

Strategic Report

on the implementation of

Norwegian 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.

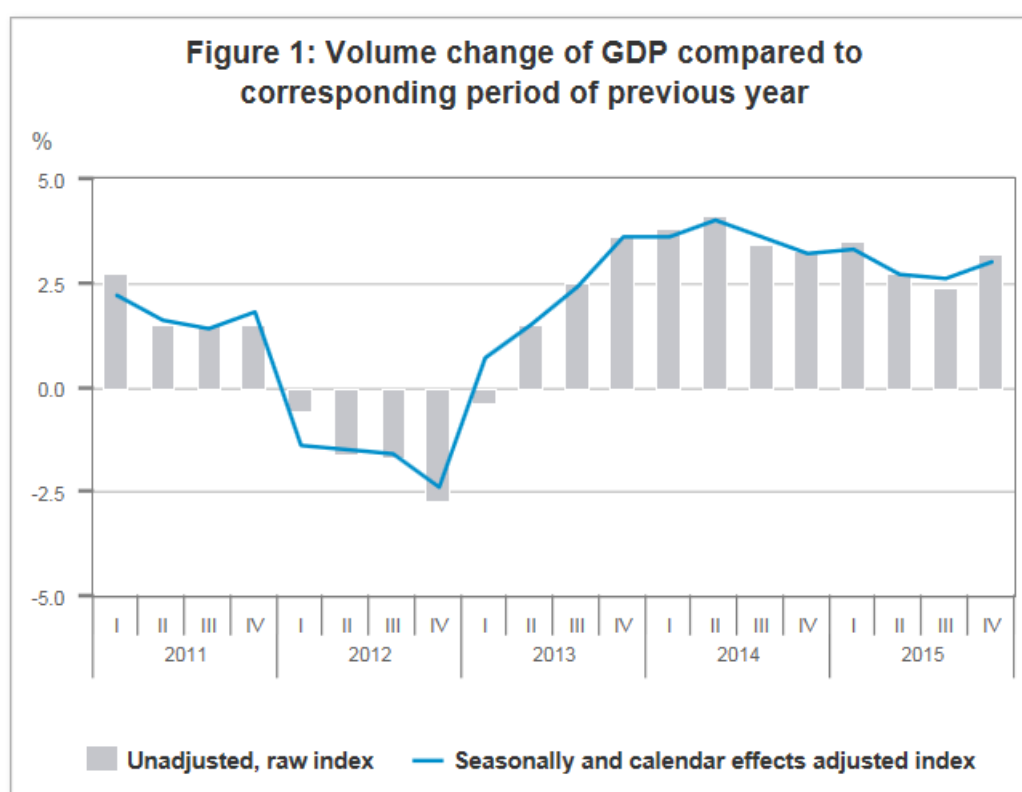
2. ASSESSMENT OF THE EFFECT OF THE GRANTS

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

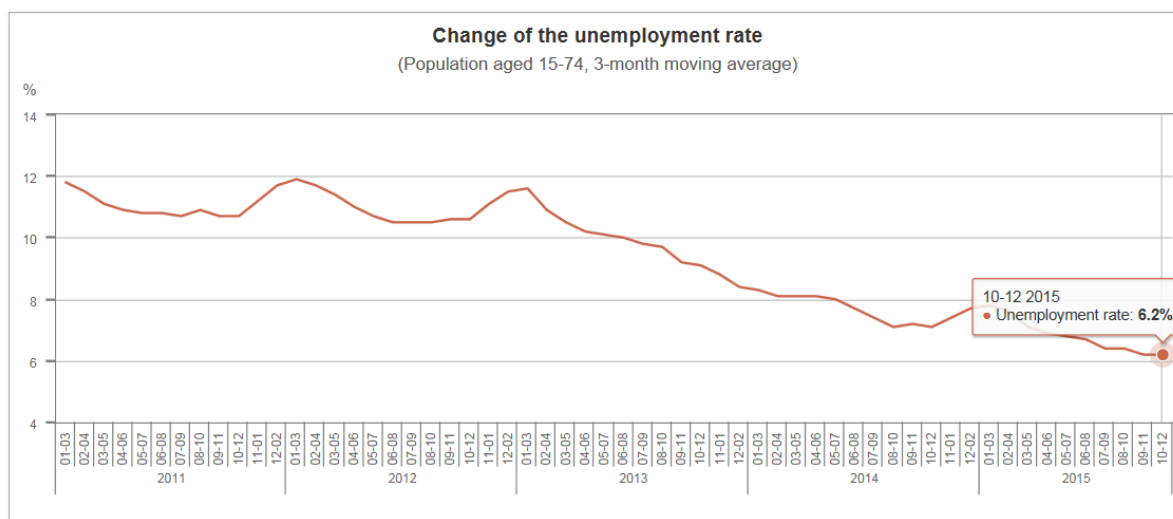
In the balance of external trade of the national economy a surplus of 623 billion forints was generated at current prices. Exports were up by 7.7% and imports by 8.0%. In trade in goods, exports grew by 8.5% and imports by 7.2%. Within the balance of external trade of the national economy the exports 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

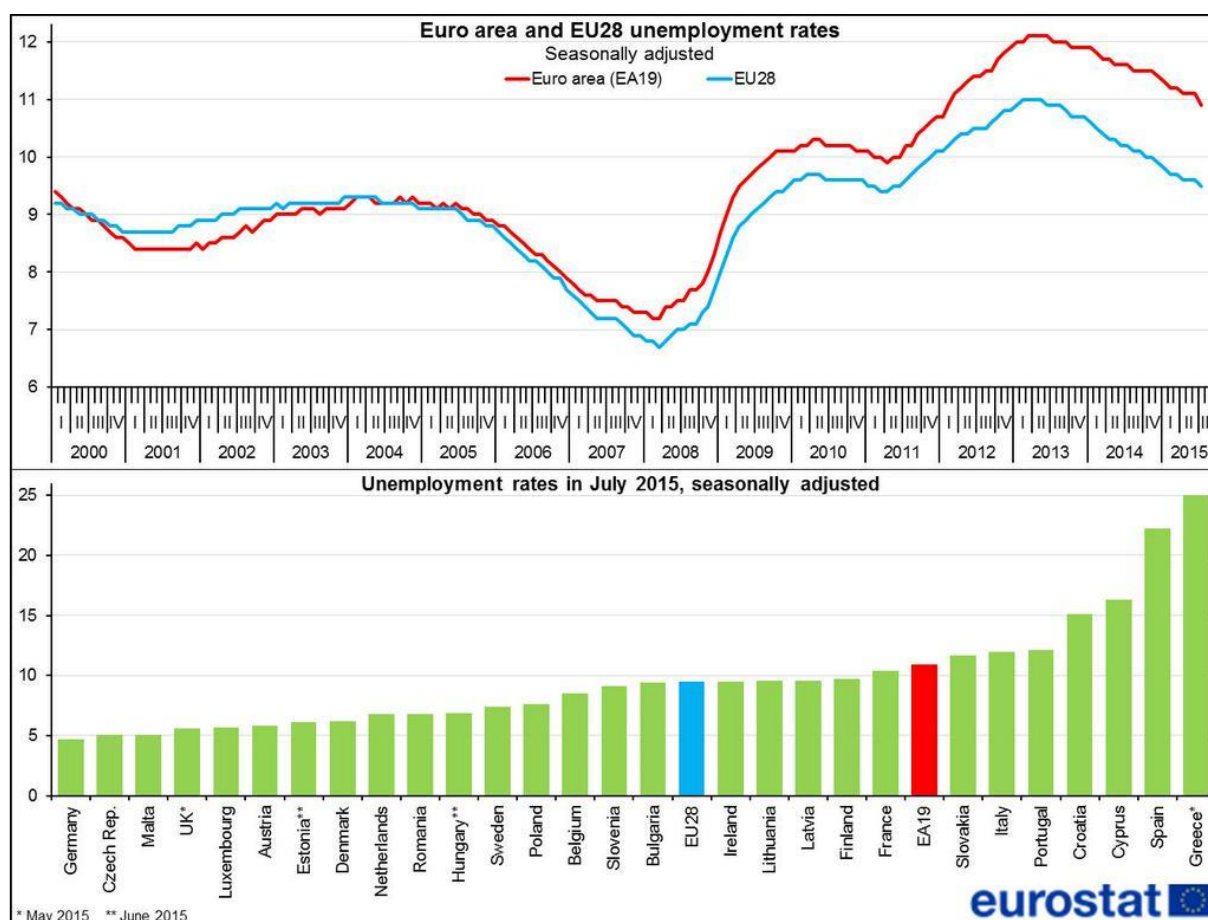
The annual average number of the unemployed was 308 thousand in 2015, 35 thousand fewer than in 2014. The unemployment rate decreased by 0.9 percentage point to 6.8% compared to the previous year.

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

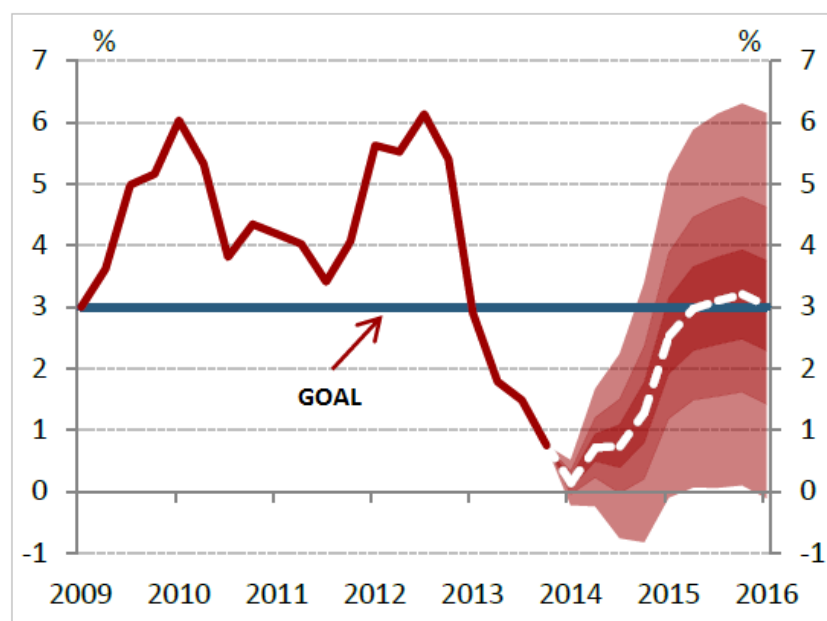
According to the latest, seasonally adjusted data compiled by Eurostat, in March 2016, the unemployment rate averaged 11,2 percent within the eurozone (19 member states), 9.7 percent within the EU (28 member states), while it was only 6.2 percent in Hungary.



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

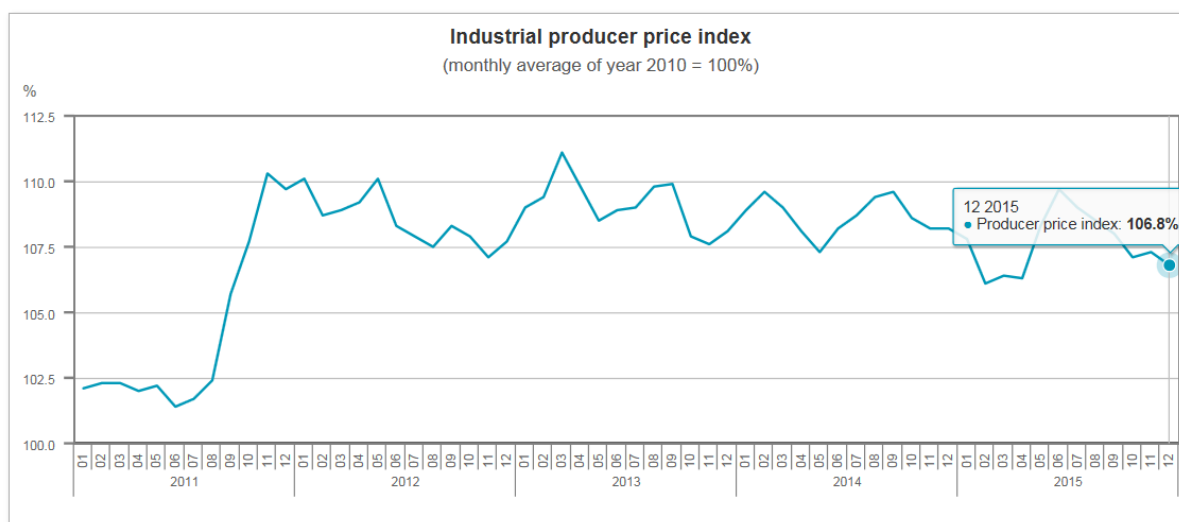
2.1.1.4. Gross output of industry of Hungary in 2014

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

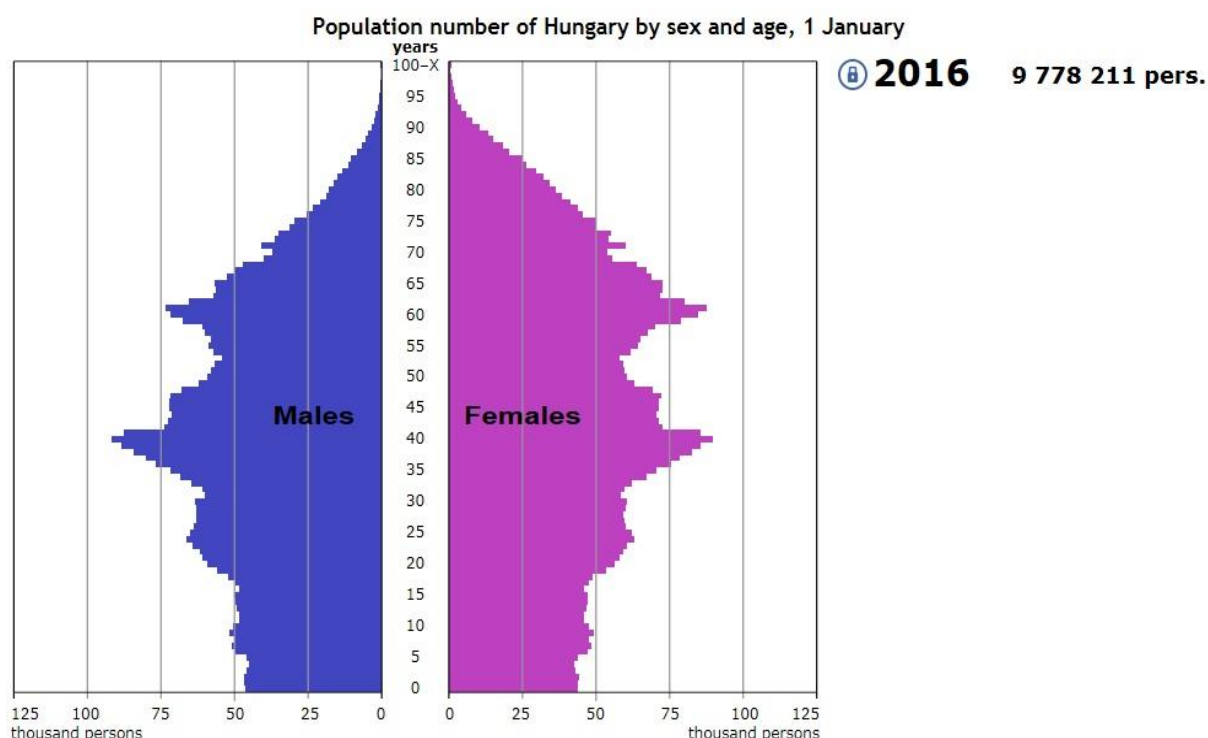
In regard to that there are not any significant change in 2015 Hungary at the socio-economic at the national level please find the detailed description in the Annual Strategic Report 2014.

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 than the average OECD gap of 8 points. The average difference in results, between the

⁸ KSH Statistical reflexion 2016

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 Norwegian 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 Norwegian FM 2009-2014

Programme HU09 - Green Industry Innovation

The National Smart Specialisation Strategy (Nov. 2014) is now the main strategic document in our country the aim of which is to generate R&D&I processes more efficient in order to promote the economic development of different areas of Hungary. This document is necessary and integral part of other documents relating to the possible use of EU Funds in the period 2014-2020.

The overall and the most important objectives of the seven years include i) making Europe a world-class science character; (ii) eliminating the barriers to innovation); and iii) strengthening cooperation between the public and private sectors.

Within the national research priorities laid down in S3 strategy, there are sectoral priorities which are particularly important for all part of the country. The most of these priorities are in close relation with the objectives of the Green industry innovation programme.

These priorities are the followings:

1. Advanced technologies in the vehicle and other machine industries

(machine industry RDI, advanced production technology systems, advanced materials and technologies (technical materials science, materials technology, nanotechnology, mechatronics and electronics)

This is a priority which covers several segments of the machine industry RDI, whose priority (but nonexclusive) objective is to develop the vehicle industry from the development of vehicle components to the different branches of machine production (including, but not limited to, agricultural, food processing, precision and household machinery). To this end, product development, the development of advanced machine industry production technology systems and advanced technologies (technical materials science, materials technology, nanotechnology, mechatronics, electronics, "smart" production) can be applied and there is a chance for the research and development and innovative use of advanced materials.

2. Clean and renewable energies

(green energy – renewables and bio-energy, nuclear energy, energy efficiency)

This priority involving the energy sector is designed to reduce the energy dependency of Hungary by means of clean and environmentally friendly energy and promoting the related RDI activities, so that the energy produced locally is sustainable, decreases the

environmental load and is cost effective, in particular for the households. In addition to using the renewable energies (solar, wind, hydro and geothermal energy) and our thermal water for energy purposes, another objective is the use of bioenergy (such as biomass, biogas, biorefinery methods or the use of various wastes and by-products for energy purposes) as well. In addition to renewable energies, it is a priority to make the other energy producing sectors of the sector clean, more efficient, environmentally friendly and more sustainable, including, particularly, the coal and nuclear energy (for example, clean coal technologies, innovative fuel and decommissioning technologies in nuclear energetics). Priority is given to energy efficiency, better and more efficient energy storage and distribution, as well as the utilization of the so-called "waste energy".

3. Sustainable environment

(natural resource management, advanced environmental technologies)

The priority is aimed at promoting the sustainability of the environment and natural resource management (e.g. environmental biotechnology) through the research and development of modern technologies and the implementation of the environmental industry and sectoral innovation. In addition to the advanced innovative water treatment technologies and waste water treatment and waste management, priority will be given to the non-pipe technologies (e.g. advanced production technology systems for environmental protection). The sustainability of the environment is also supported by the solutions for the innovative exploitation of the natural resources (such as drinking water, mineral resources and arable land).

4. Agricultural innovation

(agriculture, forestry, hunting, aquaculture and water management, horticultural technologies, agricultural biotechnology)

The agriculture sector is traditionally present in Hungary and displays outstanding RDI activities. The aim of the priority is to advance and establish the innovations facilitating sectoral renewal from the agricultural knowledge centres through producer undertakings to individuals, with the aim of enhancing the innovation potential of the sector. Such complex agribusiness developments should be implemented that represent an opportunity to use innovative R&D solutions in crop production and protection technologies, in addition to animal production and veterinary medicine. In addition, research and development in the fisheries management and forest and wildlife management, innovative vegetables and fruit growing, viticulture and wine-making and the development of innovative irrigation systems are also featured. Special attention must be paid during the implementation of agri-innovations to the development of the proper interfaces with the food industry.

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 HU11 – Capacity building and institutional cooperation

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, to strengthen its objectives and to contribute to the solutions of the new municipality system, based on the main reference policies and strategies relevant to the present programme area on European Union and at national levels.

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.

In the recent years the role of municipalities and local governments have shifted greatly, as the public administration tasks (for example child protection, education, permitting) were

given to offices on a micro region level. This shift meant that local governments now rather serve as a body responsible for the development of the settlement, finding out ways to attract businesses and to ensure that residents have all the necessary services for them to stay. Local governments have to find the take-off point that is built on the capacities and resources of the settlement.

Programme HU12 – Public health initiatives

Healthy Hungary 2014-2020

The consistency of the strategy and the present program develops from the infrastructure development priorities. The directions of infrastructure development include among others the reduction of detectable differences in the access to primary care and prevention services; the modernization of the children's health care institutions, the missing child and youth health care centres establishment; improving the infrastructure conditions of active psychiatric and addiction departments as well as improving community care, and they mark the development of teenage and adolescent psychiatric and addiction treatment network.

Human Resource Development Operational Programme (HRDOP)

The connection of the program and HRDOP will be implemented by the interventions of the Operational Programme, in addition to which mental health and renewal horizontal initiatives appear. It aims to develop mental health, the prevention of mental illnesses and thereby improve the quality of life. According to 2011 Eurobarometer data the mental condition of the Hungarian population in comparison with the vast majority of European countries can be classified as inferior and compared to the European average fewer Hungarian experienced "happiness" or "full life".

It should be emphasized that programs feasible by European Union resources, which are in line with the above strategy and operational program, can only be realized in Hungary's convergence regions. For this reason, funds received from the Norwegian Fund for the named programs will be used for developments in Central Hungary Region. By HRDOP and the Norwegian Fund programmes developments can be realized throughout Hungary.

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.

There were no calls for proposals during 2015 in the framework of Norway Grants 2009-2014.

3.2 Individual Programme summaries

3.2.1. Programme area HU09 – Green industry innovation

Overall progress

In the Green Industry innovation programme, projects were selected to be granted in 2014 thus the implementation of these winner projects was ongoing in 2015. By the end of the year two projects were finished successfully and 25 projects are still in the implementation phase.

Progress towards expected outcomes and outputs achieved

The projects selected in the programme cover several different topics including for example bioremediation, technology development in food industry, management and recycling of different kind of wastes etc. in line with the objectives of the programme („Reduced production of waste and emissions to air, water and ground” and „More use of environmentally friendly technologies”). This wide diversity of projects causes a certain challenge for the PO. A lot of different and project specific questions emerged to which the PO and the IA always made individual decision.

The PO together with the IA gained a lot of experience during the monitoring and checking of these projects and made all the effort to give all support for the project promoters for being able to close successful projects.

According to the PO, one of the key element for implementing an efficient programme is a good cooperation among the institutions involved. Fortunately regarding the HU09 programme this cooperation with the national organisations and the donor partners was appropriate. It is a fact, that during the suspension of the Grants this contact with the donor partners was not as direct as it should have been but at this phase of the programme it was manageable and it did not make the operation impossible.

In addition, the inner management structure of the PO and the IA is stable and personal changes did not happen in the year.

Fortunately the relation between Norway and Hungary has been re-established by the end of the year which eliminated all uncertainties regarding the programme. Thanks to the positive results of the negotiations, the official communication restarted with the FMO.

After the positive changes of the whole programme in Hungary, the PO decided to reopen the original open call of Green Industry Innovation as significant amount remained because of the cancel of some project contracts. The preparation of the announcement of the call started as well in the end of the year.

Potential risks

The main challenges for the next year are, in one hand, the assessment and the decision making of applications submitted to the open call till the deadline 30th April 2016 and, on the other hand, the promotion of successful close of projects financed in the framework of the programme. In some cases the request for extension of the implementation phase compared to the original applications is indispensable.

There are no major deviations from plans.

Use of funds for bilateral relations at programme level

Regarding the use of Bilateral Fund the PO plans different activities to the year 2016 together with the Innovation Norway in order to extend and strengthen the relations at national and institutional level too.

3.2.2 Programme area HU10 – Hungarian – Norwegian Research Programme

During the reporting period donors have expressed their opinion that no possibilities are to be seen to complete this programme. Nevertheless, the Hungarian party intended to reconsider whether there are any chances for programme fulfilment.

3.2.3 Programme 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 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 remained project contracts - National Inspectorate for Environment and Nature (NIEN) and National Directorate General for Disaster Management (NDGDM) - were signed in 2015. The implementation of projects is in progress, but due to the delayed signature of the project contracts extension of the implementation period is needed. Regarding the other 2 pre-defined projects - Hungarian National Association of Local Authorities (TÖOSZ) and Gyula Forster National Centre for Cultural Heritage Management (Forster Centre) – implementation is at an advanced stage.

Regarding the open-call part of the programme due to the agreement between the Donor and the Hungarian parties the selection procedure could have started in December 2015. Implementation should be executed regarding the projects of the open call and the

extension of the implementation deadline (until 30 April 2017) should be applied for.

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.

All of the project contracts were concluded by the end of 2015, although the uncertain circumstances and the delayed signature of the project contracts have hindered the implementation. With extension of implementation period and with effective management of the projects (quick and effective interactions between PP, IA and PO) on programme level this outcome can be reached.

The other 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. After the selection procedure planned in January and February 2016 an examination will be necessary to make sure that the proposed indicators can be fulfilled and contribute to the outcome in the shortened implementation period.

Potential risks

In 2015 the main risk of the programme area was the lack of international agreement between the Donor States and Hungary. After agreement reached in November 2015 the main challenge is to be able to continue the implementation in a very tight schedule, since extension is possible only on project level and only up to 30 April 2017.

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.

Another risk is the lack of motivation, capacity or interest for cooperation on the donor project partners’ side, since almost 2 years have passed without official communication regarding these projects (with exceptions). On the Hungarian side changes in national legislation and in institutional framework throughout the projects’ life-cycle could hinder the implementation.

Major deviations from the plan

Due to the suspension and to the lack of cooperation on the donor side, the implementation of 3 of the pre-defined projects is delayed. The projects to be selected after the open call procedure have not received any signed project contracts yet.

To speed up project implementation, active cooperation and communication between

project promoters and project partners, close review and monitoring by PO is needed in 2016.

Use of funds for bilateral relations at programme level

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. After agreement reached between the parties in November 2015 the use of fund for bilateral relations at programme level is full of possibilities, on which focus will be placed at the second half of 2016 in close cooperation with the Donor side. PO was informed by the FMO that VOX would not act as DPP in this programme anymore, but due to the excellent cooperation with KS the PO is confident that remarkable results will be reached regarding bilateral relations this year.

3.2.4 Programme HU12 – Public Health Initiatives

Overall progress

Due to the known circumstances the implementation stopped and a large revision of the programme took place after the restarting of negotiations between Hungary and the Donors, at the second half of 2015. Therefore significant progress did not happen during the reporting period.

Progress towards expected outcomes and outputs achieved

During the second half of 2015 the PO revised the professional content of the programme. The PO submitted four proposals to be implemented. At the end of the year three potential pre-defined projects seemed to be agreed on. The elaboration and negotiation processes were very slow.

Potential risks

The largest risk is the short remaining implementation period. During the revision it has become clear that the methodology of PO concerning the elaboration of professional content of programme required reconsideration of the organisational structure. The elaboration and negotiation processes were lagging behind. After the change of PO the implementation will be accelerated.

Due to the very tight schedule the implementations especially public procurement procedure, can be a high risk which has to be closely monitored by the PO.

Major deviations from the plan

Due to the necessary revision of the whole programme the content of the originally planned programme was reduced. The shortened implementation period should be considered, therefore only pre-defined projects could be executed in the remaining period.

Based on the potential risk mentioned above, the FP initiated the change of the PO.

Use of funds for bilateral relations at programme level

During the reporting period there were no activities in the framework of the bilateral relations. The bilateral activities have to be elaborated and implemented in 2016.

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 Norwegian Financial Mechanism 2009-2014

Programme area	Programme Operator until 31 December 2013	Programme Operator from 24 November 2015
HU09 Green Industry Innovation	Szent István University	unchanged
HU10 Bilateral Research Cooperation	National Innovation Office	National Research, Development and Innovation Office (same institution)
HU11 Capacity-building and Institutional Cooperation	Managing Authority for International Co-operation Programmes of the	Prime Minister's Office Deputy State Secretary for

Programme area	Programme Operator until 31 December 2013	Programme Operator from 24 November 2015
between Beneficiary State and Norwegian Public Institutions, Local and Regional Authorities	National Development Agency	International Affairs
HU12 Public Health Initiatives	Managing Authority for Human Resources Programmes of the National Development Agency	Ministry of Human Capacities; State Secretariat for EU Development Policy

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 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
Fulfilling the obligations of PO in HU11 programme	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 Norwegian Grants **the HU09 Green Industry Innovation** progressed properly, however, the common work with the DPP reduced to the informal way. The other programme, which could progress almost normally, was the **HU11 Capacity Building**, however, the open call part of the programme could not continue without the cooperation of the donor side in the evaluation process.

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.