

**Strategic Report**

**on the implementation of**

**Norwegian 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 Norwegian 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 Norwegian 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 but one programme area (HU10) had signed Programme Agreements. From the programmes belonging under the responsibility of the NFP three 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
- implementation of tasks of PO in HU11 programme area
- participation in meetings organised by POs as observer according to the Regulation
- organisation meetings for POs, IAs and other institutions responsible for the FMs 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 FMs.

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 area could progress adequately**:

- HU09 Green Industry Innovation.

**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
- HU10 Bilateral Research Cooperation: finalization of Programme Agreement; preparation of calls for proposals
- HU11 Capacity Building and Institutional Cooperation: two concluded project contracts from four pre-defined projects
- HU12 Public Health Initiative: approval for pre-defined project by NFP.

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 PA on the programme area HU10
- making grant decision in the programme area HU11 regarding the applications submitted to the open call for proposals in 2013

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.

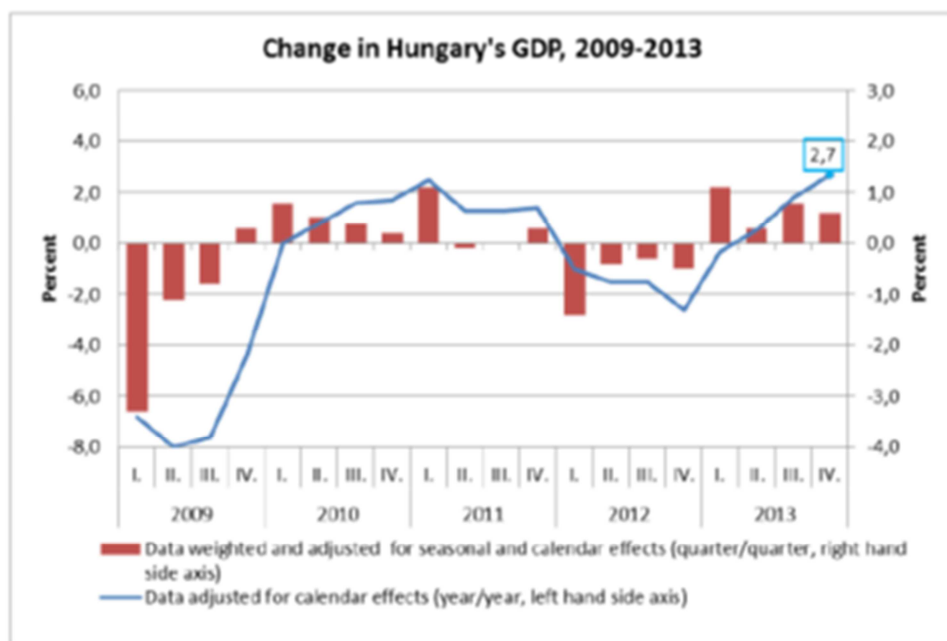
#### 3.1.17. Contribution to GDP growth (production approach), calculated from indices compared to the corresponding period of previous year (10/10)

(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
<b>Gross domestic product, total (at purchaser's prices)</b>	<b>3.8</b>	<b>4.1</b>	<b>3.3</b>	<b>3.4</b>	<b>3.6</b>

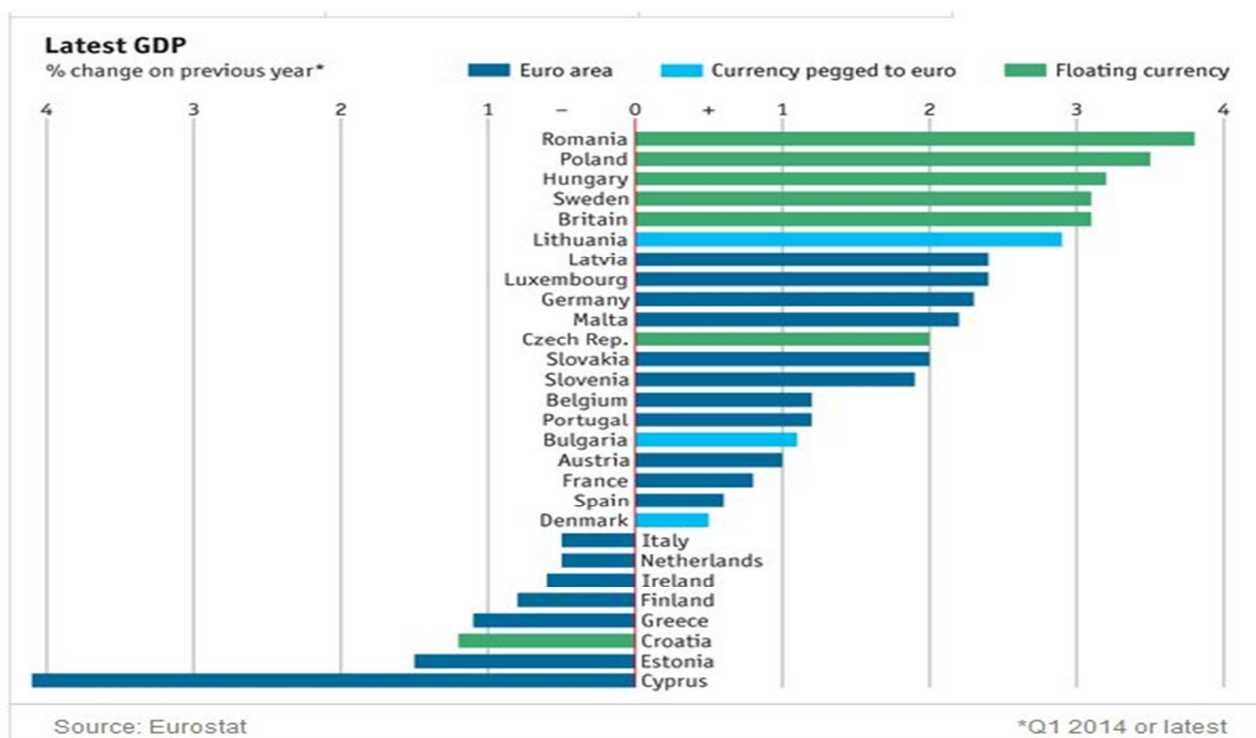
Source: Hungarian Central Statistical Office, KSH, [www.ksh.hu](http://www.ksh.hu)





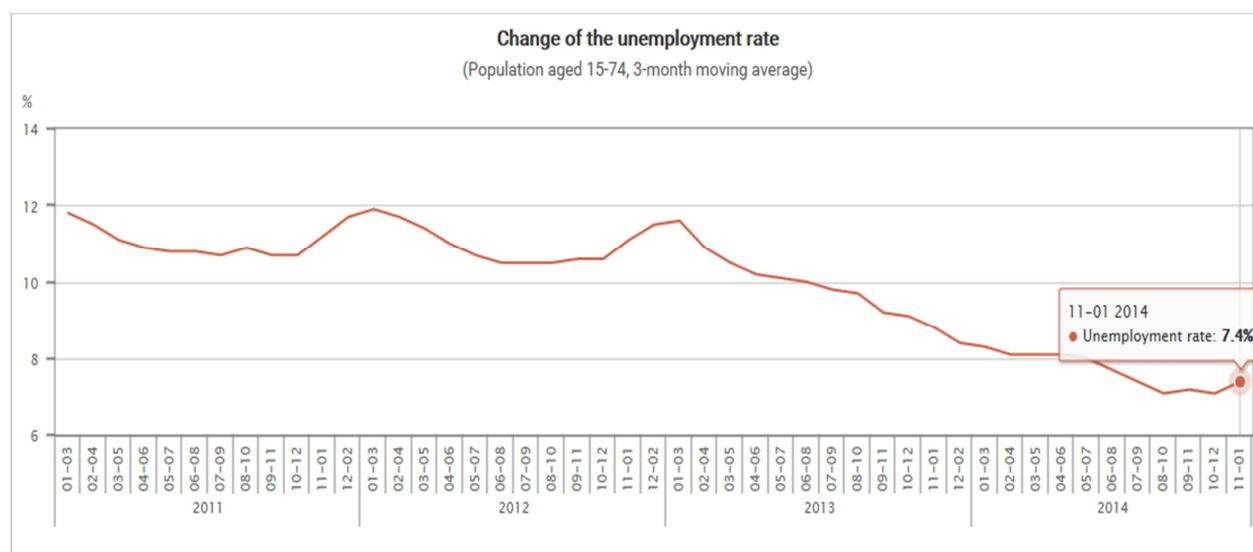
Source: Hungarian Central Statistical Office, KSH, [www.ksh.hu](http://www.ksh.hu)

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.



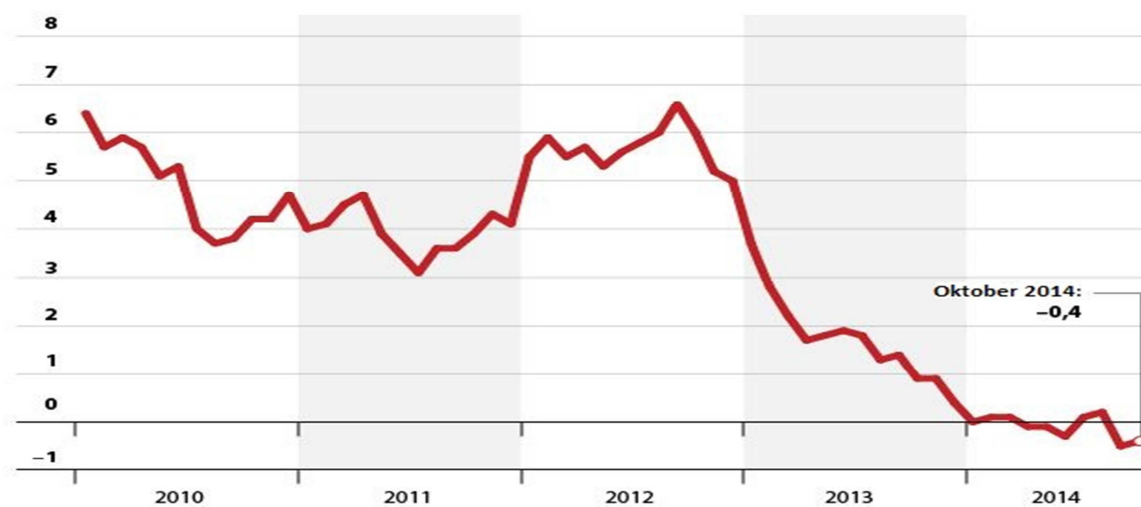
Source: Hungarian Central Statistical Office, KSH, [www.ksh.hu](http://www.ksh.hu)

### 2.1.1.3 Inflation rate of Hungary in 2013

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

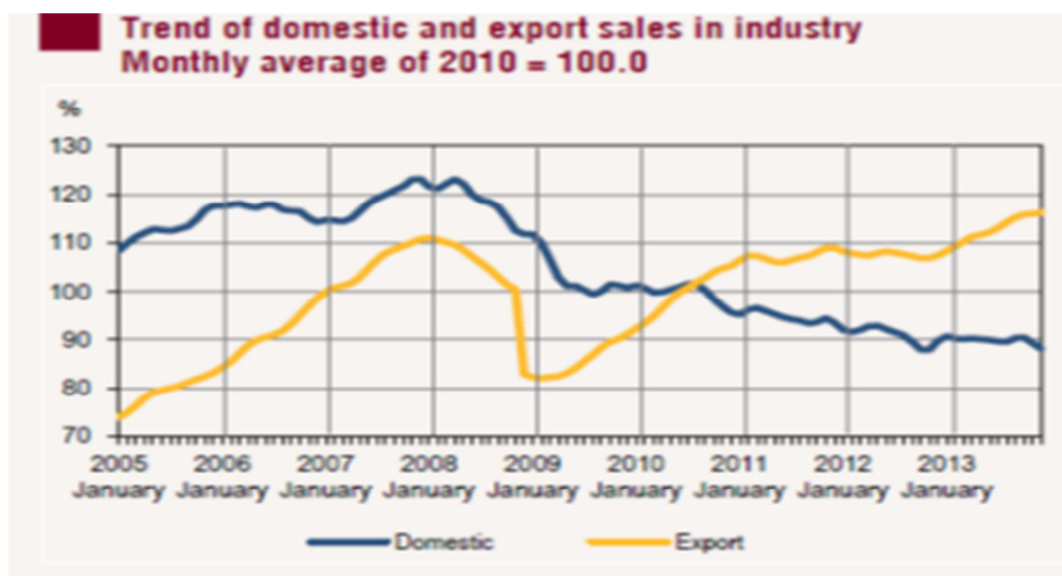
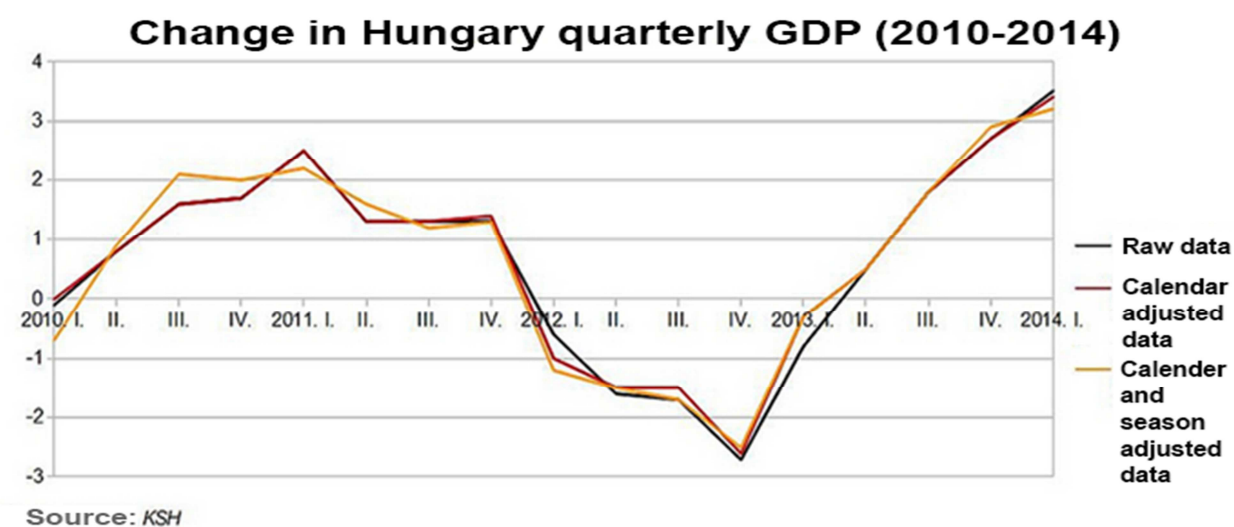
Source: Hungarian Central Statistical Office, KSH, [www.ksh.hu](http://www.ksh.hu)



Source: Hungarian Central Statistical Office, KSH, [www.ksh.hu](http://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.

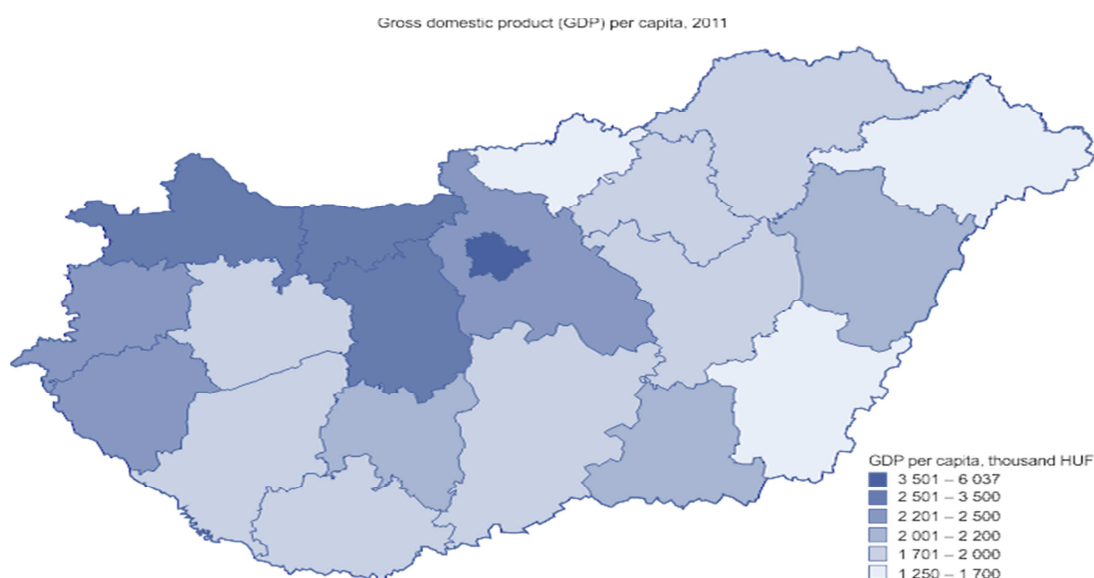


Source: EUROSTAT

### 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](http://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<sup>1</sup>. 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.

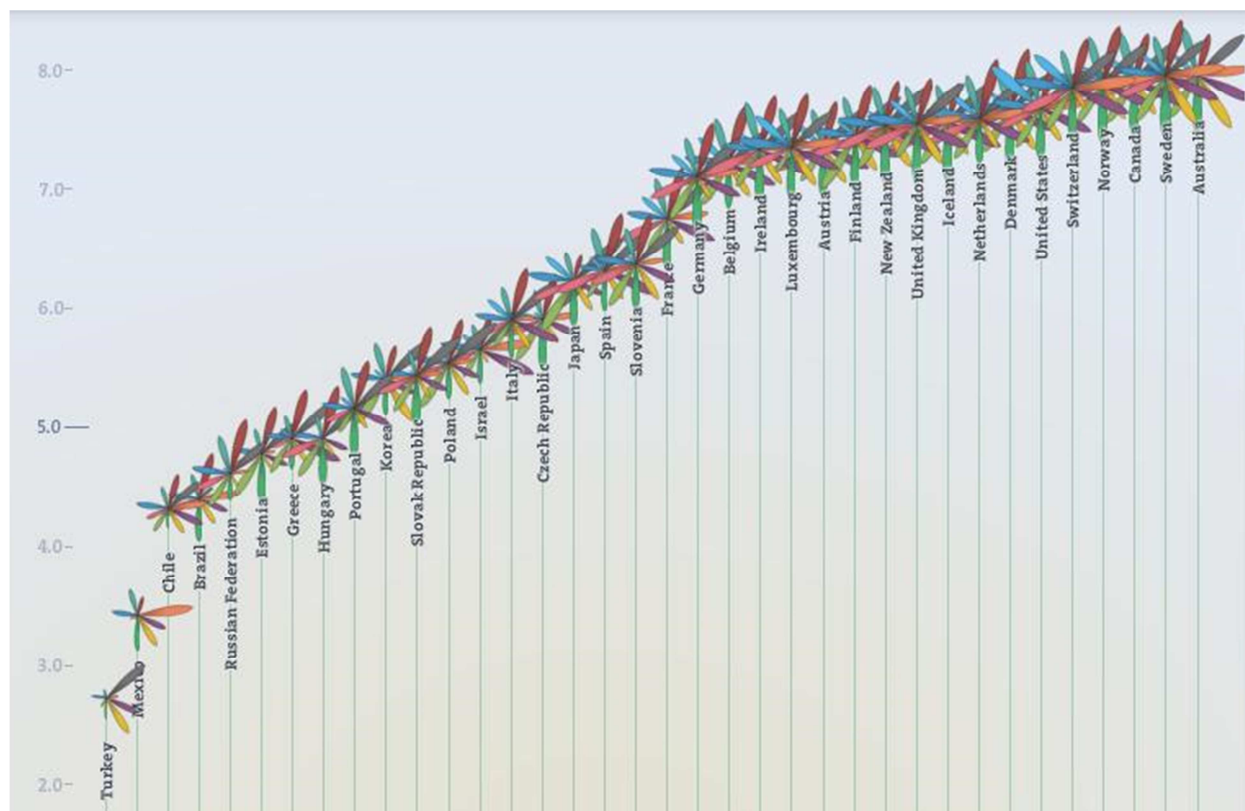
The **deceleration of inflation** was influenced by cuts in overhead costs as well as the decrease in the price level of durable consumer goods. Alcoholic beverages and tobacco prices continued to increase at the highest rate, while the price rise of food was lower. The **price index** for pensioners (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.

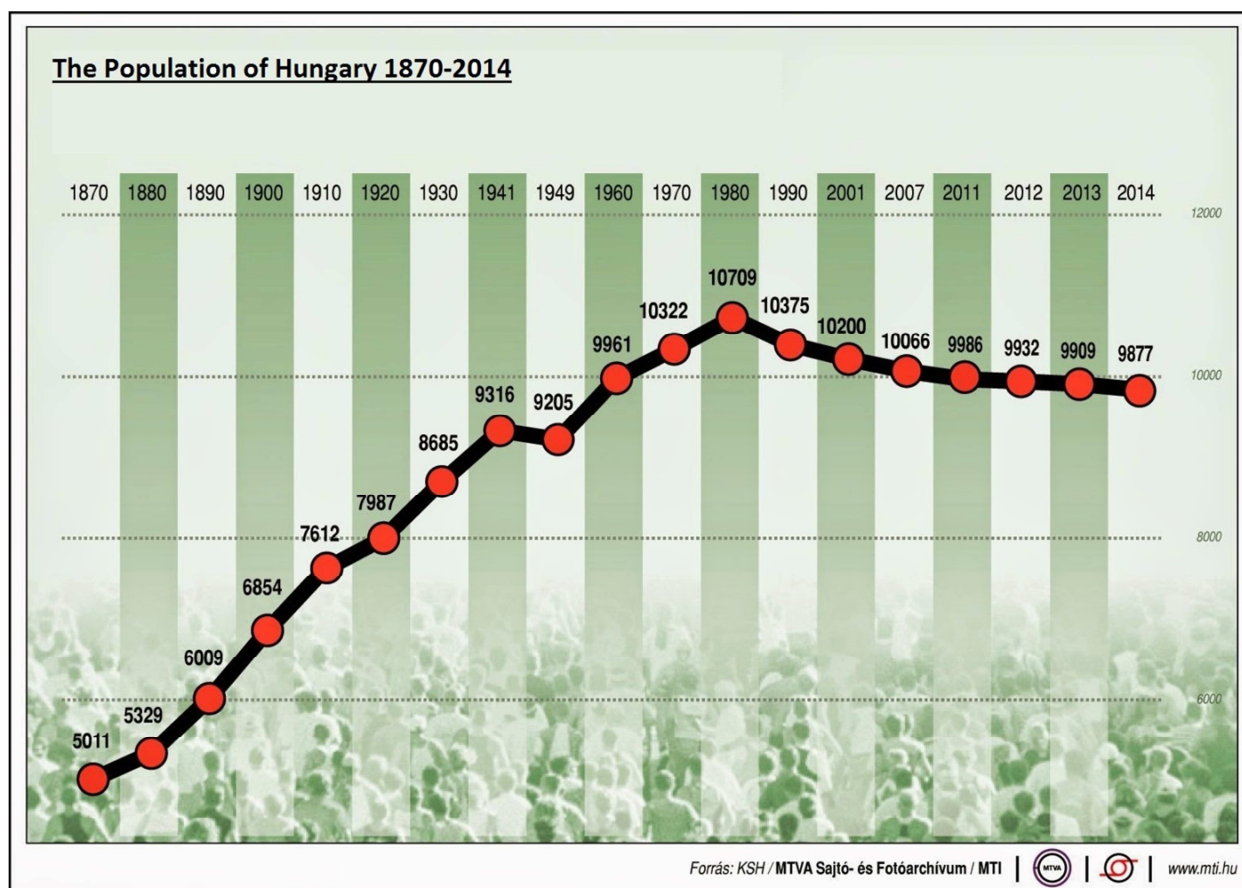
There is a little difference in **life satisfaction** levels between men and women across OECD countries. In Hungary, however, men reported being somewhat happier than women, rating their lives at 5.1, compared with 4.8 for women. Education levels do also influence subjective well-being. Whereas people 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](http://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 <b>sustainable economy</b>	Equal access to public services and cultural values in a <b>sustainable society</b>
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 Norwegian FM 2009-2014**

### **Programme HU09 - Green Industry Innovation**

**The competitiveness of green industry signifies an outstanding role with respect to our future**, as it can provide efficient environmental solutions for several economic sectors, thus contributing to a sustainable, competitive economy and a better employment ratio.

The aims of the 'Green Industry Innovation' program referring to the period of 2009-2014 are the following: increasing the competitiveness of green enterprises, including the greening of operating Industries, green innovation, as well as the subsidizing of green corporate solutions. The main beneficiaries of the programme are enterprises, mainly SMEs. As a result of new, environmentally friendly technologies, amount of waste, pollution and noise can be reduced, and new, "green" workplaces can be established.

The Norwegian Financial Mechanism in Hungary needs to **contribute to the realisation of the objectives of the National Environmental Technology Innovation Strategy**. This strategy involves the period 2011-2020 but it has further effects. The long-term sustainable development and competitiveness of Hungary can be achieved by dealing with questions of environmental protection in the government level first step of which was the preparation of this strategy.

### **Programme HU10 – Bilateral research cooperation**

The Programme is expected to enhance bilateral relations through bilateral research projects and joint publications. Furthermore, the Programme is expected **to open up new cooperation opportunities within Horizon 2020**, the seven year EU programme for research and innovation launched in 2014, as well as other transnational research initiatives. The Programme will also contribute to enhance research capacity in Hungary by emphasising excellence and impact, encourage academy-industry cooperation and supporting both young and experienced researchers.

The Programme has been planned, developed and will be implemented with the consideration of the cross-cutting issues of good governance, sustainability and gender equality. Furthermore, the projects are expected to respect these principles and report on progress in these areas.

### **Programme HU11 – Capacity building and institutional cooperation**

In Hungary a **major public administration reform** has been taking place since the change of government in 2010. Reforms started in the central level but touched upon not only the central governmental structures, but also the decentralised bodies, which operate on territorial level. The central state administration has established government offices at county level and at township level, taking over responsibilities from the local governments on the municipality level. The objectives of the new central state administration reforms are to create a more cost-efficient, more effective, less bureaucratic and more transparent institutional system. The

public administration reform is ongoing from the adoption of the Act on Local Governmental System by the Parliament in 2011.

The **most important principles** of the renewal of the local governmental system according to governmental intentions are as follows: a) increasing the standards of the public services – quality, speed, customer-centric; b) building up a modern, cost-effective, task-oriented system; c) with relying on the power of the municipality: exploring the opportunities, utilizing resources, strengthening the ability of the municipality of being self-sufficient; d) the principal of good faith and mutual cooperation.

Learning from international experiences can give important added value in the reform process. The **changing roles and responsibilities** of the municipal local governments is a **specific concern of the current programme**. The programme provides opportunity to strengthen capacities of public institutions on the central, regional and local level, thereby **contributing to better quality public services provided to citizens**. The programme is designed so that it ensures coverage of the whole country, with special focus on the local level.

The content of the programme was determined to ensure the connection to the Hungarian public administration reform.

#### **Programme HU12 – Public health initiatives**

As it was already described in the previous year's Strategic Report on implementation of Norwegian Financial Mechanism 2009-2014, the main trends are unchanged in Hungary:

The status of health in the population is significantly influenced, directly or indirectly, by social and economic factors. There is a **definite connection between life expectancy at birth and the economic development of a country**. When the life expectancy of a certain country is significantly lower than it could potentially be according to its economic achievement, this unambiguously indicates the insufficiency of public health policy and/or activity. In Hungary, the life expectancy indicator at birth – which is a global indicator reflecting the health status of the entire population and is derived from death statistics, lags significantly behind the value that could be expected based on the economic performance of the country.

## **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**.

**In the programme HU09**, according to the PO the formal communication with the FMO was undefined and by the end of the year the formal communication has entirely broken off. The cooperation with the DPP continued on an operational level. Working meetings and communication was maintained. The donors took part in the Selection Committee meeting in April 2014 in an advisory capacity. Due to the good personal relation the DPP offered and gave all support and they shared all experiences. The PO made an informal visit as well in Norway at the end of October 2014 where the status of the programme and the most important questions were discussed.

**In the programme HU11** the cooperation with DPPs did not work unfortunately. After the postponement of Selection Committee meeting planned for the end of 2013 regarding the open call for proposals, the PO organised the meeting for February, 2014, but the DPPs canceled the participation due to the known situation. Therefore the progress of this part of programme stalled.

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	Clarification of the issues; determination of conditions

Date	Participants	Aim/Main subjects of the event/visit
	Office of Hungary; Minister of the Prime Minister's Office of Hungary; Director of FMO; Chairman of FMC; Minister of EEA and EU Affairs	

### 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.

In the programme areas in the framework of Norwegian FM **there were no calls for proposals** in 2014.

#### 3.2 Individual Programme summaries

##### 3.2.1 Programme area HU09 – Green industry innovation

###### Overall progress

In 2014 the formal communication with the Financial Mechanisms Office was unsettled, because of the current situation of the Grants. The **cooperation with the donor** programme partner, Innovation Norway, continued on an operational level. Working meetings and communication was maintained. The donor countries representatives took part in the Selection Committee meeting in April 2014 in an advisory capacity and expressed their point of view in several cases.

By the end of the year the formal communication has entirely broken off by the FMO. The cooperation between the Programme Operator and the donor programme partner, the Innovation Norway was better but only in informal way.

The changes in the structure of the Focal Point and the legal questions relating to it caused a **high level of risk** during the whole year. Fortunately this risk **did not affect** basically the implementation of the programme and it resulted in only short delays in the implementation.

###### Progress towards expected outcomes and outputs achieved

The evaluation of the submitted applications has taken place during the first quarter of 2014. After the Selection Committee meeting in April **the PO made the grant decisions**. Until the end of the year altogether 14 **project contracts were signed** and entered into force.

Regarding the assumed targets **this programme area can be one of the most successful programmes** among the others. In the framework of the Sub-programme 1 - reduced production of waste and emissions to air, water and ground - 16 new environmental technologies were successfully developed and 6 technologies were successfully adapted in new areas. More than 60 green jobs were created against former commitment 6. Detailed information on the progress, including the project implementation can be found in the APR of the programme.



### **Potential risks**

In addition of the **legal questions relating to the institutional changes of NFP**, which fortunately did not affect basically the implementation of this programme, further risks are the possibility of **delay of the start of the implementation** of winners, **hesitation of some donor project partners to join** the contracting due to the uncertain situation of the donor states official position.

### **Major deviations from the plan**

However some delays were in the preparation period and during the contracting, there is no significant difference from the plan. In case of concentrated enforcement the deadline of the implementation can be met.

### **Need for adjustments of plans, including risk mitigation actions**

The resolution of the existing dispute between the Donor States and Hungary would be necessary for the whole programme. Negotiations shall be started on national level for amending the agreements and the relevant legislations.

At programme level the resource absorption capacity of SMEs is low; therefore the financing of implementation could be endangered. The use of other resources (bank credit) would be beneficial.

### **Use of funds for bilateral relations at programme level**

The formal communication with the Financial Mechanisms Office was undefined and by the end of the year the formal communication has entirely broken off by the FMO. The cooperation with the donor programme partner, Innovation Norway, continued on an operational level. Working meetings and communication was maintained.

## **3.2.2 Programme area HU10 - Hungarian – Norwegian Research Programme**

### **Overall progress**

While the implementation has accelerated in the reporting period, the progress has been slower than anticipated. The main reasons were the difficulties to arrive on consensus in the Programme Committee regarding the main fields and subthemes of the Programme – and on whether these subthemes are only potential or obligatory for the applicants – with respect to the call documents, to reach consensus with the IA and the NFP on the implementation of the specific rules of Annex 12 and the stylistics of these rules on the PIA, which differ from most other Programmes implemented under the Grants. In 2014 the PO, the NFP and the IA finalized the Programme preparation phase with the support of the Programme Committee, the DPP and the FMO. Call documents with its all annexes have been prepared and finalized and the calls for bilateral research projects and small grants could have been launched at early October 2014. Finally, unfortunately the calls were not published eminently because of the not resolved circumstances between the Hungarian and the Norwegian parties.

Due to the ongoing dispute and suspension the signing of the Programme Agreement was delayed and the agreed draft of the PIA could not be submitted by the FP to the FMO.



### **Progress towards expected outcomes and outputs achieved**

The Programme addresses two key outcomes:

- Increased research cooperation between Norway and Hungary
- Strengthened research capacity in Hungary and increased application of research results through research cooperation between Norway and Hungary

The PA, the PIA, the calls and its annexes were finalized and approved by the relevant stakeholders till the end of September, but not having seen the end of the international state of affairs, the PO finally decided not to launch the calls until the PO will have a contractual background and Norwegian support for the Programme. The calls were not published yet; therefore no outputs can be reported at this point.

### **Potential risks**

The uncertainty caused by the change in the NFP causes delays in some programme processes, in particular, the signature of the PA, the PIA and the launching of the calls for proposals. While the original Programme proposal focused on the calls on particular topics, the final calls would invite proposals in any topic within the priority focus areas of the MoU which raises the risk of a huge oversubscription. The planned 24 months-long projects are no longer possible. If the calls might be launched within the first quarter or first half of 2015, the programme might be implemented with a modified – reduced – content.

### **Major deviations from the plan**

As it is mentioned earlier, the **PA and the PIA is not signed** yet, and its signature is expected only after the conclusion of the international state of affairs between the two countries.

While the final date of eligibility of costs has been extended for all research programmes by one year, due to the delays in the Programme it is **no longer possible to implement 24 month projects**.

Accordingly **major adjustments should be requested** regarding Agreement of HU10 – including timing of the programme, content of the calls and its annexes considering the shortened implementation period, etc. The necessary modifications would vary according to the timeframe available at the time of the putting in force of the possible modifications.

Another adjustment should be executed in the relevant agreements. **The name of the institution** of the PO was changed. The legal successor of the National Innovation Office is the National Research, Development and Innovation Office.

### **Need for adjustments of plans, including risk mitigation actions**

The subtitle “Major deviations from the plan” contains the need for adjustments in regard to the signature and modification of documents, like PA, PIA, MoU, including the solution of the ongoing dispute between Hungary and donor states. These actions are needed to mitigate the risks in the programme.

### **Use of funds for bilateral relations at programme level**

The HU10 research programme is implemented as a donor partnership programme. The cooperation with the DPP was very good, very smooth, and the PO appreciates the input, clarifications and support given by the DPP during the finalisation of the Programme and the calls for proposals and its annexes. The cooperation with the DPP and the other PO itself is possible to have wider effects in shared knowledge and cooperation within programmes and networks of mutual interest beyond the Norway Grants.

On 27-29 August 2014 a workshop about exchange of experience was organised in Brussels. The workshop focused on exchanging experience amongst POs on the implementation of the research programmes: such as operation of Programme Committee, particularly as selection committees, call documents, evaluation and selection processes, including challenges and solutions, project implementation phase, partnership agreements and contract negotiations, communication, reporting and monitoring. The exchange of experience was very valuable in fine-tuning the process of the Programme.

### **3.2.3 Programme area HU11 - Capacity-building and Institutional Cooperation between Beneficiary State and Norwegian Public Institutions, Local and Regional Authorities**

#### **Overall progress**

The overall objective of the HU11 Capacity-building and institutional cooperation programme is to strengthen institutional capacity and human resource development in public institutions, local and regional authorities in Hungary through cooperation and transfer of knowledge and experience with similar institutions and authorities in Norway, thereby contributing to better quality public services provided to citizens.

From the four pre-defined projects **the signature of two project contracts** (Hungarian National Association of Local Authorities – TÖÖSZ; Gyula Forster National Centre for Cultural Heritage Management - Forster Centre) were signed at the end of the last year. The following two project contracts - National Directorate General for Disaster Management (NDGDM), National Inspectorate for Environment, Nature and Water - are under preparation. The implementation of projects is in progress.

In the field of open calls for proposals the donor cooperation was necessary to the further process; therefore there was no progress in the reporting period.

#### **Progress towards expected outcomes and outputs achieved**

From the undertaken outcomes the **“Enhanced institutional capacity and human resources development”** will be achieved by the implementation of four pre-defined projects. Three of them contribute to the **Pillar 1** called **Pre-defined projects promoted by line ministries**, while the fourth one serves the objectives of the **Pillar 2** called **Pre-defined projects promoted by national associations of local governments**.

The Project Promoters of pre-defined projects started to implement their projects after the grant decision. Because of the uncertainty regarding the situation of the Grants in Hungary, the Project Promoters turned to the government to clarify the position. After the declaration to continue the implementation from state budget until the agreement with the Donor States, the NFP have taken every effort to assist the Project Promoters. Accordingly two project contracts were concluded and the other two conclusions of project contracts were in progress at the end of 2014.

The outcome **“Enhanced capacity and quality of the services provided by public institutions, local and regional authorities”** is addressed to the implementation through the open call. The application phase and the evaluation process are completed, but the projects have not been selected so far, because the Selection Committee meeting could not be held due to the actual situation between Hungary and the donor states. After the selection procedure an examination will be necessary to make sure that the proposed indicators can be fulfilled and contribute to the outcome. Further examination makes only sense if the decision making procedure on the selection will take place very soon, considering that the implementation period is over in 30 April, 2016. After the expected successful agreement between the Hungarian and donor parties the process should be accelerated.

In the reporting period actual progress towards the defined outputs was made regarding the four pre-defined projects. As it mentioned earlier, two project contracts were concluded at the end of 2014 and two project contracts are under preparation and expected to conclude in the first quarter of 2015. According to the given information the project implementation was in progress in 2014 in case of the four projects also without signed project contracts.

### **Potential risks**

The main risk of the Programme area is the lack of international agreement between the Donor States and Hungary. The adjournment of the Fund endangers the fulfilment of the Programme, because of the lack of co-operative communication. The delay in the implementation of the pre-defined projects and of the projects selected in open call procedure because of different reasons, e. g. long preparation, evaluation or contracting period is also visible.

### **Major deviations from the plan**

Due to the long suspension of the Grant, the implementation of the projects is delayed. The projects to be selected after the open call procedure have not received any signed project contracts and two from the four pre-defined projects have signed project contracts.

### **Need for adjustments of plans, including risk mitigation actions**

As risk mitigation actions, the NFP and the PO will make every effort to **diminish the negative effect of the institutional transformation** on the implementation of the programme and will accelerate the modification of the legislative framework as much as possible.

At project level the **proper bilateral cooperation** is necessary to the achievement of the outcomes for which **regular progress review and monitoring** will be necessary to identify the possible problems, risks in time and to intervene if it is needed.

Furthermore, to **speed up project implementation, active cooperation and communication** between project promoters and project partners, **close review and monitoring** by PO is needed.

### **Use of funds for bilateral relations at programme level**

Strengthening the **bilateral cooperation** is a **key issue** of the programme. The approved four pre-defined projects have altogether 7 donor project partners already (Pillar 1 and 2), and there was a specific criteria in the open call for proposals (Pillar 3), that each project promoter has to establish cooperation with one or more registered Norwegian entity.

From the beginning of the preparation of the programme, the **partnership between the PO and the DPPs** (KS, VOX) was working well. The DPPs participated actively in the elaboration of the programme and assisted the entire progress until the unresolved situation emerged from 2014. According to the information given by Project Promoters of pre-defined projects, the project level cooperation was very good with donor partners until the end of 2014. The successful bilateral relations in the open call for proposals depend on the future possibilities of programme area.

### **3.2.4 Programme area HU12 - Public Health Initiatives**

#### **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.

#### **3.2.5 Programme Area Decent Work and Tripartite Dialogue**

This Programme area is under the responsibility of the FMO.

### **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 Norwegian FM until the end of 2013, namely **the Managing Authority for International Co-operation Programmes (PO for HU11) and Managing Authority for Human Resource Development Programmes (PO for HU12)**. The following table shows the newly assigned institutions:

Programme area	PO until 31 December 2013	PO from 1 January 2014
HU11 Capacity Building and Institutional Co-operation	NDA, Managing Authority for International Co-operation Programmes	SZPO; From 15 August, 2014: Prime Minister's Office
HU12 Public Health Initiatives	NDA, Managing Authority for Human Resources Programmes	Ministry of Human Resources

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 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 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



Event	Topics	Date
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 2015 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 <sup>1</sup>	Description of risk	Likelihood <sup>2</sup>	Consequence <sup>3</sup>	Mitigation planned/done
Cohesion objective:	Lack of agreement between the Donor States and Hungary	3	4	<ul style="list-style-type: none"> <li>- Acceleration of the willingness to negotiate;</li> <li>- Preparation of necessary legislation and documents</li> </ul>
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

<sup>1</sup> 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.

<sup>2</sup> 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%)

<sup>3</sup> 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 <sup>4</sup>	Description of main risk	Likelihood <sup>5</sup>	Consequence <sup>6</sup>	Mitigation planned/done
HU09 Green Industry Innovation	Cohesion (Programme) outcomes: Reduced production of waste and reduced emissions to air, water and ground; More use of environmentally friendly technologies	Issues can be treated by programme level	mixed	mixed	Mitigation is planned by PO
HU10 Bilateral Research Cooperation	Cohesion (Programme) outcomes: Strengthened research capacity in Hungary and increased application of research results through research cooperation between Norway and Hungary	Different issues defined at programme level	mixed	mixed	Mitigation is planned by PO
HU11 Capacity Building and Institutional Cooperation	Cohesion (Programme) outcomes	Lack of agreement in international level	3	3	Acceleration of the negotiations between the Donor States and Hungary; swift modification of legislation framework accordingly international and national level
HU12 Public Health Initiatives	Cohesion (Programme) outcomes	The APR does not contain table on the risk assessment	-	-	-
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

<sup>4</sup> 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.

<sup>5</sup> 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%)

<sup>6</sup> 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.

					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.
HU12 Public Health Initiatives	Operational issues:	Organisational changes at PO concerned with restructuration 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