (31,200) decreased by 4.5% compared to the previous year.¹

¹ Source: KSH (Statistical reflections 2016. *Economy and Society, January–December 2015* Hungarian Central Statistical Office www.ksh.hu)



Source: KSH²

Life expectancy at birth in Hungary stands at 75 years, five years below the OECD average of 80 years and one of the lowest across the OECD. Life expectancy for women is 79 years, compared with 72 for men, a wider difference than the average OECD gender gap of five years, with a life expectancy for women living of 82 years and 77 years for men.³

Employment grew and unemployment was reduced in 2015 compared to the previous year. The number of 15–74 year-old employed people was 4,210 thousand on average, 110 thousand more than in 2014. 4,176 thousand employed people belonged to 15–64 year-olds, their number rising by 106 thousand (2.6%) over a year, and their employment rate was 2.1 percentage points higher (63.9%). The growth of employment was higher among men, their employment rate rose to 70.3% and that of women to 57.8%. The number and rate of employed people increased in the group of young people aged 15–24 years, being present in low number on the labour market, people in the best working age, i.e. 25–54 year-olds, as well as 55–64 year-olds. (The employment rates of these age groups were 25.7%, 80.6% and 45.3%, respectively, in 2015.)

The number of unemployed people – in 2015 and in the 15–64 year old population – was 307 thousand on average, a tenth (36 thousand) fewer than in 2014, while the unemployment rate was cut by 1.0 percentage point to 6.8%. The unemployment rate was

² KSH age pyramid 2016, https://www.ksh.hu/interactive_agepyramids

³ Source: OECD Better Life Index, <http://www.oecdbetterlifeindex.org/countries/hungary/>

lower for men (6.6%) than for women (7.1%), at the same time, unemployment fell to a higher extent in their case. The unemployment indicators of 15–24 year-old young people, 25–54 year-olds and 55–64 year-olds all decreased year on year. (The unemployment rates were 17.3%, 6.0% and 5.8%, respectively, in these three age groups in 2015.) 47.4% of unemployed people were unemployed long term, i.e. for at least one year, their rate remained 2.1 percentage points lower than in 2014, while the average length of job search was practically unchanged over a year, it was 18.4 months.⁴

Employment rates are generally higher for individuals with a higher level of education; in Hungary an estimated 79% of individuals with at least a tertiary education have a paid job, compared with an estimated 27% for those without an upper secondary education. This 52 percentage point difference is much higher than the OECD average of 34 percentage points. Women are still less likely than men to participate in the labour market. In Hungary, 53% of women have jobs; this is less than the OECD average of 58% and the 64% employment rate of men in Hungary. This 11 percentage point difference, however, is lower than the 15 percentage points and suggests Hungary could further improve employment opportunities for women. Long-term unemployment rate for men is slightly higher than for women, with respectively 5.2% and 5.0%.⁵

2.1.2. Economic activity rate in age group 15-64 by gender (2013-2015)								
Year	Employed	Unemployed	Economically active	Economically inactive	Population in age group 15-64	Activity rate	Unemployment rate	Employment rate
	per thousand					%		
Total								
2013	3 860,0	440,2	4 300,2	2 346,6	6 646,8	64,7	10,2	58,1
2014	4 069,9	342,7	4 412,6	2 175,1	6 587,7	67,0	7,8	61,8
2015	4 175,8	307,0	4 482,7	2 047,7	6 530,4	68,6	6,8	63,9
Male								
2013	2 084,5	239,0	2 323,5	948,6	3 272,1	71,0	10,3	63,7
2014	2 202,7	181,4	2 384,1	862,6	3 246,7	73,4	7,6	67,8
2015	2 264,3	161,3	2 425,6	797,3	3 222,9	75,3	6,6	70,3
Female								
2013	1 775,5	201,2	1 976,7	1 398,0	3 374,7	58,6	10,2	52,6
2014	1 867,2	161,3	2 028,5	1 312,6	3 341,1	60,7	8,0	55,9
2015	1 911,5	145,7	2 057,2	1 250,3	3 307,5	62,2	7,1	57,8

Source: KSH⁶

Full-time employees earned a gross amount of 247,800 forints per month on the level of the national economy⁷ on average in 2015, the net amount of which – calculated without family tax benefit – was 162,300 forints. Due to unchanged contributions burdening earnings and to unchanged personal income tax rules, average gross and net earnings were higher by the

⁴ KSH Statistical reflections 2016

⁵ OECD Better Life Index

⁶ https://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qlf002.html

⁷ At enterprises employing at least five persons, public institutions and observed non-profit organisations.

same extent, by 4.2% compared to 2014. Leaving out of consideration the average earnings data of people in public employment, gross and net wages rose at the same rate, too, by 4.5%. Net earnings were 3.9% higher than in the previous year at enterprises, 6.3% more – without persons in public employment – in the public sector and 3.2% higher at non-profit organisations. (94% of persons in public employment are employed at public institutions and non-profit organisations.)

Along with the 0.1% decrease of consumer prices, real earnings were up by 4.3% compared to the previous year.

Consumer prices remained 0.1% lower in total in 2015 than in the previous year. It was the price of other goods (pharmaceuticals, motor fuels, housing, household and personal care products as well as recreational goods) that fell at the highest rate, by 4.6%, primarily consistent with the decrease of fuel prices. The price of household energy – following a decrease of 12% a year earlier – was cut by 2.9% in 2015. It is the price of alcoholic beverages and tobacco that have risen to the highest extent for years: its rate was 3.1% in the past year. Food prices were up by 0.9%, which was influenced by the significant price rise of seasonal food items. The decrease in consumer durables prices, having lasted for years, changed into a 0.8% price rise in 2015. The rise in consumer prices, as observed in earlier months, continued in January 2016: the price level was 0.9% higher on average than in January of the previous year.⁸

Households on average spend 20% of their gross adjusted disposable income on housing costs, above the OECD average of 18%.

In Hungary, 82% of adults aged 25-64 have completed upper secondary education, higher than the OECD average of 75%. This is truer of men than women, as 85% of men have successfully completed high-school compared with 80% of women. This 5 percentage point difference is higher than the OECD average of 1 percentage point and suggests women's participation in secondary education could be strengthened. At the university level, however, more women complete tertiary education than men in Hungary, at 26% and 19% respectively. This 7 percentage point gap is larger than the OECD average of 4 percentage points.

The OECD's Programme for International Student Assessment (PISA) reviews the extent to which students have acquired some of the knowledge and skills that are essential for full participation in modern societies. In 2012, PISA focused on examining students' reading ability, skills in maths and level in sciences, as research shows that these skills are more reliable predictors of economic and social well-being than the number of years spent in school. The average student in Hungary scored 487 in reading literacy, maths and sciences, close to the OECD average of 497. On average, girls outperformed boys by 9 points, more

⁸ KSH Statistical reflexion 2016

than the average OECD gap of 8 points. The average difference in results, between the students with the highest socio-economic background and the students with the lowest socio-economic is 121 points, much higher than the OECD average of 96 points and the one of largest gaps amongst OECD countries. This suggests the school system in Hungary does not provide equal access to high-quality education.

Poverty rate reached 15% in total population in 2014, and fell only by 0,1 percentage point to 2015. Poverty gap by gender shows 21,7% for men and 22% for women while this rate is 22,5% in the 0-17 age group.⁹ This indicates that underage population is significantly exposed to poverty.

Carbone dioxide emissions have dropped considerably over the past decades, and Hungary is now a seller of tradable emission permits. This partly reflects the increase in the share of renewable energy sources to 8% of the total; the share is planned to reach 20% by 2030. The cost of achieving the target would be reduced by removing the many tax exemptions for intensive energy users.¹⁰

The level of atmospheric PM10 – tiny air pollutant particles small enough to enter and cause damage to the lungs – is 15 micrograms per cubic meter in large urban areas, considerably lower than the OECD average of 20.1 micrograms per cubic meter.¹¹

Hungary could perform better in terms of water quality, as 77% of people say they are satisfied with the quality of their water, lower than the OECD average of 81%.

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 little difference in life satisfaction levels between men and women; men gave their life a 5.1 grade, only slightly higher than the 4.8 grade given by women. Considering people's education level, however, there is a clear difference in life satisfaction levels. 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.¹²

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

No changes took place on programme level regarding this issue last year, so please refer to the ASR of 2014.

⁹ KSH Jövedelem-eloszlás, szegénység [Income distribution, poverty] (2003–2015), https://www.ksh.hu/thm/2/indi2_6_1.html

¹⁰ OECD Hungary - Economic forecast summary (November 2015)
<http://www.oecd.org/hungary/hungary-economic-forecast-summary.htm>

¹¹ OECD Better Life Index

¹² OECD Better Life Index

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 are mostly due to the energy demand of buildings.

Today, buildings consume circa 40% of all energy used in Hungary and roughly two-thirds of that can be accounted for heating and cooling. According to the National Building Energy Performance Strategy the most energy demanding (if the primary energy consumption is taken into account) public buildings are healthcare institutes (with circa 300-350 kWh/m²), followed by offices, trade and educational type of buildings with 230-300 kWh/m². The best energy-performing public buildings (with 130-230 kWh/m²) are those which have been constructed in the last 10 years. In general it can be said that the energy consumption of public buildings of Hungary is higher than the OECD-average.

With regards to the situation of low energy buildings in Hungary (including close to zero energy demanding, passive houses or net zero consuming buildings), it can be said that most of them are residential houses (circa 400-500) and just 20-30 public building of this type exist. However it has to be kept in mind that from the year 2019 every public building has to be constructed as a close to zero energy demanding building; and from the year 2021 each and every (including private ones) has to be constructed similarly.

Although the Programme proposal aims public institutions, the target group is finally limited to public schools due to the negotiation of the programme agreement.

There is no available up to date statistics related to the energy consumptions and technical conditions of public school buildings, but the number of these buildings requiring renovation or modernisation proportionally has certainly not changed significantly. In the meantime – during the last two years – some of these schools probably were renovated from own resource of the municipality and some of them are still waiting for the calls for proposals or for the pre-defined financing possibility under 2014-2020 Operative Programmes (targeting energy efficiency) with larger budgets (c.a. at least EUR 20,7 million) and with better supporting conditions (such as higher grant rate, eligible preparation cost).

Programme HU03 - Renewable Energy

Renewable energy in Hungary

Hungary has set an ambitious target of 14,65% for its share of renewable energy use by 2020 in the National Renewable Energy Action Plan. Connecting to the implementation of the Action Plan, the Renewable Energy Programme Area is up-to-date and essential to contribute to the diversification of conventional energy supply and to promote renewable energy sources.

The statistics of the share of renewable energy in the gross final energy consumption in Hungary can be seen in table 1.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Target 2020
4.4	4.5	5.0	5.9	6.5	8.0	8.6	9.1	9.57	9,51	14.65

Table 1: Share of renewable energy in gross final consumption in Hungary in %

According to the statistics, the share of renewable energy within the total gross energy consumption has been increasing even more than it had been targeted. In 2013 its share has reached 9.5% in Hungary. Thus there is a positive trend, according to which our country has over performed the pro rata commitment towards the EU to a growing extent each year between 2009 and 2013. Updated official statistics are not available yet, although the direction of the trends are unchanged. By 2020 in the gross final energy consumption 14,65% will be of renewables regarding to the National Renewable Energy Action Plan.

Programme HU07 – Cultural heritage

In 2015 the national trends and the regulatory environment are unchanged. The basis of the conservation of the cultural heritage in Hungary is the National Castle Program and the National Fortress Program.

The National Castle Program (2014-2018) aims the extensive reconstruction of economically significant Hungarian castles, ensemble of castles, and the exploitation of economic-tourism potential of castles that met the set of criteria. Initially, the program covered 35 castles, which was expanded to 45 castles in 2015. The program aims touristic development of castles from EU and national resources, between 2014 and 2018. The implementation started in 2015 with a grant of 33 billion Ft.

The objective of the National Fortress Program is to implement professional and reasonable cultural-touristic development of historically and artistically outstanding 34 fortresses owned by the State that can enable long-term use of them.

Programme HU08 – Scholarship

School education sector

Since September 2015 attending kindergarten has become compulsory from the age of 3 instead of the age of 5 in line with the Act on Public Education in force and in line with reducing the risk of drop-out among the vulnerable student groups. One of the most important actions of the strategy against early school leaving is to set up the early warning and pedagogical support system, establishing interventions which serve to prevent drop-outs.

Vocational education and training sector

In 2015 a new maintenance system was formed especially for VET secondary and vocational schools: these schools were taken out from the Klebelsberg Institution Maintenance Centre's scope and a new authority was established. The National Office of Vocational Education and Training and Adult Learning is responsible for 365 VET schools whose daily work and operation is channelled into 44 VET centres. The new system was established in summer 2015 and the handover of responsibilities (including the coordination of scholarship projects) was carried out until autumn. Since the legal persons who are entitled to represent school institutions are the centres, procedures related to grant applications need to be initiated by the institutions in due time.

Higher education sector

Internationalisation of higher education is a high priority at governmental level. A new programme, Campus Mundi will be launched; the number of outgoing students is expected to significantly increase. It will be managed by Tempus Public Foundation: our aim is to harmonise the scholarship programmes (including EEA Grants) and to set up a common management centre. Additionally, the implementation regulation 87/2015 (IV.9.) of the Hungarian Higher Education Act also encourages student mobility in Hungary in the long term. As of 2015, to start a new bachelor or master degree programme in Hungary a mobility window (period of time reserved for international student mobility that is embedded into the curriculum) has to be included in the programme.

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.

During the first half of the reporting period, due to the actual situation the **bilateral activities were limited to the high level official correspondence**. In the second half of 2015 there were personal meetings between the parties.

Key events and meetings at 2015

After the high level expert meeting being held on 23 June, 2015 in Brussels, where the participants agreed on the continuation of the negotiations in order to modification of the MoUs, several technical meetings were organised as follows:

- 29th June, 2015 – Budapest
- 13th August, 2015 – Brussels
- 23th September, 2015 – Brussels
- 17th November, 2015 – Budapest
- 30th November, 2015 – Brussels

On the technical meetings the representatives of the parties reviewed the status of the implementation of EEA and Norwegian Financial Mechanisms in Hungary, discussed the process of ongoing programmes, defined the programmes not to be continued and tasks to be performed.

Re-negotiation of the **MoUs** completed successfully on **24 November 2015** in Brussels on the Annual Meeting. The Prime Minister's Office was acknowledged as **NFP** as well as other institutional changes regarding some **POs**, and the decision on the reallocation of reserve between some programmes was presented in the MoUs.

After the modification of MoUs the discussion with DPPs and donor project partners restarted on programme level and the implementation could accelerate in most of programmes.

Both the NFP and POs consider donor partnership as an essential part of the projects, so existence and sustainability of these partnerships were checked several times at the second part of the year in order to be able to continue the implementation immediately after modification of the MoUs.

Main risks and mitigation

The main risk is the short implementation period until the deadline.

The extension for every project under implementation requires strong efforts from the FP, POs, IA and project promoters in Hungary. Considering the short implementation period the effectiveness is questionable and the results probably will not be reached, especially in the field of bilateral relations.

Due to the prolong period of the suspension in Hungary the danger of withdrawal from partnerships by the donor project partners could be crucial, so effective contribution from the donor side (both FMO and DPPs) is needed to be able to mitigate this risk.

Reporting on the implementation of the NFBR

Unfortunately 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.

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. After the non-approval of donors of the AWP in 2014 there were no further reports prepared by the NFP. Accordingly reporting on the implemented activities and its results and impacts could be provided probably in the later stage.

3. REPORTING ON PROGRAMMES

3.1 Overview of Programme status

The suspension of Grants narrowed implementation possibilities, however the FP just like POs were prepared to carry on with the programmes in the hope of lifting up the suspension. This happened on the 9th of December surely triggering programme implementation that should have to be seen in the upcoming report. Thus, all programmes are facing delays therefore project extensions under negotiations are of vital importance. As delay has been foreseen during the past period, in the case of ongoing programmes the POs together with project promoters were trying to manage this risk in advance that hopefully enables a successful implementation even within the new timeframe given.

The insufficient progress of programmes resulted few calls during 2015:

Calls published in 2015

Programme area	OPEN Calls			Pre-defined projects approved in 2015
	Title of the call	Date of launching	End of submission	
HU03 - Renewable energy	Grant for Supporting Participation in Courses on the Utilization of Renewable Energy	14 February, 2014	31 October 2015	There was no pre-defined project approval during 2015.

	Solutions: Sub-programme 2: Supporting Participation in Short Course			
HU08 - Scholarship	Mobility Projects in Other Educational Institutions and Education Related Institutions (M3)	16 December 2015	15 February 2016	n/a
	Inter-institutional Cooperation Projects between Higher Education Institutions (M4)	16 December 2015	1 March 2016	n/a

3.2 Individual Programme summaries

3.2.1 Programme area HU02 – Energy efficiency

Overall progress

Even though the programme should be in the middle of the project implementation by this time of the financial period, the situation has not been changed since the last two years. Details can be read in the Annual Programme Report 2015.

Progress towards expected outcomes and outputs achieved

Programme Implementation Agreement (PIA) has not been concluded by the end of 2015. The lack of PIA resulted that the Implementing Agency (IA) suspended its, thus the selection procedure of the submitted projects has got stuck.. It was not possible to conclude the PIA without the modification of the MoU and the Programme Agreement.

Major deviations from the plan

Due to the substantial delay detailed above, the measures of the programme, the planned developments to be supported, and the requirements need to be reconsidered and furthermore it is likely that the period of eligibility of expenditures in the projects will need to be extended: instead of 30 April 2016, it would be 30 April 2017, with the following conditions: PO awards the project grant no later than 30 April 2016 and the grant contract is signed no later than 31 May 2016.

The FMO approved the inclusion of pre-defined projects submitted and already evaluated for other funds in case remaining funds are available.

Potential risks

The PO has to deal with a changing institutional and regulatory background of the FMs.

Since the project selection procedure has got stuck for two years, the submitted projects very probably have to be reconsidered.

The PO should handle the risk of the insufficient number of proposals submitted to the Improving Energy Efficient Public Schools call for proposals. Although the 8-22 applications were to be supported, only 7 applications were submitted by the deadline of the first call for proposals (the requested grant amount is less than the half of the budget of the call). There is no time for preparing and launching a new call for proposals due to the timescale to perform the eligible measures and to achieve the goals of the programme settled in the Programme Agreement. This has to be taken into account in the future.

In order to address partially the above detailed risks, the remaining sources (which will not be used for granting the submitted proposals) will be used for pre-defined projects in line with suggestion of the FMO.

Use of funds for bilateral relations at programme level

In case of bilateral fund of programme level the targeted result – in line with the Guideline for strengthened bilateral relations – is related to Type 2 results: Shared results.

Fund for improving bilateral relations under present programme area is 148.447 EUR, from this – in line with 5.1. PA – 10% is set aside for activities that are organised by the PO and contribute to the objectives of the Programme with the primary aim of strengthening co-operation between PO and similar entities within the Beneficiary States and the Donor States, and exchanging experiences and best practices related to the implementation of the Programme. PO has not organised any events yet. There isn't any progress on this subject due to the known circumstances.

The rest of the budget (2x66.801 EUR) of Bilateral fund is covered by two calls aiming improvement of bilateral relations, in line with the Guideline for strengthened bilateral relations 3.2.2. Networking and exchange of experience – measure “b”:

Exchange of experience for Public Schools – Launched: 20/12/2013 (deadline for submission: 30/05/2014) (HU02-2013-B1)

Exchange of experience for non-governmental organisations – Launched: 20/12/2013 (deadline for submission: 30/05/2014) (HU02-2013-B2)

3.2.2 Programme area HU03 – Renewable energy

Overall progress

Even though the programme should be in the middle of the project implementation by this time of the financial period, the situation has not been changed since last two years. Details can be read in the Annual Programme Report 2015.

Progress towards expected outcomes and outputs achieved

Programme Implementation Agreement (PIA) has not been concluded by the end of 2015. The lack of PIA resulted that the Implementing Agency (IA) suspended its, thus the selection procedure of the submitted projects has got. It was not possible to conclude the PIA without the modification of the MoU and the Programme Agreement.

Major deviations from the plan

Due to the substantial delay detailed above, the measures of the programme, the planned developments to be supported, and the requirements need to be reconsidered and furthermore it is likely that the period of eligibility of expenditures in the projects will need to be extended: instead of 30 April 2016, it would be 30 April 2017, with the following conditions: PO awards the project grant no later than 30 April 2016 and the grant contract is signed no later than 31 May 2016.

The FMO approved the inclusion of pre-defined projects submitted and already evaluated for other funds in case remaining funds are available.

Potential risks

The PO has to deal with a changing institutional and regulatory background of the FMs.

The project selection procedure has got stuck for two years, the submitted projects very probably have to be reconsidered.

The PO should handle the risk of the insufficient number of awardable proposals submitted to the 'Implementation of Geothermal Based District Heating Systems – Replacing Existing Fossil Fuel Based District Heating' call for proposals. The remaining sources (which will not be used for granting the submitted proposals) will be used for pre-defined projects in line with suggestion of the FMO.

Use of funds for bilateral relations at programme level

In case of the Renewable Energy Programme Area the work of the Programme Operator is assisted by Orkustofnun (OS), the Icelandic National Energy Authority as Donor Programme Partner (DPP).

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, and due to the suspension and the substantial delay there is no time for any preparatory visit before project implementation, therefore redesign of the activities is needed. Bilateral relations should be strengthened both on institutional and programme level since there were no common events in 2015.

As the suspension was lifted by the Financial Mechanism Committee on the 9th December 2015, the Programme Operator contacted the Donor Programme Partners to start negotiations on redesigning and relaunching the programme. Since then effective and fruitful negotiations have been taking place between the parties.

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

On the Annual Meeting 2015 held on 24th of November based on donor decision this programme area cannot be implemented.

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

Overall progress

During the negotiation process the programme content has been reviewed and negotiated in several round with FMO. Based on a mutual decision both parties will focus on preserving the original programme content in order to reach the determined outcomes.

Potential risks

In addition of general risks affecting all programme the main specific programme risks are the followings.

The PO indicated several times that regarding the Digitalization there is no proposal that could be safely recommended and suggested the reallocation the fund to the A1 and A2 calls in order to effective use of Grants.

Another potential risk is that in case of the reallocation of the funding reserved for the A4 call (Preservation of Jewish cultural heritage) to the A1 and A2 calls the PO made suggestions

but the FMO's opinion is that at this stage it is still too premature to consider the reallocation of funding from the A4 call to the A1 and A2 calls.

Major deviations from the plan

According to the institutional changes of Hungary the professional coordination of the area the PMO became responsible for the coordination of cultural heritage, therefore the change of PO was necessary.

Use of funds for bilateral relations at programme level

After the agreement reached between Hungary and the Donors States the PO initiated discussions with DPP.

3.2.7 Programme area HU08 - Scholarship

Overall progress

Despite the unfavourable circumstances, the Hungarian Scholarship programme is progressing quite well. Recently the Hungarian and Donor parties have mutually agreed and the Programme Agreement addendum – concerning the increased budget of the programme – entered into force.

Progress towards expected outcomes and outputs achieved

As stated in the Annual Programme Report, the set outcomes and outputs are likely to be fulfilled in the most cases. It is very likely that the possibility of project extensions will be exploited by a high number of projects. 40% of Measure 2 projects and 50% of Measure 4 projects have already formed their requests. There are no other new achievements reported to the PO since the APR was submitted.

Major deviations from the plan

Since the HU08 Scholarship programme is facing serious delays regarding the implementation, to cope with this challenge a targeted information campaign is needed in Hungary and in the Donor States, as well.

Potential risks

The risk of not receiving enough applications to the published calls for proposals did not realise in case of Measure 3, where the overall budget of the submitted applications is three times higher than available amount. Unlike Measure 4 call, where the sole application submitted will not absorb the allocated amount. Depending on the quality of the recently received applications, reallocating the budget between Measures 3 and 4 can be a solution.

Use of funds for bilateral relations at programme level

Consultations took place with the FMO and FP about the use of bilateral fund for Measure B purposes. Institutional visits shall be realised by Measure 2 project promoters in order to strengthen the cooperation between Hungarian and Donor Higher Education institutions and

to facilitate the implementation of their M2 mobilities. This topic will also be on the agenda at the upcoming Cooperation Committee meeting.

4. MANAGEMENT AND IMPLEMENTATION

4.1 Management and control systems

After 1 January, 2014, by preparing for the upcoming financial period of the EU, the Hungarian Government reorganised the institutional system of the development policy, which resulted in transferring the tasks of National Focal point (NFP) to Széchenyi Programme Office (SZPO). The Donor side did not acknowledge this institution as NFP, thus perceiving the donor intention the **tasks of NFP was transferred to the Prime Minister's Office (PMO)** with modification of the concerned Government Decree from 15 August, 2014.

Regular negotiations with the representatives of the Donor States started in June 2015: **the re-negotiation of the Memorandum of Understanding (MoU)** and the **modification of description of the national level management and control system (MCS)** were essential conditions to be able to continue the implementation.

Modified **MCS** was elaborated in the second half of 2015 and was acknowledged by the FMO, whereupon NFP submitted the document to the Auditing Authority (EUTAF) in order to provide an **audit opinion** according to the Regulation Article 4.8 (3) point.

Re-negotiation of the **MoU** completed successfully on 24 November 2015, the Prime Minister's Office was acknowledged as **NFP** and other institutions affected by the above mentioned institutional changes but acting as **POs**. The following table shows the newly assigned institutions:

Programmes of the EEA Financial Mechanism 2009-2014

Programme area	Programme Operator until 31 December 2013	Programme Operator from 24 November 2015
HU02 Energy Efficiency	Managing Authority for Environmental Programmes of the National Development Agency	Ministry of National Development, Deputy State Secretariat for Green Economy, Climate Policy and Key Public Services
HU03 Renewable Energy	National Environmental Protection and Energy Centre Non-Profit Ltd.	Ministry of National Development ¹³ , Deputy State Secretariat for Green Economy, Climate Policy and Key Public Services

HU06 Children and Youth at Risk	Managing Authority for Human Resources Programmes of the National Development Agency	Ministry of Human Capacities, State Secretariat for EU Development Policy
HU07 Conservation and Revitalisation of Cultural and Natural Heritage	Managing Authority for Regional Programmes of the National Development Agency	Prime Minister's Office, Deputy State Secretariat for Cultural Heritage
HU08 Scholarships	Tempus Public Foundation	unchanged

Donor side lifted up the suspension in Hungary from 9 December 2015.

The biggest challenge was the lack of agreement between the Donor and Hungarian side; this disputed situation jeopardized the successful implementation. Regarding some of the programme areas the Hungarian government declared to ensure the necessary resources from Hungarian budget during the suspension and made great efforts to diminish the negative impacts. However, bilateral cooperation worked only on unofficial level, so both Donor and Hungarian side have to make joint effort to strengthen trust.

Due to the length of the suspension period other challenges had and has to be faced on project level: national legislation and regulatory framework changed throughout the projects' life-cycle; change in commitment towards the projects under implementation; tight time schedule for implementation (maximum until 30 April 2017); lack of capacity/interest: low level of participation from the donor project partner.

Institutions of Audit Authority, Certifying Authority and Implementing Agency have not changed.

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 institutional system established in 2014 can manage the tasks of current phase and the preparatory works regarding the 2014-2020 period.

The **MoU** was approved by the Hungarian Government and promulgated in the Hungarian official journal as Government Decree Nr. 235/2011. (XI. 15.) / Government Decree Nr. 236/2011. (XI. 15.) and modified with Government Decree Nr. 433/2015 (XII.28) / 434/2015 (XII.28) after consensus reached between Donor and Hungarian parties on the Annual Meeting in November 2015.

The responsibilities, functions and rights of the PO, IA, NFP, CA and AA related to the implementation of the Programme are detailed and regulated in the national legislation by the **Government Decree Nr. 326/2012. (XI. 16) on the implementation of the EEA and Norwegian Financial Mechanisms 2009-2014** (hereinafter: Implementation Decree), which

should be modified in accordance with the modification of MoUs. Modification of the Implementation Decree was prepared by the NFP in December 2015.

Meanwhile the Programme Agreements and the Programme Implementation Agreements should be concluded or modified accordingly, not mentioned 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 the progress was limited and affected only some programmes, thus there was not any irregularity to be reported regarding the year 2015 on system level.

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 participates at the meetings of the Cooperation Committees as an observer and assists their work if it was necessary – since no formal CC meetings were held, NFP organised and participated several meetings in order to give information to the institutions (POs, IA, CA and AA) and to support their activities .

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. 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. *(Find detailed description in previous report.)*

The POs of the programmes without project implementation were continuously informed parallel with the negotiation between the Donors and Hungary. NFP made great effort to help them to be able to continue the implementation immediately after conclusion reached between the parties.

Since implementation has to be carried out in a very tight schedule in 2016 NFP plans to focus more on monitoring of POs' activities through regular on-the-spot checks.

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. The implementation of the Communication Strategy prepared by the FP runs into obstacles in 2015 taking into account that the focus was on the negotiation process concerning the continuation of the Grants. The activities focused on the several inquiries occurred in the reporting period.

With regard to the situation of the EEA and the Norway Grants in Hungary the interest of **media** increased during the reporting period. The PMO coordinated the information sharing with **stakeholders of press** who were interested.

In addition, the task of PMO was to **provide information officially to the political level** also, by regular and occasional reports and meetings.

The PMO received several inquiries coming from the **applicants and potential project promoters** regarding the status of the FMs in Hungary. With assistance of POs and IA these inquiries were handled.

The PMO was in constant contact with the **relevant institutions** responsible for the implementation of the FMs in Hungary and provided up-to-date information considering the continuation possibilities.

The IA fulfilled its communication function including operating the **official webpage** of the Grants (www.norvegalap.hu), and satisfied inquiries.

After the agreement between the parties the FMO started to organise a communication workshop for the POs with assistance of PMO which is planned for February, 2016.

The NFP is currently in progress with the renewal of communication activities and encourages the Programme Operators to put a special emphasis on the publicity of the Grants.

4.6 Work plan

The indicative work plan outlining the main milestones of the implementation of the FM in Hungary during 2016 is summarized below. The table contains the main activities that the FP is in charge for.

Action	Planned timing	Responsible entity
Review and comment the Annual Programme Reports	January, 2016	NFP
Modify the Implementation Decree on FMs 2009-2014	February 2016	NFP
Submission of the Annual Strategic Reports	March, 2016	NFP
Revision of HU01 TA budget and submission of the reallocation request to FMO	March, 2016	NFP
Supporting the POs to make grant decision in order to submit the project extension requests to FMO until 30 April, 2016	April, 2016	NFP
Supporting the POs to conclude the Project Contracts until 31 May, 2016	May, 2016	NFP, PO, IA
Contract and modify the PIAs	June 2016	NFP, PO, IA
Review the status of the bilateral relations at national level	September, 2016	NFP
Monitoring Committee Meeting	October, 2016	NFP
Annual Meeting	October, 2016	NFP and Donor States
Participation in the Selection Committee Meetings and the Cooperation Committee Meetings of programmes as an observer	continuous	NFP
Review and comment the calls for proposals of programmes	continuous	NFP
Ensure visibility and communication regarding FMs	continuous	NFP
Monitoring and audit activities on national level	continuous	NFP

5. SUMMARY LIST OF ISSUES AND RECOMMENDATIONS

During the first half of the reporting period, due to the lack of the agreement between the Hungarian and the Donor States, the overall implementation of the programmes could not progress as it was planned originally. Achievement of the relatively normal progression demanded **strong efforts** from the PMO, POs and IAs particularly in the fields or projects affected bilateral relations.

In the framework of EEA Grants **the HU08 Scholarship** programme progressed properly, however, the allocation shared from the reserve could not be used without the modification of the Programme Agreement.

The implementation of other programmes should be accelerated after the restarting in order to achieve the defined outcomes and outputs.

In the second half of 2015 the negotiation process between the Donor and Hungarian side aimed to define the programmes to be implemented and the conditions of the implementation. **Strict conditions** have been determined regarding the grant decisions and the submission of extension requests of projects (deadline: 30 April, 2016) and the conclusion of Project Contracts (deadline: 31 May, 2016).

Taking into account that the PO is the primary responsible for the implementation on programme level, the depth of the project level information required by the FMO should be clarified. According to the experience received by the POs this **administrative burden** could hinder the ambitious progress which is necessary for the successful implementation. **Discussion** targeting this issue shall take place between the Focal Point and FMO.

The **main risk is the short remaining period** for the implementation. This risk is even more serious if the reconciliation and approval processes of the parties are time-consuming, therefore the goal is to shorten the necessary period for any decision. The Focal Point, in cooperation with the POs and IA elaborated tight time schedules for the programmes to ensure the successful implementation. The FP monitors the implementation regularly, supports the activities of the POs and IA and provides necessary information.