



PRIME MINISTER'S OFFICE
HUNGARY



Strategic Report
on the implementation of
Norwegian Financial Mechanism 2009-2014
in Hungary

1 January 2016 – 31 December 2016

March 2017

TABLE OF CONTENTS

TABLE OF CONTENTS	2
LIST OF ABBREVIATIONS	3
1. EXECUTIVE SUMMARY.....	4
2. ASSESSMENT OF THE EFFECT OF THE GRANTS	6
2.1 Cohesion.....	6
2.1.1 Economy and society of Hungary in 2016	6
2.1.1.1. Gross domestic product of Hungary in 2016	6
2.1.1.2. Unemployment rate of Hungary in 2016	7
2.1.1.3. Inflation rate of Hungary in 2016.....	8
2.1.1.4. Gross output of industry of Hungary in 2016.....	9
2.1.2 National trends related the programme areas of the EEA Financial Mechanism.....	11
2.2 Bilateral relations	14
3. REPORTING ON PROGRAMMES	17
3.1 Overview of Programme status.....	17
3.2 Individual Programme Summaries	18
3.2.1. Programme area HU09 – Green industry innovation	18
3.2.2. Programme HU11 – Capacity-building and Institutional Cooperation between Beneficiary State and Norwegian Public Institutions, Local and Regional Authorities	21
3.2.3. Programme area HU12 – Public Health.....	25
4. MANAGEMENT AND IMPLEMENTATION.....	28
4.1 Management and control systems	28
4.1.1. Support of the implementation, risk management by the NFP	28
4.2 Compliance with EU legislation, national legislation and the MoU.....	29
4.3 Irregularities	30
4.4 Audit, monitoring, review and evaluation	31
4.5 Information and publicity.....	33
4.6 Work plan.....	34
5. SUMMARY LIST OF ISSUES AND RECOMMENDATIONS	36

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
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
SC	Selection Committee
SMEs	Small and Medium Enterprises

1. EXECUTIVE SUMMARY

The Hungarian government is committed to successfully implement the EEA and Norwegian Financial Mechanisms 2009-2014, including the overall objectives.

Being aware of the importance of the FMs, the NFP, together with the POs and with the support of the IA made every effort in order to implement the Grants in Hungary. After the successful agreement regarding the continuation of the Grants, with the coordination of the NFP the POs have revised the necessary **professional content** of the programmes and ensured the necessary **human capacities** for the implementation. Since the Programme Operator of the HU12 changed during the reporting period, the MoU had to be amended with exchange of letter between the Donor States and Hungary.

There have been some changes in the **national trends** and legal background in Hungary during the reporting period, but these changes did not result in significant differences as it can be seen in this report.

Meanwhile the necessary legal background was revised due to the modification of the MoU in November, 2015, and to the change of the PO of HU12 in 2016, namely the **Government Decree** for implementation of the Grants had to be modified, furthermore in accordance with these changes, the **Programme Agreements** and **Programme Implementation Agreements** were also modified during the reporting period.

The **management and control system description at national level** was approved by the Audit Authority and the audit opinion was sent to the FMO in February, 2016.

The NFP provided template for the POs to facilitate the elaboration of **management and control system description at programme level**. The descriptions were approved by the Audit Authority and the audit opinion was sent to the FMO in November, 2016.

Parallel to these activities, there has been ordinary operation in one programme (HU09) and the process of evaluation has taken place in the other two programmes (HU11, HU12).

The Hungarian party has fulfilled the conditions determined by the Donor States regarding **project extensions**: the requests of the projects to be extended have been submitted to the FMO until 30 April, 2016 and the signed Project Contracts were uploaded into the DoRIS system until 31 May, 2016. Altogether (EEA and Norway Grants) almost 200 projects will expectedly be implemented during the implementation period under the responsibility of the NFP in Hungary.

The **main risk** is the short implementation period. To achieve the identified outcomes and outputs, intense efforts and high quality work are necessary from the Hungarian institutional system.

At **national level** the NFP supported the implementation with several tools, carried out mostly in cooperation with the FMO.

Trainings were organized regarding the DoRIS system, irregularities, communication and Webinar for the POs with the assistance of the FMO. In addition, the NFP organized some events to contribute to the successful implementation: **workshops** on bilateral relations on programme level; and on communication and publicity requirements; **conference** on risk management. In order to present the status of implementation and experiences of the Grants, the NFP organized a **Mid-term Conference** for the interested parties in November, 2016 which was very successful.

The NFP pays particular attention to the efficient and orderly implementation. **Biweekly meetings** are organized for each PO with the participation of the IA to measure the progress of the programmes. In addition, the IA visits NFP also biweekly in order to review the implementation, identify the issues and give solutions in time if it is necessary. The NFP is informed about all milestones in the programmes, **participates in the Selection and Cooperation Committee meetings** and other key negotiations.

At **programme level** the POs carry out their tasks responsibly. In addition to the on-the-spot-checks made by the IA, the POs visit the projects more frequently. According to the reports every projects were monitored personally during the reporting period.

The development of bilateral relations was continuous in the reporting period. The NFP has revised the Work Plan for Bilateral Relations at National Level and submitted to the FMO in December, 2016. **The National Fund for Bilateral Relations** will be implemented according to the approved document. Expected related activities in the future: two calls for proposals will be published and a conference on bilateral research cooperation will be organized. The content of activities has been elaborated with the agreement of the Royal Norwegian Embassy in Budapest.

Each concerned PO started to design their **bilateral activities at programme level** during the reporting period. The DPPs played active role during these activities. The expected results will be seen in 2017.

Each **programme has been audited** by the companies appointed by the FMO. The NFP, as well as the concerned institutions are waiting for the result of the audits.

The NFP pays particular attention to the **publicity of the Grants**. In addition to support the POs in their tasks in communication and publicity, the NFP has made efforts to fulfil the requirements. The official homepage of the Grants (www.norwaygrants.hu through the www.norvegalap.hu) is updated continuously, including the English webpages. The PO responsibility on communication and publicity is monitored regularly by the NFP.

The NFP restarted the **Facebook page** of the Grants in Hungary and achieved more than 2000 followers in short period with several tools (news, sharings, games etc.) by the end of the year.

2. ASSESSMENT OF THE EFFECT OF THE GRANTS

2.1 Cohesion

2.1.1 Economy and society of Hungary in 2016

The performance of the Hungarian economy started to follow a path of growth, and the increase continued in the year of 2016. Growth was recorded in the global economy in the course of 2016, the trends were affected by the decrease in raw material prices and low levels of return.

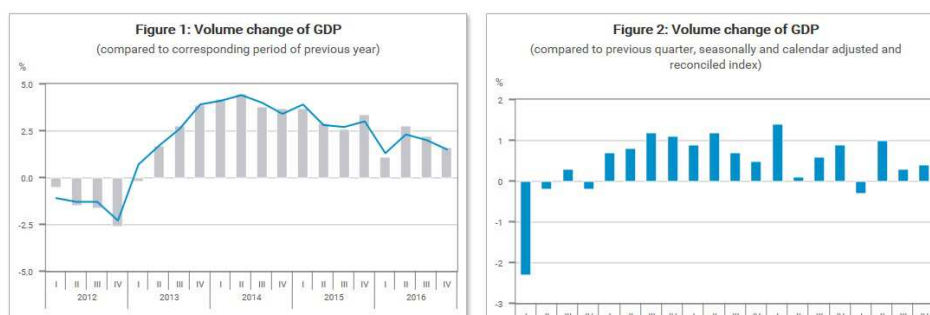
In external trade in goods the value of exports amounted 3.1% larger than in 2015, and the value of imports was 1.7% more than one year earlier. The rate of increase of the trade was the lowest in respect of the last three years in exports and the last four years in imports. The balance improved in 2016 as well as in 2015.

The hot and rainy weather in the growing season of 2016 brought outstanding harvest results. 18% more cereals were produced on a 5.4% smaller area. Record production of rape and sunflower was harvested, 49% and 22% more than in the previous year.

2.1.1.1 Gross domestic product of Hungary in 2016

The gross domestic product of Hungary (hereinafter: GDP) increased by 1.6% in the fourth quarter of 2016 compared to the same period of the previous year. The growth was considerably influenced by the performance of market-based services and agriculture, while that of industry stagnated, and the performance of construction lowered the growth.

The volume of GDP, calculated for the OECD as a whole, was 1.7% higher on average in 2016 than a year earlier, along with a continuous rise. The rise of the volume of GDP lost the impetus observed for previous years (gross domestic product was 4.0% higher in 2014, and 3.1% higher in 2015 than a year earlier).



In 2016, GDP rose by 2.0% Hungary is an OECD high-income mixed economy with a very high human development index. From the beginning of 2016, the significantly shrunk base of available EU-funds had an immediate impact on the country's performance.

The disappointing quarterly data showed a sole 0.9% hike beating most expectations. Therefore, the government might need to revise its year-on-year growth in the year of 2016.

In 2016, the decrease in industrial producer prices stopped, the industrial export sales prices fell by 1.0% compared to 2015. The prices of goods (e.x. medicaments, housing, household and body care articles as well as cultural goods) were lowered to the highest extent.

- The price level of household energy was reduced by 0.1%, within which the major overhead prices remained unchanged;
- the price rises of consumer durables were slightly higher (0.5%);
- the price level of services rose by 1.5%, within which prices of cultural and leisure services increased by 1.7%, those of rents and housing by 1.4%;
- in 2016, similarly to the previous four years, the highest price rise (2.3%) was observed for alcoholic beverages and tobacco products.

From the expenditure approach, the actual final consumption of households was up by 4.2%, and the actual final consumption of the government practically stagnated. As a result of these two items, actual final consumption increased the GDP growth rate, and gross capital formation slowed down the growth of economic performance.

2.1.1.2 Unemployment rate of Hungary in 2016

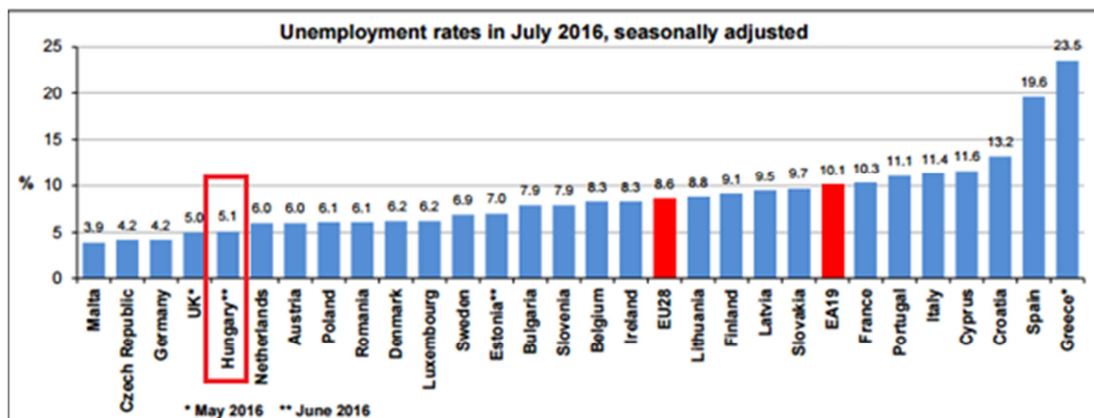
The annual average number of the unemployed was 235 thousand in 2016, 73 thousand fewer than in 2015. The unemployment rate decreased by 1.7 percentage points to 5.1% compared to the previous year.

In the last quarter of the year 2016, the number of unemployed people was 205 thousand, 76 thousand fewer, than a year earlier, and the unemployment rate decreased by 1.7 percentage points to 4.4%. Men and women were characterized by almost the same level of unemployment, the improvement was higher in the case of women.

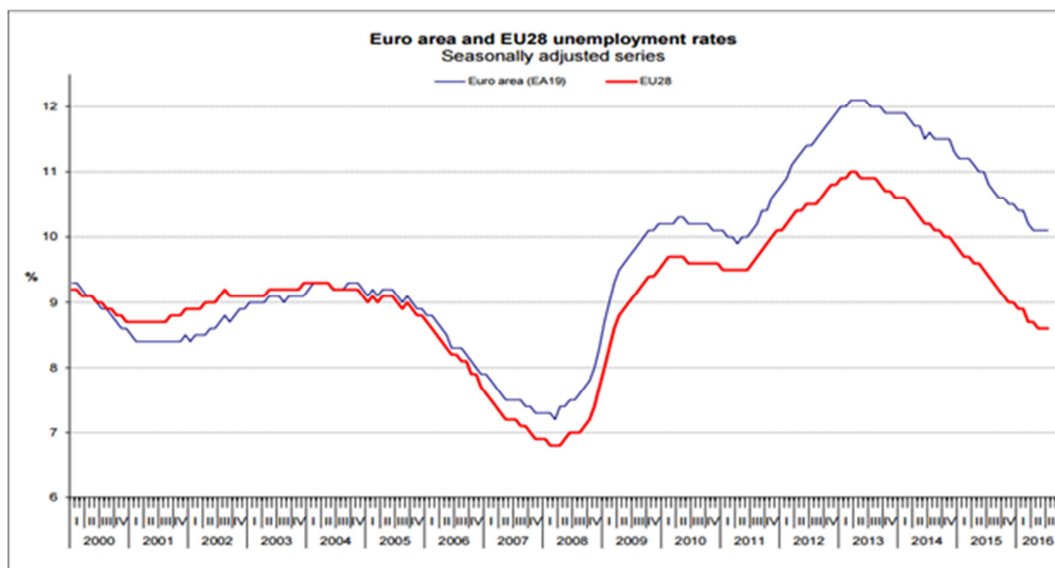


Source: Hungarian Central Statistical Office, KSH, www.ksh.hu

According to the latest, seasonally adjusted data compiled by Eurostat, in July 2016, the unemployment rate averaged 10,1% within the euro-zone (19 member states), 8.6% within the EU (28 member states), while it was only 5.1% in Hungary.

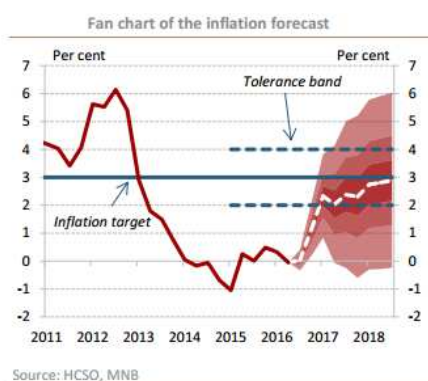


Source: EUROSTAT



Source: EUROSTAT

2.1.1.3 Inflation rate of Hungary in 2016



Source: HCSO, MNB

In 2016 the average inflation rate was -0,45 %. Comparing 2016 with the previous year consumer prices went up by 0.4% on average, and, within this, food prices by 0.7%. The highest price rise (2.3%) was recorded for alcoholic beverages and tobacco. The prices of services rose by 1.5%, those of consumer durables by 0.5% and the prices of clothing and footwear by 0.4% on average. Consumers paid 2.2% less for other goods, and the prices of electricity, gas and other fuels were reduced by 0.1%.

Source: HCSO, MNB

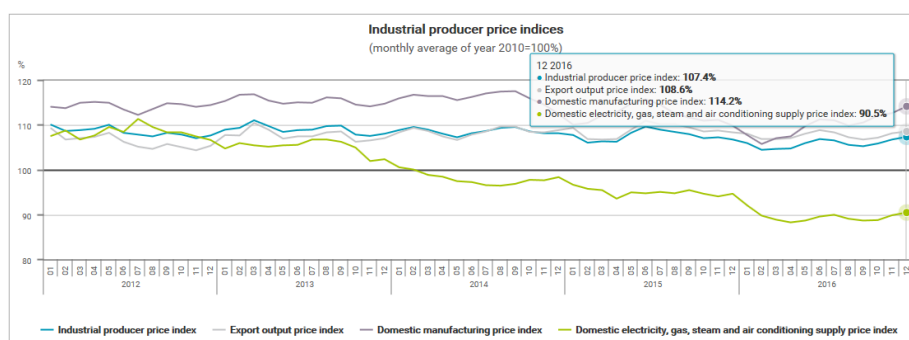
2.1.1.4 Gross output of industry of Hungary in 2016

The volume of gross domestic product was 1.6% higher in Hungary in the 4th quarter of 2016 compared to the corresponding period of the previous year.

Industrial producer prices as a whole were 1.7% lower. Domestic sales prices were 3.0% lower on average, within which prices were 2.0% lower in manufacturing and 5.8% lower in electricity, gas, steam and air conditioning supply, – as an effect of a decrease in the world market prices of energy sources, lasting for a long time – than a year earlier.

Out of the end-use groups of the producer branches of industry, industrial domestic sales prices were reduced by 4.8% in energy and intermediate producer branches due to price developments of energy sources. At the same time, prices rose by 1.8% in capital goods producer and by 0.9% in consumer goods producer branches.

Industrial export sales prices were cut by 1.0%. Within this, manufacturing prices were 0.6% and – also due to a decrease in the world market prices of energy sources – prices in electricity, gas, steam and air conditioning supply, representing small weight, 11.1% 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 2016 Hungary at the socio-economic at the national level please find the detailed description in the Annual Strategic Report 2014.

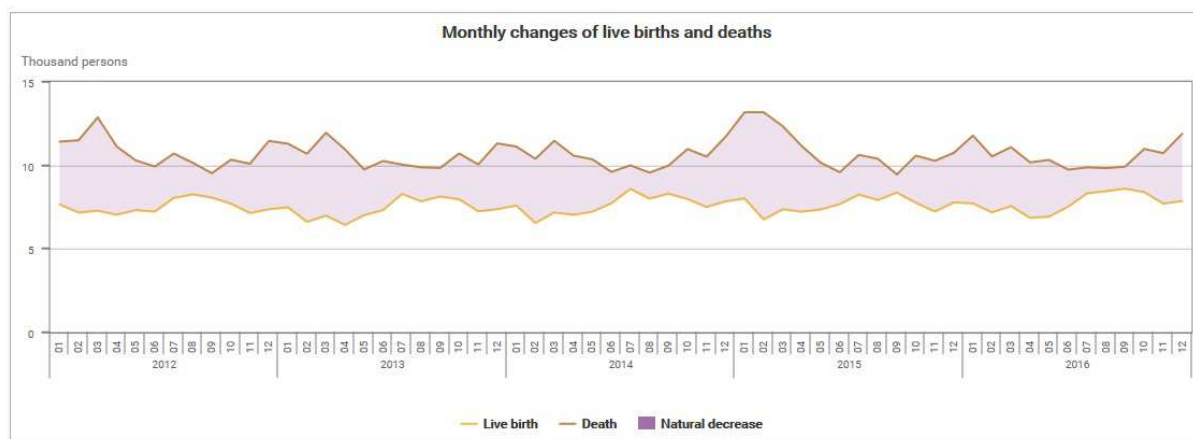
2.1.1.6 Social status in Hungary in 2016

The estimated population number calculated based on the 2011 population census data and taking into consideration international migration was 9.799 thousand at the end of 2016. According to preliminary data, the number of born children in 2016 is 1.5% more than a year earlier. The number of deceases was 126.900 which meant a decrease compared to 2015.

Main data of vital events, January–December 2016

Vital event	Number	Change compared to the same period of the previous year, %	Per thousand inhabitants	Change compared to the same period of the previous year, %
Live birth	93 100	1.5	9.5	1.8
Death	126 900	-3.6	12.9	-3.4
Infant death	365	-4.7	3.9 ^{a)}	-6.1
Marriage	51 800	12.3	5.3	12.6
Natural decrease	-33 800	-15.5	-3.4	-15.3

a) Per thousand live births.

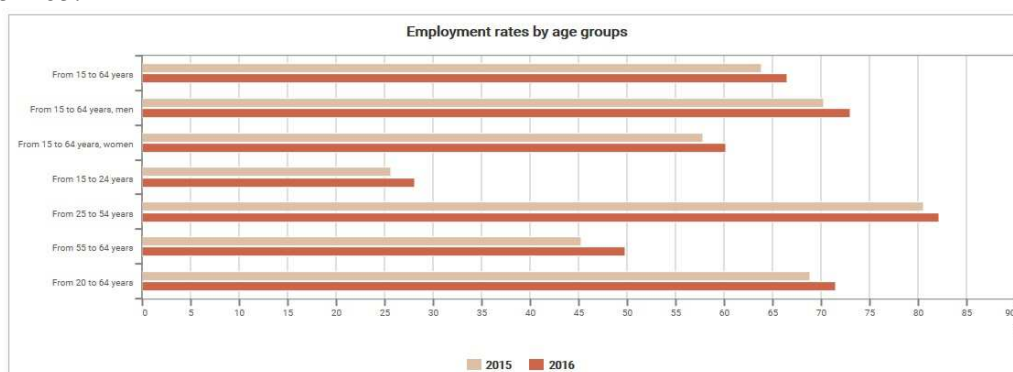


Source: Hungarian Central Statistical Office, KSH, www.ksh.hu

In 2016, employment grew and unemployment was reduced compared to the previous year. The number of 15 – 74 year-old employed people was 141 thousand more than in 2015. The number of employed people in 2016 is one of the highest values of the 24 year-old history of the labour force survey. The growth of employment was higher among men than women.

The level of employment of the population aged 15 – 64 increased in all of the regions, the growth was the most significant in Northern Great Plain. The employment rate was the highest in Central Hungary (71.7%) and the lowest in Northern Hungary (62.4%). In Central Transdanubia, which is characterized by high employment rate, the level of employment slightly increased, and in Western Transdanubia the growth was also much lower than the average.

The observed age groups were characterized by different growth rates. The employment rate of young people increased, and that of those in the 'best working age', the 25 – 54 age group grew to 82.2%. The highest increment occurred among the elderly population aged 55 – 65.



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

In the 15 – 64 year-old population the number of unemployed people was 234 thousand on average, a quarter fewer than in 2015. 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. The unemployment rate was slightly lower for women than for men, at the same time unemployment fell to a higher extent among women.

The unemployment indicators of 15 – 24 year-old young people, 25 – 54 year-olds and 55 – 64 year-olds all decreased year-on-year. 48.4% of unemployed people were unemployed long term (for at least one year, their rate became higher than in 2015, while the average length of job search was unchanged over a year, it was approx. 18 months.

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

Programme HU09 - Green Industry Innovation

In the Hungarian Green industry innovation programme the most highlighted areas are f.e. the development and introduction of different waste management solutions, the integration of renewable energy resources in the existing technologies, or there are more biotechnological researches as well aiming to reduce the pollution in the ground, water or in the air.

One popular option for green industry investments in Hungary is the **waste recycling** and the introduction of new technologies. Instead of storage, these technologies provide safe and advantageous settlement, installation or utilization of special, unique, and in some cases hazardous wastes usually in large quantities. The other tendency is the **application of well-known operations, processes** (evaporation, reverse osmosis, etc.) in areas where it have not been applied yet. The development of technologies results in a waste reduction and/or energy efficiency and preferable material use.

As far as **biotechnology concerned** the development of the tools of molecular biology results a significant boost in the development of classical microbiology. The modernization of this area is continuous, more and more innovative tools and technologies are born day by day, which may contribute to the genetic testing of microbes. The previously complex and time-consuming assets have become faster and cheaper (similar to the IT development), so these technologies are more and more available.

Regarding the **renewable energy** possibilities, the utilization of renewable energy sources in the Hungarian energy supply system is divided into five types:

1. biomass (combustion purposes, pyrolysis and biogas utilization)
2. the earth's heat (geothermal and thermal water energy)
3. the solar energy (photovoltaic and recovery photothermal)
4. the wind energy (electricity and mechanical energy)
5. the hydro power (electricity and mechanical energy)

In an international comparison Hungary is often mentioned in terms of **geothermal assets** – that is our "great power". Although our country is not situated in an active volcanic area, the geothermal conditions at both European and international level are outstanding.

In Hungary, the annual value of **energy from solar radiation** per square meter (horizontal surface) varies between 1200 and 1450 kWh, is internationally good value.

In addition, it is also important that the annual value of solar radiation will not change significantly in the whole country.

Regarding the tendencies of the renewable energies, the **legal framework supports significantly the spread of solar energy solutions** so these kinds of developments are the most frequent in the near future.

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.

According to the **Public Administration and Civil Service Development Strategy 2014-2020** in 2016, the government has continued to reorganize the public service, rationalize its operation furthermore to reduce the costs namely to build an economical state. The first steps took place in the recent years but naturally these developments require long term to be achieved.

In the frame of **State reform II**, the aim is to improve the quality of the public services which includes the acknowledgment of the work of the employees and the improvement of the standards of the public services provided to the citizens. Moreover one of the most important aim is to rationalize the governmental institutions. For the civil servants a **new public service career model** has been introduced on 1 July, 2016. Primarily, it favours the entrants and those, whose salary is lower. It may result in even 50% pay raise. This measure aims to compensate financially the plus burdens which have affected the local bureaus in the recent years and those employees, whose wage needs to be complemented. '**Governmental window**' (Kormányablak) system has been established in order to improve the standards of the public services provided to the citizens where the people can reach many kinds of public services in one point. This service form is under a continuous development.

The **central agencies and ministerial background institutions** are reorganized as well, which measure has reached more than 50 organizations. Most of them have been ceased.

In order to preserve competitiveness of Hungary, it is justified to decrease the number of public institutions and handle the cases more effectively. The responsibilities of the ceased central agencies are shared among the capital and county governmental agencies and the ministries. It connects to the simplification of authority proceedings and to the reform of administrative appeal system which includes the reduction of duration of proceedings and number of remedy forum and tools.

The government has no intention to withdraw authority from the local governments according to the aspect that official activities shall be performed close to the citizens.

The development of the IT system is a key priority regarding the faster administration. **Digital Future Municipal Network** has also started to operate in order to make more efficient the office work. Digitalization is a condition of the habitable communities and the provision and accession of variety public services. The initiative aims to make the participants find each other in order to organize a digital future for the everyday life.

The above mentioned changes are consistent with the general aims of the Programme and the implementation helps to approach to the improvement of the public services.

Programme HU12 – Public Health

Throughout 2016, no major changes took place in the policy and legislative context, which would have an impact on the implementation of the programme.

The current strategy in place, **Healthy Hungary 2014-2020** and its subsidiary **Healthy Budapest 2014-2020**, builds on the previous strategies, giving emphasis to good general public health while recognising the importance of innovative solutions, rational use of financial resources and the need for a balanced health care system benefiting all.

According the Healthy Hungary 2014-2020 healthcare strategy, Hungary is devoted to improve healthcare infrastructure and availability of the country massively. Norway Grants provide significant resources to establish a true 21st century healthcare infrastructure to accommodate latest improvements of global medicine.

In 2016, a report has been produced on the implementation of the **sugar tax** which was introduced in Hungary, and reported that the consumption of products subject to the sugar tax had decreased. The report argued the manufacturers have a smaller budget to explore healthier alternatives to sugar. Innovation and new marketing initiatives have reduced long ago.

Towards the end of the year 2016, the government of Hungary enacted the next instrument, restructuring the central level of public administration, which affects both regulatory and administrative institutions of the state-owned health-care system.

The projects implemented in the framework of programme HU12 contribute to the implementation of government strategy with elaborating professional methodology and providing development in several fields of mental health.

2.2 Bilateral relations

Overall progress within the four outcome areas

The EEA and Norway Grants have two overall objectives: contributing to the reduction of economic and social disparities in the European Economic Area and strengthening the bilateral relations between the EEA EFTA states Iceland, Liechtenstein and Norway and the 16 beneficiary states.

We distinguish different types of results or outcomes for both the donor and beneficiary states, falling within different groups: extent of cooperation; shared results; knowledge and mutual understanding; wider effects.

After the suspension period the National Focal Point with the Programme Operators did the **necessary measures** in order to optimize the bilateral relations and maintain the programmes with the Donor States. Thanks to the common intensive cooperation, the institutions could **start the implementation**.

The activities related to the bilateral relations enriched in 2016. The events were not only in order to **strengthen the bilateral relations**, but they contributed to the **effective implementation**. It should be emphasized, that the FMO supported the restarting process with providing trainings for POs.

Please find below the most important events and workshops in 2016 between Hungary and the Donor States.

Events in 2016 in Hungary

Name of the event	Donor Partner	Date
DoRIS training	FMO	January 2016
Communication Workshop	FMO	February 2016
DoRIS training II.	FMO	April 2016
Onsite visit by the National Focal Point	HU03 DPP	June 2016
Irregularity training	FMO	September 2016
Communication Workshop	FMO	September 2016
Mid-term conference	FMO, DPPs	November 2016

In addition to the above mentioned, the representatives of National Focal Point participated in other events organised by FMO.

After the re-starting of implementation, in accordance with the MoU, the Annual Meeting was held in Brussels in July, 2016, where the Annual Strategic Report and the status of the implementation were reviewed, and the report was approved by the donors.

Furthermore the National Focal Point **participated** in all programme level events (e.g. meetings of Cooperation Committee and Selection Committee and international and other conferences). Please find the detailed description in the relevant chapters.

Cooperation with the Royal Norwegian Embassy

Besides programme level cooperation, bilateral relations were also intensive between the NFP and Donor State entities, especially with the **Royal Norwegian Embassy in Budapest**. The Embassy was represented on most of the events organized by the concerned institutions/entities of the Grants, e.g. POs, Project Promoters, as well as NFP (Cooperation and Selection Committees, Mid-term conference, opening or closing events of projects).

The NFP endeavors to organize regular informal meetings with the Embassy, therefore some meetings were held in 2016 to inform each other on several aspects of the implementation of the Grants.

Main risks and mitigation

The main risk is the short implementation period until the deadline which concerns not only the project implementation, but also the activities regarding the bilateral cooperation. The National Focal Point **supported** the Programme Operators to **achieve the bilateral aims**, therefore a meeting was organized by the NFP on bilateral relations on programme level for POs in October, 2016. On the meeting after the information of NFP on the general principles of tasks, the POs shared their experience and plans with each other to facilitate the further activities in the near future regarding the bilateral cooperation.

Reporting on the implementation of the NFBR

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 each year in which expected actions under NFBR shall be described. Regarding the fact that there was **no updated Work Plan** because of the suspension period, the National Focal Point **revised** the latest one with the cooperation of the Financial Mechanism Office. Regarding the Work Plan several meetings and negotiations were held in writing and in phone conferences, as well as on the occasions of other meetings, e. g. in July and December, 2016. According to the negotiations the National Focal Point refined the Work Plan several times and finally sent the final version of the Work Plan for Donor approval in December 2016, with the following key priorities:

- European fundamental values, social welfare and gender equality
- Environment
- Research conference
- Reserve

Two different open calls will be launched to select projects and initiatives to be funded within the first two priority areas:

“Equal opportunities for women” – Encouraging cooperation between Donor States and Hungary with the aim of strengthening gender equality and elimination of violence against women

“Tackling climate change” – Encouraging cooperation between Donor States and Hungary in the field of environmental protection.

Taking into account that the deadline of the implementation of the activities of the National Fund for Bilateral Relations is **30 April 2018**, the National Focal Point will try to take advantage from the activities to further increase and deepen the bilateral cooperation between Hungary and the Donor States. Furthermore the NFP expects that the bilateral activities will cause **significant added value** to the networking between Hungary and the Donor States.

3. REPORTING ON PROGRAMMES

3.1 Overview of Programme status

Due to the lifting of suspension of Grants the implementation process accelerated at the beginning of 2016. The Programme Operators with the coordination of NFP have revised the programmes and have prepared the feasible content for the remaining implementation period. In this period the POs have negotiated with their professional experts as well as with FMO, their DPPs, NFP and IA. In the first quarter of 2016 the evaluation and decision making process has continued in one programme (HU11), revision of the pre-defined projects took place in HU12 and a new call has been published in HU09 programme.

Meanwhile the POs have prepared for the project extension. Together with the IA and with assistance of NFP the POs have measured the status of projects already under implementation and the willingness for the implementation in the short remaining period of newly selected projects. In addition, the NFP has organized a meeting for POs to discuss the appropriate process of extension on 20 April, 2016.

Finally, the extension process has been finished until the deadline 30 April, 2016. During the next month the preparation and signature process of project contracts have taken place and the project level information have been uploaded into the DoRIS system until 31 May, 2016. Altogether the extension process has lasted until September, 2016 – 113 projects have been extended.

The intensive work has continued from June, 2016. The POs and IA have assisted the Project Promoters in the implementation with daily consultation orally and in writing if it has been necessary and information events have been organized per programmes with participation of POs and IA to facilitate the implementation.

The programme progress has been supported intensively by the NFP with personal consultations and with organization of several events as follows:

- DoRIS trainings provided by FMO, organized by NFP twice in 2016 (January and April);
- Communication workshop provided by FMO, organized by NFP in February, 2016;
- Organization of a risk conference for POs in June, 2016;
- FMO's Webinar events have supported directly by NFP, with ensuring places and accessibility for POs in several times in 2016;
- Irregularity training provided by FMO, organized by NFP in September, 2016;
- Meeting on bilateral relations on programme level for POs in October, 2016;
- Meeting on publicity and communication for POs in December, 2016.

In addition to the above mentioned, the NFP organizes meetings with POs and IA every two weeks, where the programme status is presented and questions raised are negotiated.

To ensure the appropriate implementation, the NFP has encouraged the POs to intensively monitor the implementation, which have taken place in several programmes during the second half of 2016. Almost all projects have been monitored in programmes HU09, HU11 and HU12.

During the second half of 2016 the preparation of the bilateral cooperation activities on programme level has been started in programmes. Several POs have negotiated the bilateral activities with their DPPs and organized Cooperation Committee meetings where the initiatives could be consulted.

Calls published in 2016

Programme area	OPEN Calls			Pre-defined projects approved in 2016
	Title of the call	Date of launching	End of submission	
HU09 – Green Industry Innovation	A1: Reduced production of waste and reduced emissions to air, water and ground	14.01.2016	16.03.2016	n r
	A2: More use of environmentally friendly technologies	14.01.2016	16.03.2016	

3.2 Individual Programme Summaries

3.2.1. Programme area HU09 – Green industry innovation

Overall progress

In the Green Industry Innovation programme the projects were selected to be granted in May 2014 thus the implementation of most of these 25 projects was still in progress in 2016. According to the Programme Agreement of HU09 programme the original final eligibility deadline was 30th April 2016. In case of 13 projects extension request had to be sent to NFP in order to be able to provide the successful use of the programme allocation.

Taking into account that there were some remaining amount from previous Call, Programme Operator decided to re-launch the open call in the very beginning of 2016.

The call was officially announced on 14th January 2016. The deadline for submitting the application forms was 16th March 2016. There were not significant changes regarding the professional content of the call only some administrative updates.

Altogether 12 new projects were selected according to the Programme Operator's decision made on 27th April 2016. These projects have only one year for the implementation as the extended final eligibility deadline for them is also 30th April 2017.

As it was required in the relevant rules the **Description of the Management and Control Systems** for the HU09 Green Industry Innovation programme of the Norwegian Financial Mechanism 2009-2014 was prepared in May 2016.

As far as we see it, one of the key elements for implementing an efficient programme is a **good cooperation among the institutions involved**.

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 elements 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.

Potential risks

Delays with procurement & technology risks

Some projects experienced delays in public procurement, which can affect the overall likelihood of technology development and commercialisation. Some projects were delayed with the testing of new technologies; at least one project had a delay in obtaining a permit to use new technology (solar power).

These above mentioned situations are causing risk of successful completion, but the PO - together with the IA and other professional experts - continuously monitors the implementation and give support where needed.

Financial risks

Although being very circumspect, there is still a chance that the PO cannot use the remaining amount from the total allocation. Due to irregularity procedures projects can lose some percentage of their allocation. Some uncertainties surrounding obtaining payments for projects in a timely manner could also cause delay in procurement/ purchases/ testing of new technology.

Use of funds for bilateral relations at programme level

In 2016 the cooperation between the Programme Operator and the donor programme partner, the Innovation Norway became formal again thanks to the positive changes in the programme. As a result two **Cooperation Committee** meetings were held during the year on 28th January 2016 and on 26th October 2016, at the second meeting His Excellency the Norwegian Ambassador participated as well.

The Programme Operator and the Programme's professional project experts attended on a **competence building study trip in Oslo and Ås, Norway**, on 25-28 of September 2016 in order to strengthen the bilateral relationship with different Norwegian organisations, universities.

In case of those organisations who took part in certain projects of HU09 as partners' experiences were gained; regarding R&D financing programmes and policies at National, European and International level the goal was to build competence, and to share best practices. Participants had meetings with colleagues from Innovation Norway, Norwegian Environment Agency, Norwegian University of Life Science (NMBU) Ås, Norwegian Institute of Bioeconomy Research (NIBIO) Ås, Oslo University, Research Council and Bioteknologirådet.

On 27-28-29 October 2016, the Programme Operator organized an international **conference called "Innovations in Green"**. The conference owned a huge success, with numerous foreign participants, Programme Operators and Norwegian Companies' representatives.

3.2.2. 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 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. The programme puts strong emphasis on local initiatives and pilot projects to be implemented on local and regional level, but at the same time an impact at national level is foreseen, by best practices collected and sustainable models implemented. The programme clearly contributes to the reduction of economic and social disparities in the European Economic Area also as a direct output, but even more in the medium term, if the created results can be spread wider.

The programme is to be implemented originally via **three pre-defined projects promoted by line ministries** and **one pre-defined project promoted by national associations of local governments**. Due to the donor project partner's withdrawal from the project of the *National Inspectorate for Environment, Nature and Water* FMO could not support the implementation. FMO agreed to reallocate the unused fund to the open call part and accordingly the output indicators were modified through the modification of the Programme Agreement in April 2016.

The project implementation of the *Hungarian National Association of Local Authorities (TÖOSZ)* was continuous and very successful, so it managed to finish its project according to the original plan, until 3 April 2016. The other two pre-defined projects' – *Forster Centre* and *National Directorate General for Disaster Management (NDGDM)* – implementation was continuous, but due to the initial difficulties and time delays both Project Contracts had to be prolonged until 30 April 2017.

The other part of the programme is implemented via **projects selected through open call procedure**. The selection process of the open call projects continued with the Selection Committee (SC) held in Budapest on 11 January 2016. After the above mentioned reallocation from the pre-defined projects, plus one project could be granted from the reserve list, so **altogether 8 projects were granted** from the open call part.

The **bilateral cooperation** is the core element of the programme, and at the beginning of the year we renewed and strengthened our cooperation with our DPP, KS in the framework of the Selection Committee (11 January 2016) and of the Cooperation Committee (16 February 2016). All project promoters strongly focus on strengthening bilateral relationship at project level. They organize conferences, workshops, study tours and different trainings in order to exchange experience and learn from each other. Experiencing the active bilateral relations and the demand, on 30 November 2016 the PO in cooperation with the DPP have organised a very successful and effective mid-term bilateral conference in Budapest.

The **special concerns** defined in the programme, namely life-long learning and gender equality are handled as cross-cutting issues through the programme. The PO intends to closely review and monitor the performance of the specific concerns in the next period as well.

The **Management and Control System** of HU11 Programme was prepared by the PO and sent to NFP until 31 May 2016 and the Audit Authority has provided the audit opinion on 4 November 2016.

The **main actual risk** is the tight schedule for implementation on project level -- despite the fact that all project promoters had to revise their projects before being granted – since all projects must be finished until 30 April 2017. PO and IA continuously monitors the projects – on site and via reports – and makes great effort to ensure the proper human capacity and environment for the smooth operation.

Progress towards expected outcomes and outputs achieved

The outcome “**Enhanced institutional capacity and human resources development in public institutions, local and regional authorities**” will be achieved by the implementation of **three pre-defined projects**. Two of them contribute to the Pillar 1 called Pre-defined projects promoted by line ministries, while the third one serves the objectives of the Pillar 2 called Pre-defined projects promoted by national associations of local governments.

Implementation of the Pillar 2 has finished successfully, the results of the pre-defined project of TÖOSZ has exceeded the original targets. It developed the Norwegian-Hungarian local government relations and focused on local government cooperation, since it is a very important part of the social and economic cooperation. The quality of leadership greatly influences the level of local public services and community life, thus experience exchange and learning are the keys to efficient developments – in the framework of this project more than 3600 staff was trained. The project strengthened local government interest-protection through Norwegian experiences and proficiency. Its donor project partner, the Norwegian Association of Local and Regional Authorities „KS” has been the only national local government association since 1972, thus it is the most important organization of the sector.

Regarding Pillar 1 the two projects are closing in 2017, thus the results can be achieved and be evaluated later in 2017.

Outcome 1: Enhanced institutional capacity and human resources development in public institutions, local and regional authorities in the Beneficiary States	Base value	Target value	REACHED VALUE ON 31.12.2016
Number of institutions with strengthened capacity	0	440	709
Number of staff trained with improved skills to perform their duties - women	0	750	3825 (no information on gender ratio)
Number of staff trained with improved skills to perform their duties - men	0	750	n.r
Nr. of methodologies on cultural heritage protection developed	0	2	2
Nr. of local disaster management units with new organizational and operational system and new competence maps	0	65	0
Nr. of institutions at local level (local governments, and township offices) involved in capacity-building measures	0	356	709

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 implementation phase for the granted **8 projects** has started in April 2016, therefore the projects have not been finished so far. Through the tight pace of work of the project promoters and the strict monitoring activity of the PO it can be provided that the proposed indicators can be fulfilled and contribute to the outcome in the shortened implementation period.

Outcome 2: Enhanced capacity and quality of the services provided by public institutions, local and regional authorities through enhanced institutional capacity and human resources development	Base value	Target value	REACHED VALUE ON 31.12.2016
Number of institutions with strengthened capacity	0	20	11
Number of sustainable cooperative structures established	0	6	1
Nr. of strategic documents (development strategy, action plan, feasibility study, cooperation agreement, etc.) elaborated	0	8	32
Nr. of events organized with participation of Hungarian and Norwegian stakeholders	0	15	33
Nr. of citizens directly reached by the projects	0	1 500	1140

Potential risks

Achievement of the outcomes and the objective of bilateral cooperation

At project level the proper bilateral cooperation is necessary to the achievement of the outcomes which require efforts not only from the project promoters and project partners, but also from the PO. Fortunately in 2016 we have experienced active bilateral cooperation on project level, but regular progress review and monitoring will be necessary later on.

The main condition of successful implementation is the acceleration of processes at international level. It is expected that under bilateral funds a new call will be launched in 2017 and PO together with DPP intend to organise a match-making event in order to help the possible applicants to find partner.

Sufficient timeframe for the implementation of projects

In case of Pillar 1 and 2 the implementation period is shortened; therefore the effective and purposeful performance is of utmost important. In case of the open call projects revised project content and extended implementation was essential.

The project implementation shall be monitored closely and intervened instantly, thus the cooperation with the project promoters will be necessary. PO and IA continuously communicate and cross-check the progress of the projects, so we can immediately intervene and help projects if necessary.

Major deviations from the plan

Due to the suspension and to the lack of cooperation on the donor side, the implementation of 2 of the pre-defined projects is delayed. The 8 open-call projects had to be revised and adapted to the one-year implementation instead of the originally planned 2 years. Because of the tight schedule the PO could not concentrate on its bilateral activity in the first half of 2016, so all bilateral activities had to be re-planned and implemented from autumn 2016.

To support project implementation and successful project closure, active cooperation and communication between project promoters and project partners, close review and monitoring by PO is needed in 2017.

Use of funds for bilateral relations at programme level

The Institutional capacity building is a program which mostly supports the strengthened bilateral cooperation. The most important objectives of the implementation in the field of bilateral relation are the cooperation, joint results, increased mutual knowledge and understanding between the donor and Hungary. The Program Operator monitors particularly the performance of these expectations in the 3 pillars of the programme. During 2016 the cooperation between the DPP and the Project Promoters furthermore their donor project partners kept strong in the approved three pre-defined projects and in the open call projects.

There was a **Cooperation Committee Meeting** with the participation of the representatives of the FMO, DPP, IA and NFP in February 2016. The PO had an opportunity to meet the Donor Project Partners of the pre-defined projects and offer help to restart their project partnerships. **Communication via phone and e-mail with the DPP** was continuous in 2016 and we shared all relevant information regarding the projects and the programme with them.

Moreover, the Program Operator also organized a **bilateral mid-term conference** with the participation of Donor Project Partners in November 2016. Mr. Olav Berstad, the Ambassador of the Royal Norwegian Embassy opened the conference. The main objective of the event was to strengthen the bilateral relationships as well as to summarize the achieved results and to discuss the plans for the future. Almost the **total number of the Norwegian project partners** participated in the conference. A **survey** also contributes to recognize the viewpoint of the Donor Project Partners which strengthened the fluent cooperation. Working groups moderated by KS allowed participants to share experience and learn about each other's projects. The success of the event was shown by active participation and huge number of positive feedbacks.

All of the **project promoters** strongly focus on strengthening bilateral relationship at project level. They organize conferences, workshops, study tours and different trainings in order to exchange experience and learn from each other.

3.2.3. Programme area HU12 – Public Health

Overall progress

2016 began with the necessary legal arrangements for the transfer of Programme Operator's task. With the new structure in place two pre-defined projects received positive decision on subsidy and entered into actual implementation phase. The new Programme Operator highly appreciated the good interinstitutional cooperation with the partners as the Financial Mechanism Office, Donor Programme Partner, National Focal Point and Implementing Agency.

The programme is to be implemented via two pre-defined projects promoted by the National Public Health and Medical Officer Service.

The pre-defined project 1 facilitates the achievement of reduced inequalities by addressing the needs of health workers delivering direct services to local communities as well as tackling the health issues of rural population. The project benefits 1500 health care personnel working in rural areas, mostly in economically disadvantaged regions. It also targets the largest ethnic minority – the Roma – in particular with its pilot initiative taking place with the active involvement of women. The Roma population in Hungary, especially in depressed areas, is subject to numerous disadvantages, which cumulates in a generally lower quality of life than the average enjoys and has chances for. This principally stems from their living condition and the pertaining impact on their health. The project contributes to a healthier way of life in addition to facilitating health awareness of both children and parents.

The number 2 pre-defined project is a pilot, generally aiming to improve mental health services by creating an indirect service provider to properly channel knowledge and information on mental health from experts to the general public, and in reverse giving an accurate picture of the local demand. The project seeks to overcome the general barriers of mental health related problems, which partially stems from the individuals not even recognising when in need for mental help. The project seeks to deliver indirect services condition of those in need of assistance.

Progress towards expected outcomes and outputs achieved

The amended Programme Agreement records two expected outcomes: reduced health inequalities and improved mental health services.

The Programme Agreement also describes two outputs to be delivered by each pre-defined projects. These are for the pre-defined project 1:

- best practices on Roma health,
- supported health visitor.

Pre-defined project number 2 is to deliver institutional outputs, which are the established mental health promotion centres, and a national methodological centre established to support the functionality of the previous.

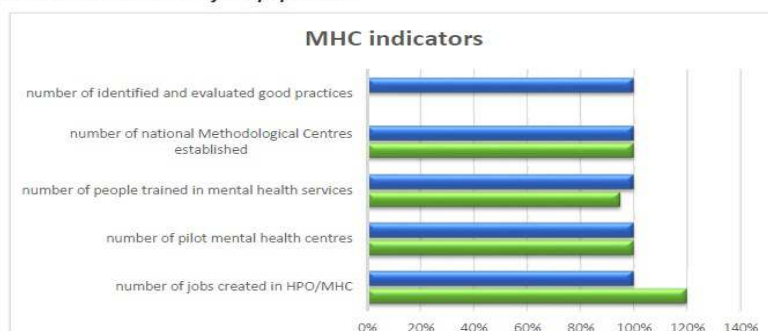
The logical connection and interrelation between the two projects is the service itself being at the core, delivered in higher quality.

The two graphs down below of each pre-defined projects describe the indicators concerning the status and target value, all indicators almost are to be completed on schedule.

PDP1 -Improvement of the working conditions of health visitors active in Roma communities



PDP2 - Methodological, structural and capacity enhancement to support interventions to promote mental health of the population



Potential risks

Both projects carry a significant inherent risk of organisational nature. The pre-defined project number 2 has gone through a risky period due to some changes of the professional staff. As a response, the Programme Operator has instituted rigorous monitoring with on-the-spot checks by IA, and increased the frequency of compulsory reporting.

The Programme Operator requested the project promoter to revise and specify its risk management and mitigation plan. At the end of 2016, the Programme Operator initiated audit proceedings with the Implementing Agency. Feasibility of the project promoter's own risk management plan for pre-defined project number 2 is to be evaluated. Scrutiny by the Programme Operator involved verification of specific mitigation measures allocated to each potential risk, and modifications to be made if needed.

Major deviations from the plan

Upon the recommendation by the Ministry of Human Capacities, task and responsibilities of the Programme Operator were to be transferred from the Ministry to the National Public Health and Medical Officer Service. Following the necessary amendment to the MoU between the donor and beneficiary parties, the former and new Programme Operator completed the handover procedure.

As a result of the governmental restructuring in the next year, the project promoter will cease to exist and merge with three separate entities one month prior to the official closure. The transition bears no financial risk at all whatsoever, but it is considerable from human resources perspective in terms of legal rearrangements of employment of project personnel.

Use of funds for bilateral relations at programme level

In 2016, four thematic areas have been identified for bilateral cooperation. As for the technical preparations, draft calls for proposal have been prepared by the Programme Operator, and the Implementing Agency has finalised the para-metering of all calls and technical arrangements have been made for online submission.

The pre-defined actions involve secondment of experts and the Programme Operator requested the Donor Programme Partner's assistance in liaising with the relevant counterparts in Norway in order to establish contact and foster efficient communication.

4. MANAGEMENT AND IMPLEMENTATION

4.1 Management and control systems

According to the guidance of the FMO the NFP has prepared the management and control system description in 2015 and after several negotiations the finalized document has been submitted to the Audit Authority for opinion in January, 2016. The Audit Authority has provided the official audit opinion in February, 2016, which has been sent to the FMO.

The NFP, in accordance with common position with Audit Authority, has prepared a management and control system description template for the Programme Operators. According to the template the Programme Operators have sent their descriptions in May, which have been commented by the NFP. After the finalization the documents have been submitted to the Audit Authority in June, 2016. The POs have been requested some additional documents and information, and the draft audit opinion has been prepared in October, 2016. The final audit opinion has been received by NFP in November, 2016, which has been sent to the FMO.

The management and control system of the institutions concerned in the implementation of the FMs – including Audit Authority, Certifying Authority and IA - has remained unchanged in 2016 essentially. One important change has taken place: the PO of HU12 has changed from the Ministry of Human Capacities to the National Healthcare Service Center. The necessary modification of MoU, Governmental Decree and Programme Implementation Agreement has taken place in the first part of 2016.

Since the main challenge is the short implementation period, the NFP has paid particular attention to the activity of the new PO of Programme HU12, as well as the others in order to ensure the appropriate implementation (see the list of organized events and other monitoring activities by the NFP). Thanks to the efforts made by the NFP and the other concerned institutions, the implementation has proceeded as planned during the reporting period.

The human capacities of the NFP have been expanded during 2016, the sufficient staff has been available by the end of the year.

4.1.1. Support of the implementation, risk management by the NFP

In the year 2016 all the institutions had to face some risks regarding the remaining short implementation period. First of all the institutional and management system must have been set up again by the NFP. In the beginning of the second quarter of the year there were PA and PIA modifications as well (see the information in relevant Chapters). At the end of the year every new PIA were signed (except the HU09).

In parallel with the administration tasks the POs continually prepared for the selection procedures involving the NFP and the representatives of the donor states (FMO and DPP).

The Rules and Procedures were reviewed by the POs and the NFP, and the representatives of NFP have been participated in every Selection Committee Meeting.

Regarding the Regulation the projects must have been physically completed at latest until 30th of April in 2016, but in exceptional cases the POs could request for extension for one year. The NFP had examined the submitted requests and after that on 29th of April 2016 the extension requests have been forwarded to the FMO. (All the requests were approved by the FMO.)

On 27th and 28th of June the NFP organized a Risk Management Workshop for the POs and the horizontal institutions too, where POs having more experiences could share their best practices, and also the horizontal institutions could present the administration tasks, payment flows etc. In this occasion the potential risks and risk mitigations regarding the implementation have been reviewed and shared with each other. After the presentations section consultations were held about the relevant topics.

Supporting the implementation, the NFP has applied several monitoring tools. The most important tool is the biweekly meetings with the POs and the IA. (See it in details in Chapter 4.4.)

In the 3rd quarter of the year the NFP started to assess the status of the bilateral activities on programme and national level and organized a consultation to the POs in December 2016 involving the representative of the Royal Norwegian Embassy.

In connection with publicity and communication there were two workshops in 2016, one of them organized by the FMO in January and the other one in December by the NFP.

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 2014-2021 period.

The **MoU** was approved by the Hungarian Government and promulgated in the Hungarian official journal as Government Decree Nr. 236/2011. (XI.15.) and modified with Government Decree Nr. 434/2015 (XII.28). The modifications of the MoU are in accordance with the Art. 2.1 of the Regulation.

Due to the modifications of the MoU which resulted in the making of different Government Decrees, the promulgation of the MoU in one integrated legal framework has been required. It does not affect the content of the MoU and the Government Decrees, it is merely a technical issue which has to be handled in the Hungarian legal environment. The process of making the aforementioned integrated legal framework was started in November 2016.

In 2016 the Government Decree Nr. 236/2011. (XI. 15.) was modified by Government Decree Nr. 84/2016 (IV.13.). The modification affected the Annex “B” of the MoU of Norwegian Financial Mechanism 2009-2014. The purpose of the modification was to make the implementation of the Financial Mechanism more efficient.

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). In 2016 the Implementation Decree was modified and amended by the Government Decree Nr. 35/2016. (II.29.) and Government Decree Nr. 293/2016 (IX.27.).

The first modification of the Implementation Decree had become a necessity due to the institutional changes in the field of development policy of Hungary and the preceding modification of the MoU.

The second modification of the Implementation Decree was merely technical. The new public procurement act of Hungary – which entered into force in November 2015 – defined new rules which had to be transmitted into the Implementation Decree, in order to make the further implementation of the projects unimpeded.

The further modification and amending of the Implementation Decree was started in December 2016. The POs, IA, NFP, CA and AA had been involved in the preparatory process of the modification. Their recommendations and remarks have been taken into account.

The legal changes will establish the legal basis of the following issues:

- a) the durability of projects;
- b) facilitation of the reallocation of the grants that have been cancelled due to irregularities or for other reasons in accordance with the Regulation;
- c) clarification of the rights and liabilities as well as the tasks of the institutions in certain processual questions.

These legal changes are in compliance with the Regulation.

It can be said that the regulatory environment of Hungary can fulfil the requirements of the EU norms and the implementation of Financial Mechanism.

4.3 Irregularities

In the framework of this report altogether 15 suspicions of irregular project activities have been reported in Hungary. Out of the 15 cases, 11 irregularity procedures have been investigated and closed till 31st December 2016, whilst in 4 cases the procedures have still been ongoing on the cut-off date. Out of the 11 closed cases, in 6 cases an irregularity has been established, whilst in 5 cases, after the investigation no irregularities have been identified or no financial correction proved to be necessary.

Altogether the affected irregular amount in the Norwegian FM is HUF 640.464.134 (ca. EUR 2.259.930), of which the reimbursed amount of contribution is HUF 272.648.527 (ca. EUR 962.063).

There is one further case, where as a result of the irregularity procedure with a total value of HUF 332.263.520 (ca. EUR 1.172.419) the PO has cancelled the project contract as the objectives of the project could not have been achieved anymore.

In most of the cases, the irregularity can be originated from the infringement of the Hungarian Public Procurement Act the reason of which is probably the lack of experience in the execution of public procurement procedures of the Project Promoters and the complexity of these rules. In other cases, the reason of established irregularities were e.g. the non-compliance with the rules relating to the conflict of interest, lack of submission of appropriate supporting documentation – therefore breaching the eligibility criteria – or some delays in tasks related to submission of documents which could have meant a risk on the implementation of the project. The irregularities occurred have not been intentional, therefore no suspicion of fraud has been reported during the period covered.

Number of suspected irregularity, actual irregularity cases and especially the necessary recoveries is low compared to the number and values of the projects. It is also important to mention that during the entire programme period there was no suspected systemic irregularity.

4.4 Audit, monitoring, review and evaluation

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.

In the **framework of the monitoring activities**, in 2016 the NFP followed closely the programme implementation work of the POs as well as IA. The NFP **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 National Focal Point used to have **meetings** in every **two weeks** with the **POs** one by one with participation of IA, where the status of programmes were revised. Furthermore the NFP has separate meetings with the Implementing Agency every two weeks. According to the opinion of NFP, it is much more efficient to meet personally, and solve together the problems encountered. Furthermore, this regularly meetings contribute to the **follow-up of the programme implementation** process.

Since implementation has to be carried out in a very tight schedule the NFP joins to POs through regular **monitoring visits, particularly regarding risky projects**.

Generally the representatives of the NFP participated at the meetings of the Selection and Cooperation Committees as an observer and assisted their work if it was necessary. **All programme areas had minimum one CC Meeting in 2016**, except in the Energy Efficiency Programme Area, because there is no DPP. Please find the detailed text in the relevant chapters.

Furthermore the NFP **organised** and **participated** in several meetings in order to give information to the institutions (POs, IA, CA and AA) and to support their activities. The following events were organized by the NFP, mostly of them took place with participation and active support of FMO:

- Two DoRIS trainings, January and April, 2016;
- Communication workshop, February, 2016;
- Organization a risk conference for POs, June, 2016;
- FMO's Webinar events have supported directly by NFP, with ensuring places and accessibility for POs in several times in 2016;
- Irregularity training, September, 2016;
- Meeting on bilateral relations on programme level for POs, October, 2016;
- Meeting on publicity and communication for POs, December, 2016.

These events provided occasions to the NFP for the measurement of PO activities and status of programmes, while the workshops and trainings supported the programme implementation.

The most successful event was on 27-28 June, 2017, when the National Focal Point organized a **Risk management workshop** in order to knowledge exchange.

The main aims of the conference were:

- Analysis of the process of the programmes
- Issues in cooperation in the institutional system
- Risk management and risk mitigation
- Problems and solutions

According to the opinion of the participants the **Mid-term conference** with donor representatives in November 2016 was also very successful.

The agenda contained:

- Monitoring and Evaluation
- Communication and publicity
- Reporting
- Bilateral relations

In 2016 there were **several audits** initiated by the FMO within all the programmes. Due to the fact that the reports are not provided for the Hungarian institutions yet, the NFP does not have any information on the results.

At the beginning of 2016 the Audit Authority completed the review of the management and control system at national level and provided audit opinion on the proper operation. During 2016 the Audit Authority examined the management and control system at programme level in every programme and provided audit opinion.

4.5 Information and publicity

In Hungary the Communication Strategy for the EEA and Norwegian Financial Mechanisms 2009-2014 was prepared in 2012. After the start of the implementation due to significant changes in development structure, the Communication Strategy remained a static document despite the fact that the content is current and feasible today as well.

After the suspension was lifted, besides focusing on the project implementation, there were significant measures to develop the communication of the Grants.

In order to renew the communication activities and to encourage the Programme Operators to put a special emphasize on the publicity of the Grants, the NFP organized a communication workshop for the representatives of the Program Operators with the FMO in February 2016, where the FMO provided us guidance for the tasks ahead.

In accordance with the Communication Strategy, the NFP organized a workshop in June 2016, for the representatives of the Program Operators, Implementing Agency and the Hungarian State Treasury with the aim to exchange experience and to summarize good practices, with particular attention to the risk management and risk mitigation. The additional goal was to strengthen the internal communication between the institutional system participated in the implementation.

In September 2016, the representatives of the National Focal Point participated in the Communication Workshop of the FMO in Riga, where the Communication Strategy was introduced and the arisen issues were clarified.

To inform the official side of the Grants on the progress the NFP organized a Mid-term conference in November 2016, where the representatives of the donor states and Hungarian institutional system participated.

In the second half of 2016, we have tried to reach an extensive provision of information in different communication channels in order to reach most of the people about the grant opportunities and the success of the realized projects.

The **official Hungarian homepage for the EEA and Norwegian Financial Mechanisms** (www.norwaygrants.hu) is always up to date to provide all of the necessary information regarding the calls for proposals and news.

The National Focal Point of Hungary restarted its **official Facebook page** (<https://www.facebook.com/NorwayGrantsHungary>), so the programmes are promoted in this communication channel too. Our Facebook page gives information not only of official events but also draws the attention of wider public with some stories, other information on the donor states and organization of online game with small prizes for public. We proudly experienced that more than 2000 people like our official Facebook page in the end of 2016 when this data was approximately 200 in the beginning of the restarting period.

The most difficult requirements to follow up is to develop an independent website by every concerned institution. The most of the beneficiaries (at national, programme and project level) are central public institutions and they are in a joint structure with joint websites, where the establishment a new web-page and publishing information is very difficult with several administrative burdens. Therefore the emphasis in Hungary is on the official website operated by the Implementing Agency, which contains every national and programme level information on the Grants. The operation of the website is supported by a colleague of the Implementing Agency. Every Program Operator has a communication officer, as well as the Focal Point, who coordinates and takes care of the publicity and communication tasks.

Regarding the communication requirements at project level the biggest problem is the lack of professionals, therefore their communication plans are to be controlled during the implementation. In addition the usual control by Program Operator and Implementing Agency the project promoters have the possibility to turn to the POs or NFP to get advices on the communication activities.

In conclusion, the year of 2016 was successful for Hungary regarding the information and publicity, and currently there are a lot of exciting events in front of the NFP, for example the closing events of the projects around the first two quarters of the year and afterwards the closing programmes. These events are under planning by stakeholders.

The NFP is planning some additional activities in connection with the publicity the main tool for the promotion the publicity of the Grants to create a **promotional campaign** which will be presented in 15 counties in Hungary with a three-part film.

4.6 Work plan

The indicative work plan outlining the main milestones of the implementation of the FM in Hungary during 2017 is summarized below. The table contains the main activities that the NFP is in charge for.

Action	Planned timing	Responsible entity
Review and comment the Annual Programme Reports	January, 2017	NFP
Modify the Implementation Decree on FMs 2009-2014	March 2017	NFP
Submission of the Annual Strategic Reports	March, 2017	NFP
Revision of HU01 TA budget and submission of the reallocation request to FMO	March, 2017	NFP
Supporting the POs in the closing procedure of the projects	April, 2017	NFP, PO, IA
Necessary modification of the PIAs	April 2017	NFP, PO, IA
Evaluation	October, 2017	NFP

Monitoring Committee Meeting	October, 2017	NFP
Annual Meeting	November, 2017	NFP and Donor States
Closing conference	November, 2017	NFP
Implementation of NFRB	continuous	NFP
Participation in the Selection Committee Meetings and the Cooperation Committee Meetings of programmes as an observer	continuous	NFP
Review and comment the calls (additional activities and bilateral cooperation) for proposals of programmes	continuous	NFP
Ensure visibility and communication regarding FMs	continuous	NFP
Monitoring and audit activities on national level	continuous	NFP

5. SUMMARY LIST OF ISSUES AND RECOMMENDATIONS

During the reporting period the Hungarian institutional system made strong efforts to ensure the proper implementation after the suspension of the Grants. Being aware of the fact that the main risk is the short remaining period for the implementation, flexible measures have been required from the POs', the IA's, as well as from the NFP's side.

The NFP is pleased to have been experienced the **flexible approach from the donor side** which allowed the successful extension process during the first half of 2016. Nevertheless the mentioned flexible approach was not perceptible in all areas. The NFP appreciates that in order for the successful implementation there was a way to deviate from the Regulations. At the same time this flexibility has not been experienced regarding the management cost of HU12, even though the donor side agreed on the possibility in the Annual Meeting and a professional justification has been provided. According to the assessment of the NFP there is more scope for flexibility in case of donor initiatives. Nevertheless the continued flexible approach from the donor side is kindly expected in the near future since the intensive support of the FMO regarding the actual period is essential.

According to the experience, the Donor States have been establishing the new period of FMs (2014-2021), therefore the capacity for the present period is reduced. Some delays are experienced regarding the reactions of the donor side.

Success of development of **bilateral relations** depends on the cooperation of DPPs as well as the willingness of the donor project partners in the donor states. During the reporting period the DPPs have cooperated with the POs intensively. The question is whether there will be receptiveness for the implementation of the current initiatives in the near future from the donor side in the bilateral relations on programme and national level. According to the NFP, these activities demand more efforts from both in Hungary and in the donor states. In the future, clear rules are to be recommended in the bilateral initiatives, because now some DPPs encourage the POs to develop future cooperation, while it is not recommended by other DPPs.

As it was intended in Chapter 4.4, the FMO organized **audit and monitoring** regarding the programmes in Hungary. Although the colleagues of the company who carried out the audit of the programme HU11 were cooperative and flexible in some occasions, the NFP would like to emphasize some important issues regarding these visits. The representatives of the audit company were not completely aware of the Hungarian institutional system despite having the necessary documentation (MoU, PAs, PIAs, Management and Control System Descriptions) long before the audit. This situation led to a very time-consuming interpretation by the PO and the IA and unfortunately the draft report sent to the PO of HU11 for recommendation reflects these shortcomings in some points, including their indications regarding some "missing documents" which were presented during the audit. Taking this opportunity to indicate the opinion of the NFP for the Donor States, it should be emphasized, that the quality and the preparedness of an audit company commissioned by the FMO is very important.