

Strategic Report on the implementation of EEA Financial Mechanism 2009-2014 in Hungary 1 March 2012 – 31 December 2012

Prepared by the Hungarian National Focal Point

March 2013

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1. List of abbreviations

AA	Audit Authority
CA	Certifying Authority
CC	Cooperation Committee
DPP	Donor Programme Partner
EEA	European Economic Area
FM	Financial Mechanism
FMC	Financial Mechanism Committee
FMO	Financial Mechanism Office
IA	Implementing Agency
KSH	Hungarian Central Statistical Office
MAICP	Managing Authority for International Co-operation Programmes
MCS	Management and Control System
MoU	Memoranda of Understanding
NDA	National Development Agency
NFP	National Focal Point
NMFA	Norwegian Ministry of Foreign Affairs
PA	Programme Agreement
PIA	Programme Implementation Agreement
PO	Programme Operator
PWG	Planning Working Group
RAI	Request for additional information
TA	Technical Assistance

2. Executive summary

The **purpose of the Report** is to give updated information on the preparation works executed and the status of the programmes under the EEA Financial Mechanism 2009-2014 in Hungary. The report covers first of all the programmes belonging under the responsibility of the Focal Point, i.e. not operated by Donor State entities according to Article 5.13. of the Regulation. Chapter 4 provides however information on the latter programmes as well, based on information received from the respective Programme Operator (FMO). The period covered by this report is 1 March 2012 – 31 December 2012. The milestones of the reporting period are summarized herewith.

By early 2012 the Programme Operators established **Planning Working Groups (PWG) and Cooperation Committees** for the preparation of the Programme Proposals. The **first drafts** of the programme proposals were submitted by mid-February 2012 to the Focal Point by the POs. The Focal Point reviewed the documents and has let prepared a **quality check assurance** by professional independent experts. After a **final review** of the Focal Point during the summer of 2012 all of the **Programme Proposals were submitted** to the FMO. After the submissions, the appraisal phase executed by the FMO was launched. For most of the Programmes the **requests for additional information** were received during autumn 2012. Until the end of 2012 **two programmes** received the draft **Annexes of the Programme Agreement for consultation**.

At the beginning of 2012 the **Focal Point established a working group** consisting of representatives of the national entities, i.e. the Focal Point, the Certifying Authority, the Audit Authority and their supervisory Ministry for the preparation of the government decree on the implementation of the Financial Mechanisms 2009-2014. **The legislation** incorporating provisions of the Regulation into the national law and regulating further details of the FMs in Hungary **came into force as Government Decree 326/2012. (XI.16.), on 16 November 2012.**

The Government Decree forms the basis of the **management and control systems (MCS)**. The description of MCS at national level was completed by the FP in November 2012 and **was submitted to the Audit Authority on 30 November 2012**. The Audit Authority launched the compliance assessment in December and issued its opinion on the description of the MCS in January.

The **Communication strategy** was prepared and submitted to the FMO in February 2012, and **was approved on 4 July 2012** by the Donor States.

The Focal Point established the **Monitoring Committee**, prepared the rules of procedure of the Committee and held the **first statutory meeting in May 2012**. Following the Monitoring Committee meeting the Focal Point organized the **Annual Meeting on 15 May 2012**. The FP presented the status of the Financial Mechanisms based of the first Strategic Report and the POs gave overviews on the status of their programmes.

The tender procedure for the **selection of the Implementing Agency (IA) was concluded by the end of May**. The deadline for submission of the final bids was 11 May 2012. Afterwards the Focal Point carried out the evaluation of bids. Based on the decision of the National Focal Point the Consortium lead by MAG Zrt. was announced as the winning tenderer. The **Focal Point officially informed the FMO and Donor States on**

30 May 2012 about the major steps of the selection procedure and the final decision made by the FP on the selection of the tenderer. The **Donors approved** the decision of the Focal Point relative to the candidate as the Implementing Agency **on 6 July 2012**. The Focal Point called upon the awarded Consortium to set up a separate legal entity for the performance of the IA tasks. The new company, the **International Development and Fund Coordination Agency as the Implementing Agency was founded on 20 September 2012**. The Focal Point and the IA entered into a subsidy **contract on 31 October 2012**, in order to ensure the IA's participation in the final stage of the programme preparation phase, as well as to ensure financing for the IA from the TA budget for the establishment of a website and a monitoring IT system.

The TA budget was submitted by the Focal Point to the FMO in February 2012. The budget was approved and the **TA Agreement was concluded on 7 July 2012** between the Donors and the Focal Point.

In the meantime the Focal Point prepared the **work plan and implementation system for the National Bilateral Fund** and **submitted it on 17 August 2012** to the FMO. The Donors provided their comments to the work plan and implementation set-up by mid November. Taking into consideration the remarks of the Donors **the revised document was submitted to the FMO on 1 December 2012**.

As **general tasks** the Focal Point **shared any new information**, guidelines and modifications of regulation documents issued by the Donors with the Programme Operators. The FP keeps close contact and shares the main information on the preparation works, important news and expected meetings with the Financial Mechanism Office and the Norwegian Embassy.

3. Assessment of impact at national level

3.1. Cohesion

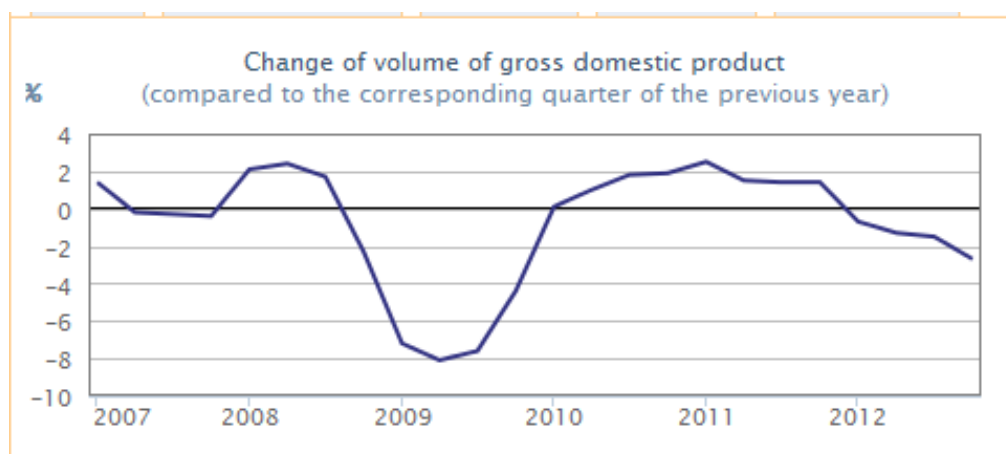
3.1.1. Economy and society of Hungary in 2012

3.1.1.1. Gross domestic product of Hungary in 2012

The **gross domestic product of Hungary** was down by 1.3% in the first three quarters of 2012 compared to the same period of the previous year. On the expenditure side, external trade – changing favourably despite the deteriorating external environment – could only partly compensate the economic recession caused by the **decreasing consumption and investment activities**. On the production side, **only the performance of the section information and communication could somewhat offset** the decrease in GDP. Based on the change of economic performances, Hungary was in the last third of the ranking of EU member states, and – among countries having accessed to the EU in 2004 – only Cyprus and Slovenia had a weaker performance.

Indicator	2012	Q2 2012	Q3 2012	Q4 2012
	volume change, compared to the corresponding period of the previous year, %			
Gross Domestic Product (GDP)	-1.7 ⁺	-1.5	-1.5	-2.7 ⁺
Investment	-5.2	-4.0	-1.5	-7.9
Actual final consumption of households	..	-1.7	-3.9	..

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



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

Indicator	2012	Nov 2012	Dec 2012	Jan 2013
	change compared to the corresponding period of the previous year, %			
Industrial producer price	4.3	-2.9	-1.8	-0.9
Volume of industrial production	-1.7	-6.9	-7.6	-1.4 ⁺
Volume of domestic sales of industrial production	-3.9	-12.0	-6.4	..
Export sales of industrial production	-0.7	-4.9	-9.6	..
Volume of total new orders of manufacturing	-	45.7	-8.7	..
Volume of construction	-5.9	-11.7	-3.1	..
Agricultural producer prices	15.4	18.5	18.1	..
Volume of retail trade turnover	-2.1	-4.1	-2.1	-4.1
Total tourism nights of public accommodation establishments	4.8	6.1	8.2	..
Number of employees	-0.6	-0.9	-0.7	..
Gross average monthly earnings, nominal	4.6	5.4	4.9	..
Volume of import	0.0	-4.6	-7.4	..
Volume of export	0.9	-4.3	-9.9	..
Inflation (consumer price)	5.7	5.2	5.0	3.7

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

3.1.1.2. Unemployment rate of Hungary in 2012

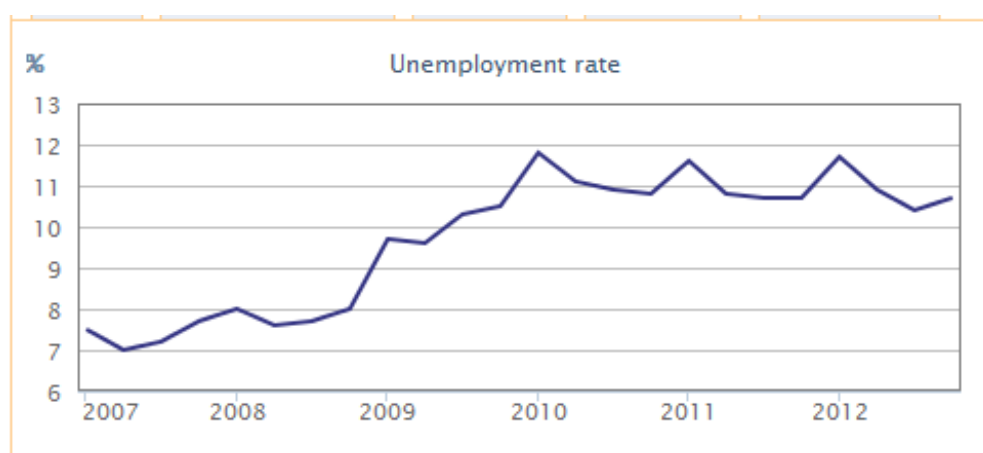
In September–November 2012, the number of 15–64 year-old employed persons was 3 million 891 thousand, 56 thousand (1.5%) more than a year before. The employment rate calculated for this age group grew by 1.4 percentage points to 58.1% compared to the corresponding period of the previous year. (First of all, the expansion of public employment played a role in this rise.) The number of employed women grew by 32 thousand, while that of employed men by 24 thousand over one year, and their employment rates amounted to 52.7% and 63.7%, respectively. The increase of employment was observed for young people aged 15–24 years (19.7%) present in low numbers in the labour market, people in the 'best working age', i.e. the age group 25–54 (75.4%) and the older, 55–64 age group (37.6%) as well. The **unemployment rate** –

also among the 15–64 year-old population – did not change (10.7%), and the number of unemployed persons (467 thousand) grew within the limit of sampling error (by 7 thousand). The unemployment rate was 10.8% for men and 10.6% for women. The unemployment rate of **15–24 year-old people (29.0%) – affected the most** by unemployment – continued to increase compared to the previous year, that of people aged 25–54 years (9.6%) did not basically change, while a decrease was measured among the 55–64 year-olds (7.1%). 48.0% of unemployed people had been looking for a job for one year or longer, and the **average length of unemployment** was 17.5 months.

The average net earnings amounted to HUF 142,900 per month (ca. 470 EUR per month), 2.0% more than in the corresponding period of the previous year. In 2012, consumer prices were 5.7% higher than in 2011.

Indicator	2012	Sep 2012–Nov 2012	Oct 2012–Dec 2012	Nov 2012–Jan 2013
	%			
Unemployment rate	10.9	10.6	10.7	11.2
Employment rate	50.6	51.3	51.1	50.4

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

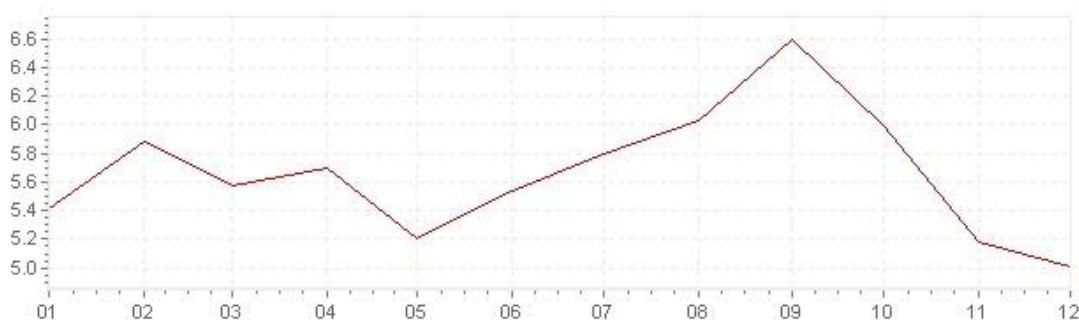


Source: Hungarian Central Statistical Office, KSH, www.ksh.hu

3.1.1.3. Inflation rate of Hungary in 2012

The inflation charts below feature an overview of the Hungarian inflation in 2012. The **inflation rate** is based upon the consumer price index (CPI). The first chart presents the CPI inflation rates during 2012 on a monthly basis (compared to the month before). The second chart presents the CPI inflation rates from 2007 to 2013 on a yearly basis (compared to the same month of the year before).

Inflation rate in Hungary during 2012 (monthly basis)



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

Inflation rate in Hungary from 2007 to 2013 (yearly basis)

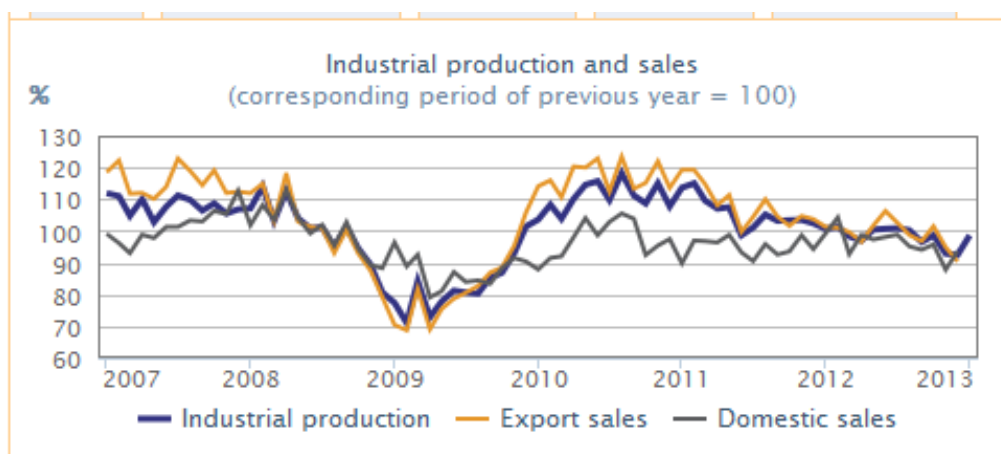


Source: Hungarian Central Statistical Office, KSH, www.ksh.hu

3.1.1.4. Gross output of industry of Hungary in 2012

According to the most recent available sector data, in January–November, the **gross output of industry** was less by 1.5% (within this, by 6.9% in November) than a year before. In addition to the base effect, the fall in demand in both sales directions played a role in the decline as well. The **volume of industrial production fell in numerous EU member states**, so, a decrease has been observed in the average of the 27 EU member states since December 2011. At the same time, it is remarkable that in November the volume of new orders in the observed manufacturing sub-sections increased considerably, by 46% compared to the twelve months earlier. **New domestic orders** fell by 19%, while **new export orders** grew by 55% year-on-year due to a large, one-time order covering a longer period. Consequently, the total stock of orders at the end of the month was 49% higher than at the end of November 2011.

Within the **service sector**, the volume of **retail trade turnover decreased** by 2.1% in the first eleven months, while the number of tourism nights spent at public accommodation establishments showed an increase of 4.6% year-on-year. The estimated euro value of external trade in goods in January–November was not quite higher than in the same period last year. In the period of January–November, the number of births was 2.8% higher than in the corresponding period of 2011, while that of deaths was basically unchanged.

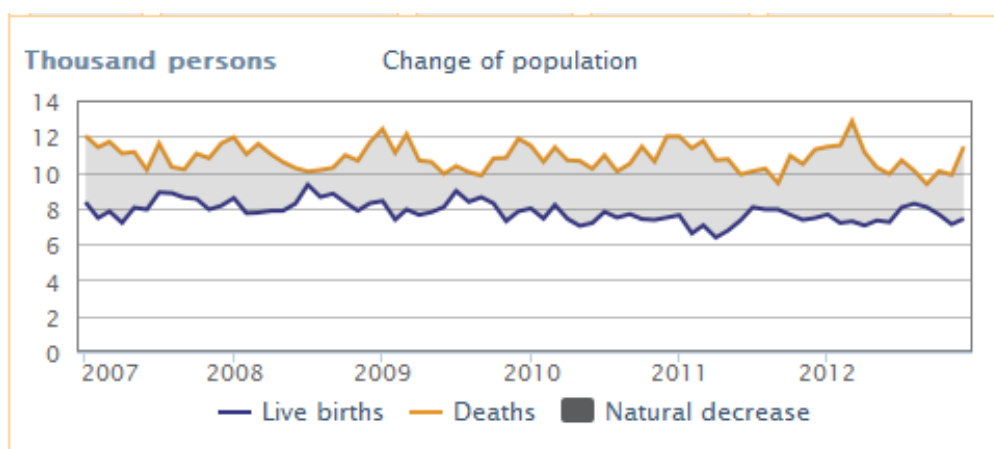


Source: Hungarian Central Statistical Office, KSH, www.ksh.hu

3.1.1.5. Population and population pyramid of Hungary

According to preliminary data in 2012 more children were born but the number of deaths also increased slightly compared to the previous year. The **number of live births** exceeded the level of the previous year in eight months, and in four months it was lower than last year. The most significant increase of an average of 9.4 percent was in April and May, while in November a nearly 3 percent drop was observed compared to the number one year before. On the whole, 90,300 children were born in 2012, 2,251 (2.6%) more year-on-year. The **number of deaths** was lower in five months, while in seven months there was an increase compared to the corresponding months last year. The pace of natural decrease slowed down somewhat due to the higher rise in the number of births than in that of deaths and as opposed to 40,746 in 2011, it was 39,200 persons in 2012.

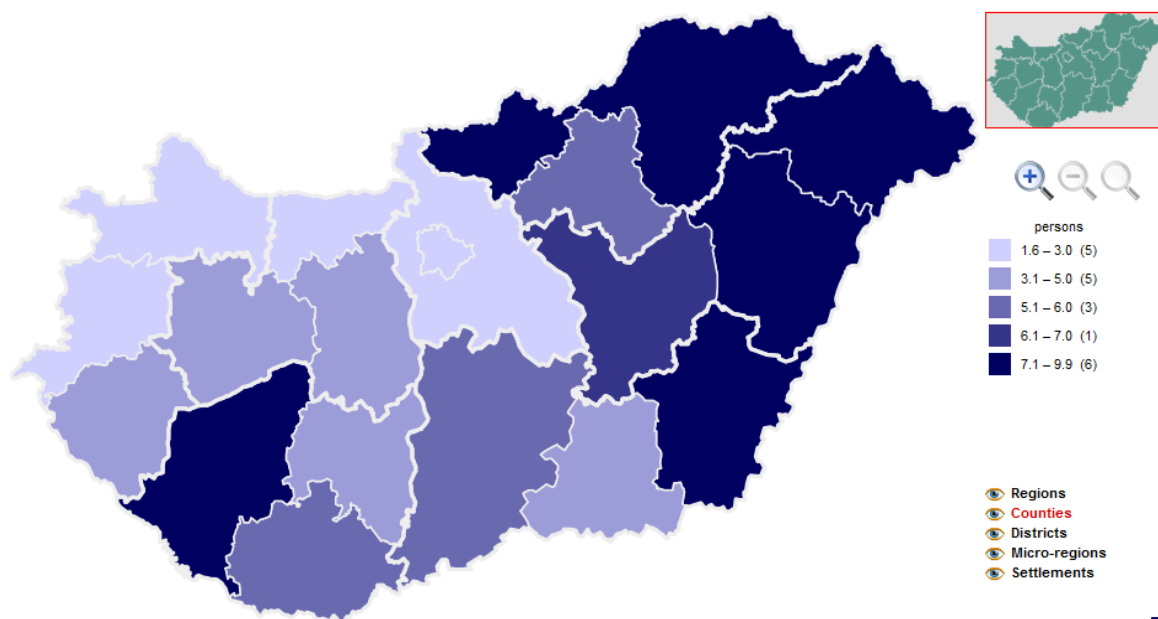
In 2012, the number of 36,200 registered marriages was by 388 (1.1%) couples more than in 2011.



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

3.1.1.6. Social status in Hungary in 2012

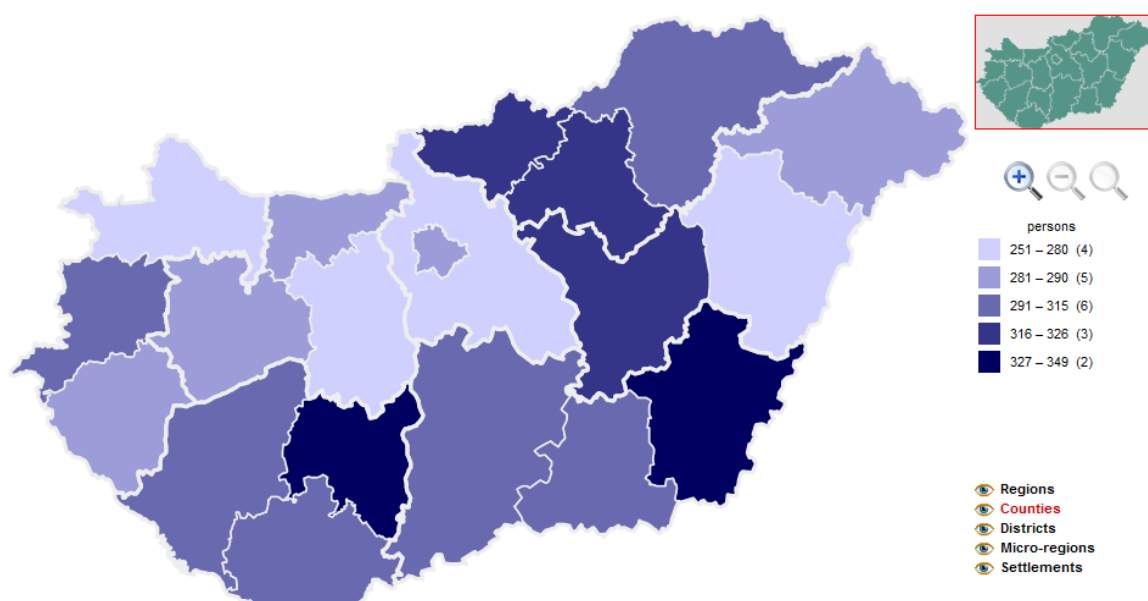
The **number of people in need of social subsidy** grew constantly in the past twenty years. The elderly, the long-term unemployed, families with low-income, the disabled or persons with reduced capacity became the most disadvantaged groups. The **key elements of the social security** in Hungary are employment-supporting or unemployment benefits, social security, the system of family-care, social and child-care benefits and services. Northern Great Plain and Northern Hungary have the highest number of underprivileged small regions. The amount of money expended by municipalities on the needy in form of benefits in 2011 corresponds to the 0.55% of the GDP.



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

The **ageing of the population** of Hungary is accelerating because of the low fertility and the growing life expectancy. The Central Administration of National Pension Insurance (NYUFIG) spent nearly 258 billion HUF for 2 million 291 person in January 2011 in form of pension, supplies or others. The number of supported totalled up the 29% of the population; it was less than in the year before by 2%, whilst the average of the granted benefit grew by 5.3%. Major part (almost 6/10) of the supported is old-age pensioners. Amongst the regions of Hungary, the average of younger age groups receiving pension or benefit is higher than the overall average in Great Plain, Northern Hungary and Southern Transdanubia. The smallest average of people receiving pension or benefit compared to the population is in Pest County (one quarter of the population), smaller than the average in Fejér, Győr-Moson-Sopron and Hajdú-Bihar counties. At the same time more than the third of the population of Békés County receives some kind of pension or benefit.

According to EUROSTAT data, pension in Italy, Austria and France were 3000 PPPS (on purchasing power parity per person) while in Hungary it was 1000 PPPS, it was only the half of the EU 27 average.



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

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

The National Focal Point took into consideration the national development trends, and show below **how the FMs 2009-2014 can contribute to the main strategic objectives of the Hungarian government.** The **New Széchenyi Plan** is the cornerstone of the Hungarian development policy, that highlights the importance of a knowledge based society, and the greening of the economy. Besides, the aim of reduction of social inequalities throughout the country, a sustainable and equal society is also reiterated in governmental strategies. These objectives coincide with the overall objectives of the Grants, and enable to identify specific objectives reflecting national priorities. The **programme areas** agreed in the Memoranda of Understanding **will contribute to the following specific objectives:**

contribution to a knowledge based, green and **sustainable economy**;

equal access to public services and cultural values in a **sustainable society**;

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

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

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

Hereby please find statistics and national trends concerning the fields of the programmes financed by the EEA FM 2009-2014, as well as a brief description on other funding sources related to these programmes and institutional and legislative processes that might affect the implementation of these programmes and the achievement of the objectives and outcomes.

3.1.2.1. Programme HU02 - Energy Efficiency

Statistics and trends

Concerning the programme objective of reduced emissions of greenhouse gases and air pollutants with improved energy efficiency in buildings the **most important goal of the Programme area is renovation of school buildings with achievement CO2 reduction.**

The following table shows the number of the concerned buildings, including educational institutions shared according to the requirement of renovation and modernization.

Buildings including educational institutions according to technical conditions

	All buildings				Among all: rate of buildings that not require renovation, modernization (%)			
	2004	2005	2006	2007	2004	2005	2006	2007
Budapest	1 275	1 281	1 275	1 279	33,7	34,3	34,7	35,4
Central Hungary	2 475	2 482	2 468	2 501	36,8	37	36,9	37,7
Central Transdanubia	1 555	1 551	1 527	1 510	41,3	41,5	43,1	43,2
Western Transdanubia	1 725	1 712	1 687	1 660	33,6	33,6	34,1	34,6
Southern Transdanubia	1 623	1 596	1 590	1 574	38	38	37,9	38,4
Northern Hungary	1 996	2 018	2 000	1 973	34,8	35,6	36,4	36,5

	All buildings				Among all: rate of buildings that not require renovation, modernization (%)			
	2004	2005	2006	2007	2004	2005	2006	2007
Northern Great Plain	2 645	2 625	2 595	2 569	37,7	37,7	38,5	39,5
Southern Great Plain	2 148	2 150	2 148	2 141	48,7	48,9	49,7	49,8
Total	14 167	14 134	14 015	13 928	38,8	38,9	39,5	40

Source: Hungarian Central Statistical Office, KSH

http://www.ksh.hu/docs/hun/xtabla/onking/tablonk07_01_01_07.html

Update:

December 31, 2007

According to the related last research by Hungarian Central Statistical Office (2007) the most school buildings need modernization, renovation: Approximately 50,5% of 14.000 school buildings need partial renovation, 7,9% need complete renovation, 40% do not need renovation at all:

Buildings including educational institutions according to technical conditions (All buildings = 100,0)

	Renovation, modernization not required	Could be conform with partial renovation	Could be conform with complete renovation	Renovation would be not economical
Budapest	35,4	56	7,4	1,2
Central Hungary	37,7	52,1	8,4	1,8
Central Transdanubia	43,2	48,1	7	1,7
Western Transdanubia	34,6	56,9	7,3	1,1
Southern Transdanubia	38,4	53,4	6,8	1,4
Northern Hungary	36,5	53,9	8,3	1,2
Northern Great Plain	39,5	48,2	10,3	2
Southern Great Plain	49,8	42,6	6,2	1,4
Total	40	50,5	7,9	1,5

Source: Hungarian Central Statistical Office, KSH

http://www.ksh.hu/docs/hun/xtabla/onking/tablonk07_02_12.html

Update:

December 31, 2007

In comparison to the completed and currently available programmes, the **lack of funding primarily is due to the lack of support for projects that manage energy efficiency in a complex manner**, therefore, actually only projects dealing with individual aspects of energy efficiency and the beneficiaries do not utilise the broader range of saving opportunities. Unfortunately, there has been no available fund to support complex projects.

Other funding sources

Some EU-funds in Hungary targeting energy efficiency:

- Environment and Energy Operational Programme, 2007-2013: The calls are not targeting awareness raising and capacity building.
- Regional Development Operational Programme 2007-2013: Awareness raising and capacity building are not expected outcomes, thus not supported as well.
- The Intelligent Energy Europe programme: Hungarian institutions have participated in energy improvement programmes, like the Teachers 4 Energy project among others that focused on energy efficient awareness-raising for schools.

In Hungary the availability of the high-quality education (including education in energy efficiency, or the building of the schools as well) is not equal; due to support of programme the schools in disadvantaged areas will have opportunity for improvements, therefore the fund will contribute to reduce disparities.

Institutional and legislative framework

Due to the **new structure of the Hungarian public education system** the maintainer of the public buildings has been changed. In some cases the maintainer are still the town municipalities, but in some cases it is the Klebelsberg Institution Maintenance Centre, (KIK); and in a few cases different type of NGOs. Thanks to this change the potential beneficiaries (maintainers of the schools) could be different type of organisations and structures: central budgetary organs, town municipalities and NGOs as well.

3.1.2.2. Programme HU03 - Renewable Energy

Statistics and trends

Hungary has set an ambitious target for its renewable energy use by 2020 based on the National Renewable Energy Action Plan¹. In this strategy the Hungarian ambitious but realistic target is 14.65% for the share of renewable energy in gross total final consumption in 2020 (The Hungarian obligatory minimum target is 13% by 2020). In the **National Renewable Energy Action Plan** Hungary aimed at a 3-3.5 times increase of geothermal heat production from 2010 to 2020 from 4.23 to 14.95 PJ which is based on the promising geothermal potential of the country. This document also highlights the significant potential in increasing the role of geothermal energy in heat supply, which is currently a well-known method in certain areas (e.g. in horticulture) in Hungary.

One of the steps planned in order to achieve the job creation target of one million jobs within ten years set by the Government in the New Széchenyi Plan and in the NREAP is the launch of **green employment programmes**, since in the green economy, job retention (and gradual job creation) processes can be triggered, which are expected to result in the creation of 150–200 thousand new, long-term jobs (including approximately 70–80 thousand in the renewable industry). Thus the **renewable energy industry**

¹ Government Decree 1002/2011.(I.14.) on the duties related to the Renewable Energy Action Plan of Hungary

would contribute to the mitigation of the negative effects of the economic crisis and to the creation of jobs that are sustainable in the long term.

Hungary's government has outlined its **economic policies** in the New Széchenyi Plan based on Structural and Cohesion Funds, adopted in January 2011. Under the heading Renewal of Hungary – development of green economy, energy is one of the seven programme areas for future growth, which aim is also cross-linked with the Renewable Energy Programme Area.

The New Széchenyi Plan – Green Industry Development Programme also announces that in the field of education new experts will need to be trained as the development of a green economy will require special expertise.

Technical and skilled worker training programmes will need to be launched in addition to higher education courses. The establishment of regional centres for professional advice and knowledge will be required for an appropriate exploitation of regional energy conditions.

For general information and awareness-raising among the public, promotional campaigns must be initiated, which will widely provide information about, and promote, not only energy efficiency and energy saving, but also renewable energy sources.

On EU level both the renewable energy utilisation and the related awareness-raising are priorities and expected to be highlighted beyond 2020 as well.

In Hungary **the share of renewable energy sources almost doubled** from 4,4 % in 2004 to 8,7 % of gross final energy consumption **in 2010**.

Share of renewable energy in gross final energy consumption

	2004	2005	2006	2007	2008	2009	2010	TARGET
Hungary	4,4 %	4,5 %	5,1 %	5,9 %	6,6 %	8,1 %	8,7 %	13,0 %

Source: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=t2020_31

Through the implementation of the Renewable Energy Programme Area the following measurements will contribute to the reduction of economic and social disparities:

In Hungary existing district heating systems – at suitable locations – could be replaced by geothermal systems, thus a significant drop in prices could couple with savings of primary energy resources, therefore ensuring security of supply and decrease greenhouse gas emissions. Furthermore, in the cascade systems the utilized thermal water can be also used for spas, heating of greenhouses, other agricultural applications (e.g. drying), de-icing.

Sustainable use of energy resources is the basis for future economic growth and well being. The MoU focuses mostly on geothermal energy utilisation within the increased renewable energy production outcome, while the MoU also sets that with another outcome capacity building and awareness raising should be enhanced related to the renewable energy solutions. This way the Renewable Energy PA is contributing to the reduction of economic and social disparities in the beneficiary countries through the diversification of conventional energy supply and by offering clean and reliable energy to

the general public under the scope of the Climate Change and Renewable Energy Priority Sector.

Institutional and legislative framework

In the beginning of 2012 the **new law on the educational system** entered into force. Major changes were announced in connection with the institutions but a very relevant change is connected to the introduction of the compulsory tuition fee system. According to the Programme Proposal of the Renewable Energy Programme Area students could study in Iceland and carry out Master courses in the field of sustainable energies, such as a geothermal post-graduate training programme with 100% scholarship grant. The above mentioned changes can affect positively the demand for these scholarships.

3.1.2.3. Programme HU06 - Children and Youth at risk

Statistics and trends

According to the Hungarian census in 2011, the **population under age of 17 was 1.797.955 in 2010**. There were 341 000 admissions into the Kindergartens, 741 000 into the elementary schools in the 2011/2012 school year. Altogether 567 000 student learnt in the secondary education in the above mentioned period, out of this 139 000 in trade school, 195 000 in grammar school, 233 000 in technical college. The number and rate of the children/youth with special educational needs were similar to the previous year, almost 52 000. 32.516 children were admitted into crèches in 2010.

Year	Number of persons receiving childcare relief in December	Number of persons receiving childcare remuneration in December	Number of minors at risk	Number of minors in the secondary childcare
2001	179 083	67 118	249 928	17 994
2002	166 719	73 383	235 673	17 813
2003	164 758	80 657	232 381	17 844
2004	162 601	83 563	225 365	17 568
2005	159 509	88 784	223 594	17 456
2006	168 751	92 491	209 800	17 145
2007	164 832	93 953	204 449	17 145
2008	170 995	93 249	197 450	17 532
2009	176 009	96 680	197 375	17 562
2010	180 696	92 476	197 948	17 792
2011	169 216	82 934	201 386	18 287

Based on the above data, **the number of children at risk has increased in the last years in Hungary**. The number of children altogether is decreasing, the natural increase/decrease of the population is -4,1 per thousand inhabitants. Also the number of children in childcare institutions has increased.

Other funding sources

The Programme Operator paid special attention that the measures and the programmes realized within the framework of the Structural Funds, and the Public Health Initiatives programme are connected but do not overlap with the activities targeted. Main areas: Roma inclusion, infrastructural and care system development, service provision for the target population.

The programme connects to the overall objectives of the Grants through the following:

- The target group includes children and youth at risk, especially those who live in a multiple disadvantaged situation. The programme pays extra attention to the Roma population and has a unique programme element for reducing early school leaving.
- Geographical focus on micro regions that are in a disadvantaged situation.
- Connection to the international and domestic strategies for social inclusion, use of the advantages of the bilateral fund facilities.
- The programme contains elements for the development of the care system and prevention.

Institutional and legislative framework

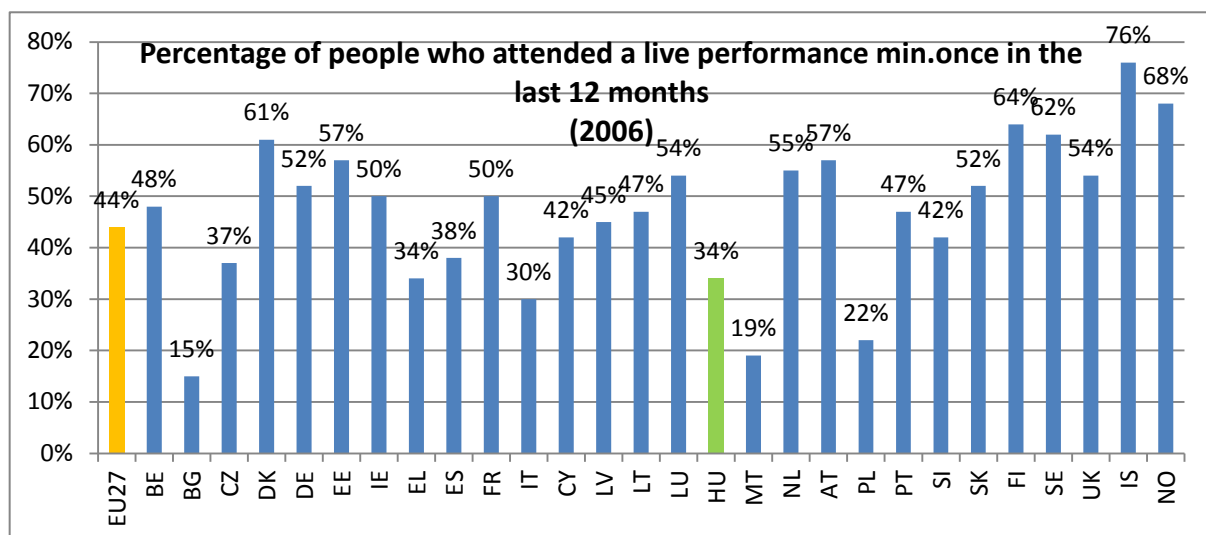
Regarding the challenges and changes connected to the programme in the legal, organisational, structural environment it has to be noted that the **management and maintenance structure of schools and social and childcare institutions have changed**: centralised background institutions of the ministries took charge. Primarily, this means that local governments as former maintainers shifted responsibility for management and/or maintenance to designated central institutions.

3.1.2.4. Programme HU07 – Cultural heritage

Statistics and trends

The worldwide financial and economic crisis hit Hungary in 2008 in a state of strong indebtedness which significantly limited room for fiscal maneuver. As a consequence, in the following years, the **government introduced serious budget constraints** which severely **affected the financing of the cultural sector**. External aid (EU funds, EEA grants, Swiss contribution) remains the sole source of financing for interventions aiming at the preservation of cultural heritage sites.

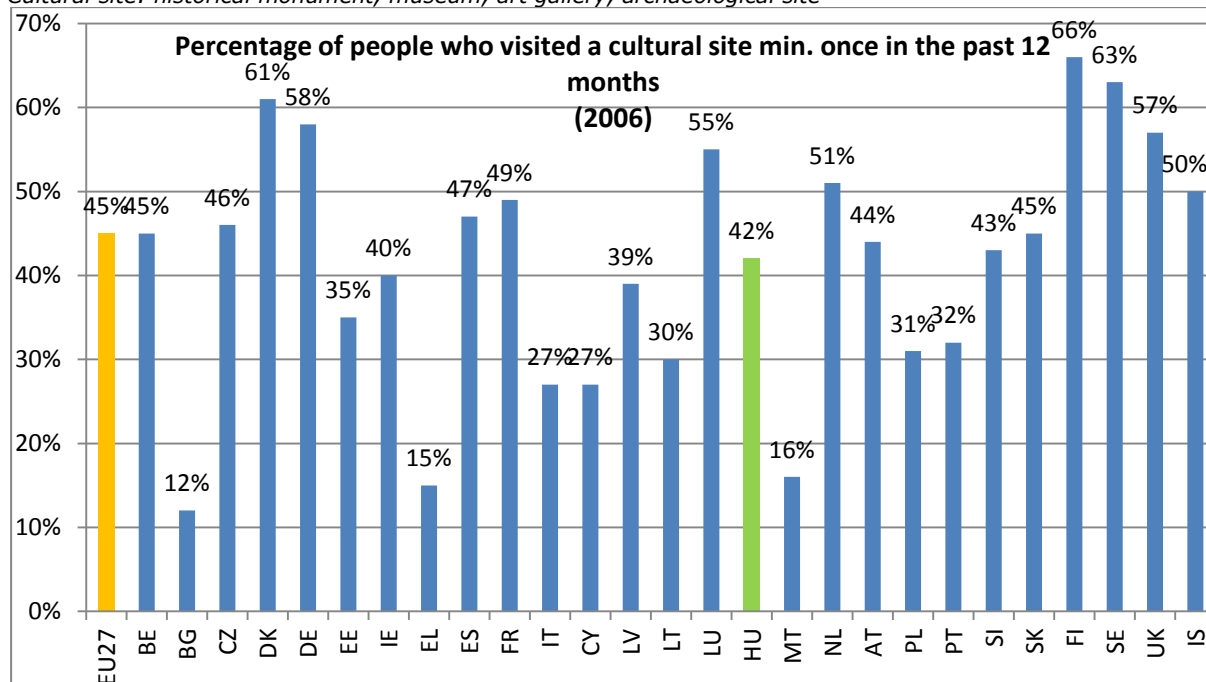
Live performance: play, concert, opera, ballet, dance performance



Source: <http://epp.eurostat.ec.europa.eu> (EUROSTAT Pocketbooks – Cultural Statistics 2011 Edition)

The above graph from the „EU-Statistics on Income and Living Conditions (EU-SILC)” survey shows the percentage of those, age 25-64, who attended a live performance at least once in the period of 12 months before the survey. The value for Hungary (34%) shows that we fall behind the EU27 average (44%) by 10%. A reason for this could be that **in an economic slowdown, consumers tend to spend less on cultural activities/entertainment.**

Cultural site: historical monument, museum, art gallery, archaeological site



Source: <http://epp.eurostat.ec.europa.eu> (EUROSTAT Pocketbooks – Cultural Statistics 2011 Edition)

The second quoted graph shows the percentage of those - age 25-64 - who visited a cultural site at least once in the period of 12 months before the survey. The value for Hungary (42%) shows that it is in line with the EU27 average (45%). The reason for such a favourable value, and such a difference in the consumption of the two cultural “products” lays in that a number of cultural sites have free admission, have free

admission on certain days, or have free admission with special conditions while live art performances usually involve an admission fee. As presented in *Eurobarometer's "European Cultural Values" report* (2007), the no.2 barrier mentioned is 'too expensive', with 49% of the Hungarian participants of the survey indicating as one of the main reasons. The EU27 average for accessibility seen as too expensive is 29%. **The survey results underline the importance of our programme in Hungary.** On the one hand, some of the measures focus on strengthening the network of accessible built cultural heritage sites by preserving built assets and their natural surroundings. On the other hand, some of the measures provide support to original live art performances, by facilitating financing for the artist, thus making them affordable and available for the audience, and generating an "appetite" for these kinds of events in the future.

Other funding sources

With regard to the **relationship between EEA Grants and EU Funds** specific to this programme area, in the current programming period built cultural heritage has received grants from EU Structural Funds. Eligibility was limited to historical buildings serving public functions or was presentable as a tourist attraction. The ERDF grants served energy efficiency or tourist attraction development but only enabled restorations works in rural areas/villages to a limited manner. These latter were funded by the EAFRD. Structural Funds support for socially and economically deprived areas were mainly aiming at the development of public services (education, health and social care) but the lack of access to cultural services had not been addressed. At the same time, national financial sources for the cultural sector had suffered severe reductions due to budget constraints in response to the economic crisis. As a consequence, a significant part of the contemporary performing arts scene is experiencing a depletion of financial resources.

As an **overall objective**, the programme wishes to contribute to **the expansion of bilateral relations** between the Donor States and Hungary, as well as to the reduction of **economic and social disparities** via improving equal opportunities in access to cultural assets. The programme promotes the **preservation and the showcasing of built and intangible cultural heritage together with the related natural surroundings while making it accessible to the public with a strong emphasis on local communities**. The Small Grants Scheme addresses challenges with respect to minorities' cultural identities by **fostering cultural dialogue and the strengthening of cultural diversity**. The grants will target underdeveloped areas with a focus on the Roma minority.

Institutional and legislative framework

During 2012, there were several **changes** in connection with the programme's **legal background**. In September 2012, the National Office of Cultural Heritage (NOCH) was reorganized and is now called Gyula Forster National Centre for Cultural Heritage Management. The reorganization involved transfer of personnel to the Ministry of Interior that has the overall governmental responsibility for cultural heritage protection, and to the Governmental Office. The remaining departments constitute the Forster Centre. The National Trust for State-owned Historic Monuments has been merged into the Forster

Centre. The Centre is a legal continuity of KÖH, international affairs (such as the EEA FM) and World Heritage issues remain in the portfolio of the Centre in the future.

The Government decree 1311/2012 (VIII. 23.) brought **changes into the ownership of cultural institutions** (libraries and museums) maintained by county municipalities. Institutions had been lately transferred to local municipalities.

The Program Operator has been keeping track of these institutional changes, made sure to involve all the relevant stakeholders in the programming process and paid attention to involve all the relevant beneficiaries.

3.1.2.5. Programme HU08 - Scholarship

Statistics and trends

The following table shows the 2011 and 2012 **Lifelong Learning Programme (LLP)** mobility data. The major actions of the LLP closely correspond to the planned actions of the Scholarship programme, therefore LLP marks the bigger, EU framework in which the EEA/Norway scholarships will operate in a smaller scale.

	2012	2012 teacher, experts, staff	2012 students	2011	2011 teachers, experts	2011 students
Lifelong Learning Programme (LLP)	14 635	5 178	9 457	15432	3988	11368
Comenius						
School partnerships	4 335	1831	2504	3 176	635	2541
Individual student mobility	15	0	15	197	197	0
In-service training	185	185	0	197	197	0
Assistantship	42	0	42	35	0	35
Preparatory Visits	49	49	0	60	60	0
Comenius Regio	96	96	0	120	120	0
Erasmus						
Student mobility	4 361		4 361	4 164	0	4 164
Staff mobility in teaching assignment	1 070	1 070	0	1 076	1 076	0
Staff mobility	395	395	0	395	0	395
Preparatory Visits	8	8	0	8	8	0
Leonardo						
Partnerships	565	405	160	515	325	190

	2012	2012 teacher, experts, staff	2012 students	2011	2011 teachers, experts	2011 students
Mobility projects	2 280	314	1 966	2 159	335	1824
People in Initial Vocational Training		0	1 645	1 570	0	1 570
People in the labour market"	321	0	321	254	0	254
Professionals in vocational education and training	314	314	0	335	335	0
Accompanying persons	252	252	0	219	219	0
Preparatory Visits	34	34	0	45	45	0
Grundtvig						
Learning partnerships	785	412	373	728	355	373
Senior volunteer project	36	0	36	22	0	22
Assistantships	7	7	0	6	6	0
In-service training for adult educators	42	42	0	26	26	0
Visits and exchanges	26	26	0	23	23	0
Preparatory Visits	30	30	0	26	26	0
Study Visits	22	22	0	76	0	0

As far as transnational co-operations are concerned co-operations between Hungarian educational and training institutions and the Donor Countries are significantly less in proportion as the co-operations between Hungary and the EU countries. Because of different reasons (e.g. geographical distance, lack of historical relations, lack of knowledge of the educational system of the donor countries, lack of language knowledge, expensive cost of living) the willingness for (mutual) mobility between our countries are below the average.

The **aim of the programme** is to strengthen the links between the educational and training institutions of Hungary and those of the EEA countries in order to be able to contribute to the increasing of economic relations, internationalization of the participating institutions, getting to know different societies, widening the horizon of our educational institutions as well as the individuals benefiting from this programme.

Cooperation within the fields of education and research is an objective shared by all European countries. The significance of **transnational cooperation** has been highlighted by Ministers in charge of education and research in the EU and the EEA EFTA States as part of the Bologna Process and the development of the European Higher

Education Area, the development of the European Research Area as well as the Lisbon Strategy and the European Strategic Framework for Cooperation in Education and Training 2020. **Internationalisation** is an important aim for higher education institutions in Europe and promoted by educational authorities worldwide.

Other funding sources

Transnational mobility and co-operation projects in the field of education and training in Hungary are mainly funded by the **Lifelong Learning Programme** (in the framework of the Erasmus, Comenius, Grundtvig and Leonardo da Vinci sub-programmes) of the European Commission. Hungary and the donor countries are both members of this programme, within the framework of which there are already some connections established between our institutions. Building on this basis the programme will encourage **further co-operations** between our countries, based on existing bilateral agreements between HEIs, exploiting and build on the results of LLP projects new project proposals are expected from the beneficiaries.

As regards the implementation of the programme Tempus Public Foundation makes every effort to ensure that during the information phase, and the selection procedure as well as during the project implementation phase information is easily accessible, the rules are clear, transparent, pre-communicated, and easy-to-monitor. During the management of the programme we will act as environmentally conscious way as possible (e.g. electronic information materials, electronic proposals, electronic selection and evaluation procedures).

Institutional and legislative framework

The framework of the different international cooperation and mobility actions which are managed by the Tempus Public Foundation **did not change in 2012**, but there are certain major changes underway in Hungary in connection with the different educational sectors that might have some effects on this programme as well (e.g. major restructuring of the school education system, new law and implementing rules for Higher Education). Decrease in the number of students entering higher education might be a challenge during the years of implementation.

3.2. Bilateral relations

As the overall objectives of the FMs and the Memorandum of Understanding stated, bilateral relations between the Donor States and Hungary shall be strengthened with the aim of stimulating long-term cooperation.

3.2.1. National statistics on bilateral relations

The data of the under mentioned tables show the strengthening bilateral relations as well as the rising, but still relatively low amount of interactions between the Donor State and Hungary at various levels. Improvement can be read from the tables about the growing migration rates between the two states, the table about diplomatic representation as well as the list of the key event or meetings at national level.

Diplomatic Representation/State

Beneficiary State	Norwegian in Beneficiary State			Beneficiary State in Norway		
	Embassy	Consulate	Honorary Consul	Embassy	Consulate	Honorary Consul
Bulgaria	1	0	1	1	-	
Cyprus	0	0	0	1	1	2
Czech Republic	1	0	-	1	1	3
Estonia	1	0	-	1	0	5
Hungary	1	0	-	1	1	3
Latvia	1	0	0	1	0	7
Lithuania	1	0	1	1	0	9
Malta	0	0	0	0	0	2
Poland	1	4	4	1	0	3
Romania	1	1	1	1	1	4
Slovakia	1	0	-	1	0	1
Slovenia	0	0	1	0	0	0

Hungarian population in Norway, by Norwegian/foreign citizenship, duration of residence and country background1.1 January 2012

Total	Foreign citizenship				Norwegian citizenship				Norwegian citizenship, per cent
	Length of stay, in years								
	0- 4	5-9	10-19	-20	0- 4	5-9	10-19	-20	
2 474	1 248	179	176	51	8	13	36	763	33.1

Source: Statistics Norway, http://www.ssb.no/a/english/kortnavn/innvbef_en/tab-2012-04-26-07-en.html

As we can see from the table above and below, the number of Hungarian people living in Norway for 0-4 years is higher than people there for more years, which may suggest that in the past few years the migration and population exchange between Hungary and Norway increased. The underlying reason may also however be, that the long-term settlement of people is rare, temporary stay among immigrants is a more common pattern.

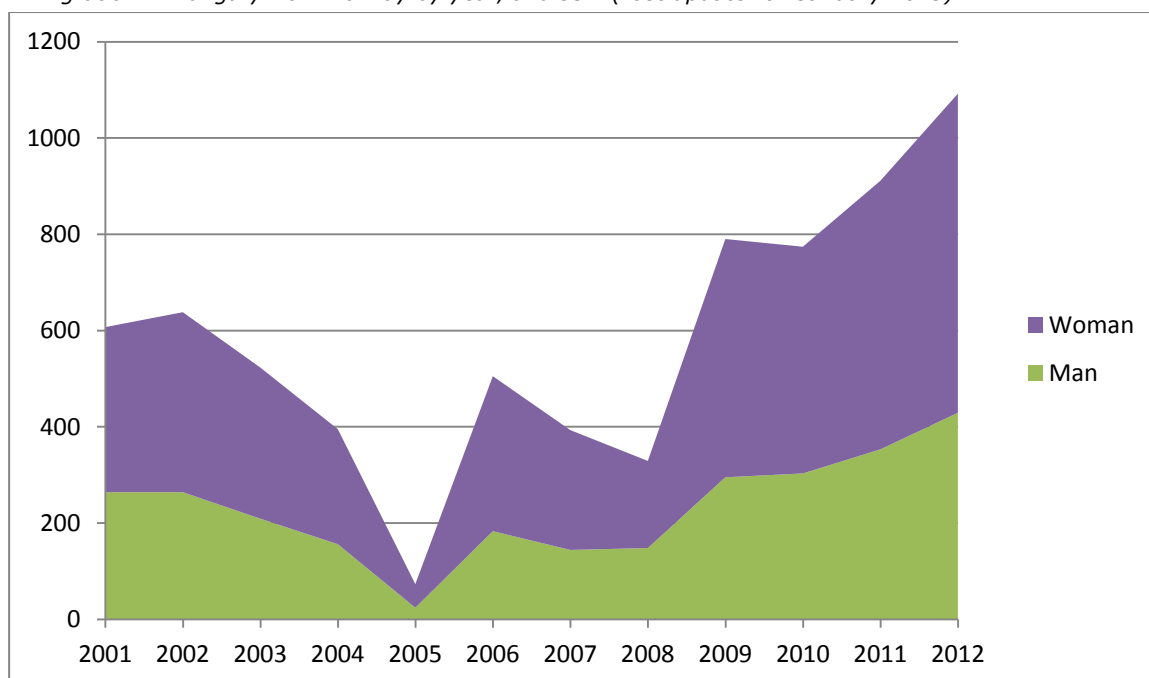
Immigrants in Norway, by duration of stay, sex and country background. 1 January 2012 (Corrected 27 April 2012)

Country / sex	Total	Length of stay, in years							
		0-4		5-9		10-19		≥20	
		Men	Women	Men	Women	Men	Women	Men	Women
Hungary	2474	683	573	73	119	57	155	481	333

Source: Statistics Norway, http://www.ssb.no/a/english/kortnavn/innvbef_en/tab-2012-04-26-13-en.html

On the below chart we can see the number of Norwegian people living in Hungary. A constant and quite significant increase can be observed since 2008. The increased number of Norwegian people living in Hungary suggests strengthening bilateral contacts and relations between the two countries.

Immigration in Hungary from Norway by year, and sex. (Last update: 02 January 2013)



Source: Hungarian Central Statistical Office (KSH), <http://statinfo.ksh.hu/Statinfo/haDetails.jsp?query=kshquery&lang=hu>

3.2.2. Key events, meetings at national level in Norway and Hungary

From this table below we can see high-level meetings in Norway seem to focus on exchange of experience and know-how, mostly concerning social or social science related topics, for example minority issues, like Roma inclusion, and education policy.

Date	Delegation	Main subjects of the visit
2012.06.26.	Dr. Csaba Hende, Minister of Defence; Zoltán Orosz, lieutenant-general, Deputy Chief of the Defence Staff of the Hungarian Armed Forces; Gyula Keszthelyi, Director General for Hungary's Armament and Quartermaster Office; Tas Kelemen, Head of Defence Policy Department (Ministry of Defence); Lawani Alex, interpreter	Dr. Csaba Hende visited Norway because of the signing ceremony of the modification of the contract between the Ministry of Defence and Kongsberg Defence&Aerospace participating also Espen Barth Eide, the Minister of Defence.
2012.09.25-26.	Zoltán Balog, Minister of Human Resources; Katalin Novák, Chief of Staff	Mr. Zoltán Balog participated and gave lecture at the "Conference on Roma Inclusion". At the ambassadorial residence, he consulted with Ingrid Schulerud, Deputy Director General for Central Europe and EEA-financing, especially about the programme areas concerning improving the situation of the roma population.
November 2012	State Secretary Torgeir Larsen (Norwegian Ministry of Foreign Affairs)	Torgeir Larsen visited Budapest and had bilateral meetings with the Hungarian Ministry of Foreign Affairs and others. Mr Larsen participated at the Hate Speech Conference organised by the Norwegian Ministry of Foreign Affairs and the Council of Europe.
2012.12.09-11.	Dr. Zoltán Gloviczki, Deputy Minister of State Human Resources; Dr. Viktor Szantner, Chief of Staff	The delegation participated at the "Informal Conference of European Education Ministers" in Oslo.

On the field of education and academy we shall mention certain events, when observing and presenting the visibility and image of Norway and Hungary towards each other. The Embassy of Hungary in Oslo initiated an international conference to be held at the University of Oslo on strengthening the rights of national minorities. The Ambassador of Hungary in Norway, Mr Géza Jeszenszky gave a lecture second time on the current situation in the region and Hungary for inquiring students at the University of Oslo (May 2012). Janne Haaland Matlary, professor of political science of the University of Oslo gave a lecture at a conference in the Parliament of Hungary on the so called Scandinavian

model. In October 2012 László Karsai, Holocaust researcher participated at the Wallenberg Conference at the Centre for Studies of Holocaust and Religious Minorities, and was keynote speaker of the event. Also, The Embassy came into contact with several Norwegian science institutions during the preparation period of the FMs, e.g. The Research Council of Norway, NOVA Norwegian Social Research.

Concerning cultural exchange, during holidays, Hungarian artists have performances for Norwegian and Hungarian mixed audience. Also, in September 2012, the Media and Communication Institute of the University of Oslo, the Hungarian Embassy in Oslo and the Norwegian-Hungarian Association organised a display of works of Marcell Jankovics, famous Hungarian graphic artist, cartoon director, animator and author; and in June 2012 Réka J Ferencz, Hungarian painter had an exhibition at the S9 Galleri.

Concerning cooperation and getting acquainted with the two countries' know-how on the field of life sciences, therapeutics and wellness tourism, a round-table discussion has been held with participation of the Hungarian Tourism, Inc. The Hungarian Embassy in Oslo tends the business and research relationships, partly in connection with the FM's bilateral research cooperation programme. Also, about 800 Norwegian medical students attended to Hungarian higher education institutions, e. g. medical, veterinarian, dentist, pharmacist students.

3.2.3. Contribution of the Grants to the achievement of bilateral outcomes

All Programme level bilateral activities, progress, Donor State involvement of 2012 is discussed and detailed under this point of the Strategic Report.

3.2.3.1. Extent of cooperation

Certain programme areas particularly aim this objective; the programme areas with a donor programme partner and especially those where partnerships with entities from Donor States at project level are not only preferred but required. Concerning programmes with DPP involvement below, formal partnership has been shaping between POs and DPPs.

Programme areas with DPPs of EEA Financial Mechanism 2009-2014:

- **HU03** Renewable Energy – DPP: The Icelandic National Energy Authority
- **HU04** Adaptation to Climate Change – DPP: The Norwegian Directorate for Civil Protection and Emergency Planning (DSB)
- **HU06** Children and Youth at Risk – DPP: Council of Europe
- **HU07** Conservation and Revitalisation of Cultural Heritage and Natural Heritage – DPP: Norwegian Directorate for Cultural Heritage (RA)
- **HU08** Scholarships – The Icelandic Centre for Research (RANNIS), National Agency for International Education Affairs (AIBA, Liechtenstein), Norwegian Centre for International Cooperation in Higher Education (SIU)

Also, **certain programmes have pre-defined projects**, involving donor project

partners. Such project partnerships are being formed in the programme HU06 of EEA FM.

HU06 Children and Youth at Risk programme has one pre-defined project with a donor project partner, called "The reinforcement of cooperation" and it is to be implemented in cooperation with the Donor Programme Partner, the Council of Europe. The expected outcome of this project is the improved quality of child welfare systems and protection measures, relaying the views of relevant stakeholders and society at large through high quality and participatory debate.

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 (Cooperation Committees) and NFP. The National Focal Point also has working relationship with the Hungarian Embassy in Oslo, Norway. The cooperation and relationship with both entities is proficient and well functioning, moreover both embassies give continuous assistance in the development and improvement of the bilateral relations both at programme and national level. The Hungarian Embassy in Oslo, which represents Hungary in Iceland also, contributes to the search for potential donor partners. For example for the sake of that the Embassy came into contact with several Norwegian science institutions during the preparation period of the FMs. It actively participated in programme areas of the FMs concerning economy, especially in the areas of green industry innovation, bilateral research cooperation and renewable energy. When working out the bilateral work plan, the NFP worked together closely with both Embassies and the NFP could rely on their experiences for identifying target areas. The NFP hopes the bilateral work plan will have significant value addition to other outcomes as well after its implementation started.

3.2.3.2. Shared results

Since the FMs in 2012 were in preparation period, bilateral cooperation in projects and programmes could not result in a contribution to solving a particular issue. Sharing experience, knowledge, know-how and technology and working together materialized however in the joint work of POs and DPPs. In 2013, when the FMs enter into the next phase, the NFP can report on more results in accordance with the progress of the programmes and projects.

3.2.3.3. Improved knowledge and mutual understanding

Related to the planning and preparation works, the Programme Operators and Donor Programme Partners improved knowledge and mutual understanding amongst the countries. POs received valuable professional input from DPPs by getting acquainted with Norwegian methods and know-how in various areas. The work of DPPs for finding potential partners for future possible projects improves the possibility to achieve further results during the programme implementation related to this outcome.

HU02 Energy Efficiency: The Programme Operator has no Donor Programme Partner,

but in order to explore the possibilities for building bilateral relations the PO is in connection with the Royal Norwegian Embassy regularly.

HU03 Renewable Energy: The Programme Operator appreciates the cooperation with the Donor Programme Partner (Icelandic National Energy Authority). The DPP works with PO in close cooperation and according to the PO facilitates the development of the programme. The Programme Operator started to enhance the cooperation with Norway as well and consulted several Norwegian institutions to strengthen the relations at the end of 2012.

HU06 Children and Youth at risk: The Programme Operator has worked on the programme document together with the planning working group, the Cooperation Committee with involvement of the Donor Programme Partner intensively. According to the recommendations of the donors the Programme Operator had been working with the Donor Programme Partner on the methodology element of the programme document. Finally the pre-defined project elaboration started together with the DPP and with the concerned Hungarian institutions.

HU07 – Cultural heritage: The Programme Operator and Donor Programme Partner agreed on the main fields and components of the programme. The cooperation between the PO and DPP was excellent. DPP was very helpful in advising on how to handle the bilateral fund, how to define the indicators and also gave practical advice wherever they could. In the granted projects, especially in the cases of investments relating to preservation of rural cultural heritage and natural surroundings and contemporary art and culture presented and reaching a broader audience, it will be expected to build up bilateral relations with potential donor project partners.

HU08 – Scholarship: During the preparation phase the Programme Operator and Donor Programme Partners agreed on the main elements and granted measures of the Scholarship programme. Towards the well cooperation with the educational institutions of the Donor States the Programme Operator participated at the Launching and Contact seminar organised by the DPPs, held in Bergen, Norway in April 2012. The PO presented the Hungarian Scholarship programme and its main elements at this meeting. The PO had the opportunity to meet with the representatives Scholarship POs from the other beneficiary states. As the meeting was a contact seminar as well the PO could change contacts with representatives of different – mostly higher education – institutions' representatives who could serve as future project partners for the Hungarian applicants.

Regarding the programmes - HU04 – Adaptation to climate change and HU05 – Civil society – NGO Fund, the programme information is provided in the Chapter IV.

3.2.3.4. Wider effects

Although future fields of cooperation were identified during planning, since the FMs in 2012 were in preparation period, bilateral cooperation could not be extended beyond projects and programmes. In 2013, when the FMs enter into the next phase, the NFP can report on more results in accordance with the progress of the programmes and projects.

3.2.4. Risk assessment

One of the overall objectives of the Financial Mechanisms is strengthening bilateral relations between the Donor States and Hungary. The responsibility of the National Focal Point is to contribute to achieve this objective. The NFP reckons it is essential that it is ensured that Donor State entities being donor project partners or potential donor project partners also understand the significance of strengthening bilateral relations.

Because of perceiving low-intensity of bilateral relations' the NFP is concerned about the possibility of lack of capacity or interest of the donor states' institutions. It is important to note, that bilateral relations between Hungary and the Donor States have started from a relatively low level. A few specific sectors with existing contacts and mutual interest proved to be successful with regard to bilateral relations. Such sectors were the above mentioned research and education. There are also other sectors where the bilateral relations should be expanded to, ranging from cultural heritage through public health issues to cooperation of local authorities, where the cooperation would bring added value. Partnership projects should be not only based on a simple letter of intent, but on established contacts and identified mutual benefits, in order to contribute to strengthened bilateral relations among our countries on the longer term. In order to achieve our objectives to the fullest, the NFP welcomes all assistance of the FMO, the FMC, the NMFA, the Embassies and DPPs, and encourages the above mentioned institutions to take on an active role in developing bilateral relations, for example in the search and recommendation of potential donor project partners, and their encouragement for building bilateral relations and for openness for cooperation.

4. Management and implementation

4.1. Management and control systems

During the reporting period, the elaboration of the management and control system (MCS) took place, and the description of the MCS at national level was prepared.

At the beginning of 2012 the **Focal Point established a working group** consisting of representatives of the national entities, i.e. the Focal Point, the Certifying Authority, the Audit Authority and their supervisory Ministry for the preparation of the government decree on the implementation of the Financial Mechanisms 2009-2014. The aim of the creation of the national legislation was to incorporate provisions of the Regulation into the national law and also describes further procedures to that need regulation at national level.

Following broad consultation with stakeholders, **the legislation** of the FMs in Hungary **came into force as Government Decree 326/2012. (XI.16.), on 16 November 2012.** It consists of the following Chapters:

- Chapter I - General provisions
- Chapter II - Institutions
- Chapter III - Process of the preparation and implementation of programmes
- Chapter IV - Embedded controls (verification procedures)
- Chapter V - Financial implementation
- Chapter VI - Monitoring of the implementation
- Chapter VII – Audits
- Chapter VIII - Handling of irregularities
- Chapter IX - Claim management
- Chapter X - Rules on state aids
- Chapter XI - Special dispositions on specific funding sources
- Chapter XII - Final provisions

The Government Decree forms the basis of the **management and control systems (MCS)**. Considering the size of the EEA and Norway Grants, a quite complex management and control system had to be established in the Beneficiary States with many different players and levels. In order to ensure that still an effective management and control system can be established, the created set up is a combination reflecting the requirements of the Regulations, and the well functioning system of the EU Structural Funds, that is familiar to all the players of the national implementation set-up (NFP, CA, AA).

A major **deviation from the Regulation** concerns the financial implementation. According the established management and control system, financial flows will follow the procedures applied under the EU Structural Funds. The system's cornerstone is pre-financing from central state budget and reimbursement of actual incurred expenditures from the Donor State contribution. The National Development Agency, the institution hosting the Focal Point is responsible for central budgetary planning of the Grants and the necessary national co-financing. The FP will therefore play an active role in the financial management and control of the Grants. A Central Financial Unit ensures the planning of necessary central state budget sources, and makes the payments to all

beneficiaries of the Grants, including project promoters, Programme Operators, the Implementing Agency, etc.

Deviations from the Regulations related to certain responsibilities of the national authorities and the payment flow was described in the description of MCS at national level. Such deviations were proposed in order to meet requirements of national legislation, to adapt to the existing national institutional structures and with respect to the principles of economy, efficiency and effectiveness. The description of MCS at national level was completed by the FP in November 2012 and **was submitted to the Audit Authority on 30 November 2012**. The Audit Authority launched the compliance assessment in December and issued its opinion on the description of the MCS in January.

Draft **implementation set-up for the National Fund for Bilateral Relations** was completed and submitted by the FP to the Donors in August 2012. Following receipt of several comments on the draft document in November, the FP submitted the final version of the implementation set-up for the National Fund for bilateral relations on 1 December 2012. The implementation set-up proposed for the National Fund for bilateral relations is in line with the MCS at national level and with the Government Decree 326/2012. (XI.16.).

4.2. Compliance with EU legislation, national legislation and the MoU

The FP has ensured to transpose the MoU and the Regulations into the national law. The issued Government Decrees ensure that the **provisions of the MoU and the Regulations are enforceable under the national law**. The Government Decree 326/2012. (XI.16.) includes a specific Chapter on the applicable State Aid rules within the programmes of the FM. The FP has ensured that notification obligations regarding state aid schemes are fulfilled.

According to the Article 9 of the Commission Regulation (EC) 800/2008. of 6 August 2008 - **General block exemption regulation**, the operative government decree should be notified towards the Commission in 20 working days following the entry into force of the aid scheme, in this case the entry into force of the government decree. This posterior notification was submitted via the established Commission IT application (SANI) in November and was approved **in early December 2012**.

On 20 November 2012 the Focal Point notified to the European Commission the **cultural state aid measure**. The notification was **accepted** by the Commission **on 21 December 2012**.

The above Government Decree also includes a separate sub-chapter on control of public procurements. In case of project promoters, the IA will be in charge for control of public procurements (ex ante or ex post, depending on the estimated value of the procurement). In case of procurements carried out by POs, IA or TA beneficiaries, the FP will ensure control of public procurements as described in the MCS at national level.

As the rules and procedures required by the MoU, Regulation, or EU legislation are transposed into national law through separate pieces of legislation, it is a potential risk, that all modification of the above legal framework shall be also transposed into the

national legislation. This procedure is often time-consuming and needs additional efforts and capacities from the FP and other entities of the management and control system. Frequent changes of the above legal framework thereby cause a potential risk.

4.3. Status of Programmes

4.3.1. Programme HU02 - Energy Efficiency

Information on programme preparation: The Programme Operator has been working on the programme document in the first half of 2012. After the submission of the document in July, 2012 additional information was requested by the FMO in September, 2012. Since then there were several negotiations in writing and personally, appraisal process by external experts has been held and the Programme Operator has sent the necessary additional information to the appraisal team and to the FMO. The main fields have been discussed: the targeted public area, the indicator rate of the CO2 reduction, the eligible applicants, the eligibility of the project preparation costs and other project level conditions.

Upcoming activities: The Programme Operator is waiting for the Annexes of the Programme Agreement, and is planning the call for proposals.

4.3.2. Programme HU03 - Renewable Energy

Information on programme preparation: After the common work of the Cooperation Committee including the Donor Programme Partner the programme document has been submitted to the FMO in July, 2012. Meanwhile further negotiations were held not only with the Donor Programme Partner but also with potential partners in Norway. In December 2012 an appraisal visit had been carried out with participation of the Appraisal Team appointed by the donors. According to the Appraisal Team further elaboration should be needed on the programme document.

Upcoming activities: The Programme Operator has received the report of the Appraisal Team in February, 2013. The PO has prepared the comments on the report and submitted to the FMO. The PO is waiting for the recommendations or the Annexes of the Programme Agreement.

4.3.3. Programme HU06 - Children and Youth at risk

Information on programme preparation: The Programme Operator has worked on the programme document together with the planning working group, the Cooperation Committee with involvement of the Donor Programme Partner intensively. Regarding the complex content of the programme, several negotiations were necessary and extension requests were sent to the donors twice. Finally the Programme Operator submitted the programme proposal in September, 2012. The request for additional information was sent by the FMO in October, 2012. Since then further revisions, answers for additional information were necessary and the consultation is still ongoing.

Upcoming activities: After a long negotiation process the FMO has sent the Annexes of

the Programme Agreement at the beginning of February, 2013. The Programme Operator has accepted the Annexes regarding the most part of its content and has sent further additional information for justification. The Programme Operator is waiting for the grant recommendation from donors.

4.3.4. Programme HU07 – Cultural heritage

Information on programme preparation: The Programme Operator prepared and submitted the Programme Proposal until the official deadline in July 2012. The first Request for additional information was sent to the PO in early September 2012 by the FMO. The appraisal process for the programme was concluded in November and the Annexes of the Programme Agreement were sent on 28 November 2012. Several conciliations were conducting during the winter of 2012 regarding the final content of the programme and the Annexes of the Programme Agreement. On the whole the preparation of the programme and the related conciliations went well. In the face of the slight delay, the programme expectedly will start among the first programmes.

Upcoming activities: The approval of the programme is expected during early 2013. After the signing of the Programme Agreement and the tripartite Programme Implementation Agreement the implementation phase of the programme will expectedly start among the first programmes in the 2nd quarter of 2013.

4.3.5. Programme HU08 - Scholarship

Information on programme preparation: The preparation of the programme proposal went smooth. During the preparation phase the Programme Operator executed several conciliations with the DPPs and the stakeholders of the Hungarian Planning Working Group. The Programme Operator was prepared and submitted the Programme Proposal until the official deadline in July 2012. The first Request for additional information was received by the Programme Operator in October. Several conciliations were conducting during the winter of 2012.

Upcoming activities: The appraisal process for the programme was concluded and the Annexes of the Programme Agreement were sent on 12 February 2013. The approval of the programme expectedly will be in April 2013. After the signing of the Programme Agreement and the Programme Implementation Agreement, the programme could start among the first programmes in June 2013 in line with the rules of Scholarship guideline.

Regarding the programmes HU04 – Adaptation to climate change and HU05 – Civil society – NGO Fund the programme information is provided in the Chapter IV.

Regarding the programmes - HU04 – Adaptation to climate change and HU05 – Civil society – NGO Fund, the programme information is provided in the Chapter IV.

4.4. Irregularities

Since during the reporting period there hasn't been significant progress in the field of implementation of the Hungarian Programmes, thus there was not any irregularity to be reported regarding the year, 2012.

4.5. Audit, monitoring, review and evaluation

The main tasks of this reporting period were the preparation works of the Programmes Proposals, appraisal of the documents and the completion of the Government Decree and the Management and Control system.

Accordingly the Hungarian Focal Point organized numerous meetings for the Programme Operators to assist them in launching and coordinating the programme planning phase and to ensure that they understand deeply the framework and detailed regulation of the Financial Mechanisms.

The **Focal Point monitored closely the programme preparation work of the POs**. Representatives of the FP have been participating at the meetings of the CC and PWG as an observer. The NFP requested monthly reports from the POs on the progress of the programme preparation work.

The first drafts of the programme proposals were submitted by mid-February 2012 to the Focal Point. The Focal Point reviewed the documents and has let prepared a quality check assurance by professional independent experts. The FP distributed guidance note to all the POs in April 2012 on the requirements for finalization of the programme proposals.

The final proposals were sent to the FP during the summer 2012 when the FP executed the final review of the documents before the submission the proposals to the FMO through DoRIS. The FP checked and commented all the programme proposals prior to submission. The FP prepared a report on the programme preparation procedure that was approved by the Government Committee for Developments on 11 July 2012.

The FP has also followed closely the programme appraisal procedure, provided its comments to the draft responses prepared by the Programme Operators, ensured coordination between the PO and the IA, arranged for and attended meetings related to the provision of additional information on programmes.

The Focal Point with the consultation of the working group elaborated the government decree on the implementation of the Financial Mechanisms 2009-2014 that incorporates the Regulation into the national law. **The legislation came into force on 16 November 2012** as Government Decree 326/2012. (XI.16.).

The Government Decree forms the basis of **the management and control systems**. The Government decree and the description of MCS at national level define the audit tasks at national level and at programme level. At national level the Focal Point is responsible for the execution of monitoring task, and the Audit Authority is responsible for the audit activities. At programme level the Programme Operator in cooperation with the Implementing Agency will be carried out monitoring activities such as monitoring visits and on-the spot checks.

The description of the MCS was completed in November 2012 and **was submitted to the Audit Authority on 30 November 2012**. The Audit Authority launched the

compliance assessment procedure in December and issued its opinion on the description of the MCS in January.

For the upcoming period the FP plans to ensure monitoring and audit of the programmes through means to be regulated in the Programme Implementation Agreements. The PIA will contain provisions that ensure that the NFP has sufficient measures in order to monitor, control, audit and evaluate the progress and quality of the implementation of the programme, and to apply the necessary measures in order to ensure that the programme contributes to the set objective, expected outcomes and outputs to be delivered. An important element of the PIA will be for that reason the right of the NFP to access to information and documents related to the programmes, and the obligation of the POs to submit regular progress reports (every 2 months) to the FP on the implementation of the programme.

4.6. Information and publicity

The information and publicity activity at national level is based on the Communication Strategy for the EEA and Norwegian Financial Mechanisms 2009-2014. The Strategy was prepared and submitted to the Financial Mechanism Office in February 2012 by the NFP, and it was approved on 4th July 2012. The assigned main objectives in it cover areas in need of raising awareness of the FMs and of communicating the results of the programmes clearly to the wider public. Since the FMs in 2012 were in preparation period, there were fewer news or information on progression that were presentable to the general public. In 2013, when the FMs enter into the next phase, more publicity-related measures can be taken in accordance with the communication strategy.

The status of implementation of the main objectives set within the Communication Strategy is summarized herewith:

a) Communication of the overall objectives of the Grants:

As the NFP bears overall responsibility for the FMs 2009-2014, it is crucial that the NFP ensures that the overall objectives of the FMs are known, understood and experienced by the widest possible audience.

At meetings with organizations during the preparation procedure, such as line-ministries, POs, IA, the NFP represented and stressed the importance of the overall objectives. The NFP participated most of the planning working groups sessions and Cooperation Committee meetings as an observer. Also, in case of need the NFP informed the governmental bodies of the status of the FMs, and also of the significance of the overall objectives.

The following activities are connected also to the development of general communication:

- In order to raise effectiveness, the representative of the NFP participated in an FMO-organized Communication workshop on 1 March, 2012.
- The NFP gave a lecture at the Information day of the Corvinus University of Budapest on the general information on the Grants on 15 November, 2012.
- The Monitoring Committee meeting was held on 3 May 2012, providing an

overview to the MC members on the progress of the preparation for the implementation of the FM.

- The NFP provides all information regarding the subject by means of a dedicated mailbox (norvegalap@nfu.gov.hu).

b) Promoting and facilitating bilateral cooperation

In order to promote and facilitate the establishment of bilateral relations and to contribute to extensive cooperation between the Donor States and Hungary, the NFP has working relationship with the Royal Embassy of Norway in Hungary and also with the Hungarian Embassy in Oslo, both of which function excellently. During 2012 the NFP cooperated with the representatives of the Donor States, especially with the Royal Norwegian Embassy in Budapest which was represented on most of the events organized by the stakeholders of the Grants, e. g. POs (Cooperation Committees) and NFP. During the elaboration of the Work Plan for the National Fund for Bilateral Relations, the NFP also worked together closely with both Embassies and all POs and involved them into the planning procedure.

Also, the NFP organized and participated at events partly targeting this objective:

- 8 May 2012 - Meeting for POs on programme preparation, bilateral relations and financial management.
- On 13 April 2012 the NFP participated at a meeting organized for the Focal Points of the Visegrad (V4) countries to exchange experiences and concepts on financial management, bilateral relations, planning and measuring results, small grant schemes and DoRIS.

The NFP is fully aware of the significance of strengthening bilateral relations, and has made efforts for furtherance of cooperation. Nevertheless, henceforth the donor institutions', including DPPs' proactive support is strongly needed in order to ensure productivity and efficiency.

c) Identifying and communicating specific objectives reflecting national priorities

In accordance with the objective, the NFP shall consider national trends and show how FMs can contribute to the main strategy objectives of the Hungarian government. In order to communicate more positive messages and making the wider public more enquiring towards the FMs, the NFP shall show how the FMs accommodate to the national priorities, such as the New Széchenyi Plan's goals of knowledge-based society, greening of economy, reduction of social inequalities, sustainable economy and equal society, etc.

So as to fulfill this objective, at the NFP-organized events or at those in which it participated, the NFP stressed how the Grants fit and contribute to the general national targets, but at the same drew attention to uniqueness of the Grants and how they differ from the national programs. The workshop organized by FMO for the Focal Points on the Strategic report proved to be particularly useful for working out methods how to put the FMs' achievements into broader context.

d) Giving individual image to the EEA Grants to distinguish it from other grant opportunities

The NFP is aware of the importance of communicating the difference between the Grants and other EU funds, including formal components as well. In order to meet this intent the NFP uses the visual image of the Grants in all its official communication.

Furthermore, the NFP updated its website regularly, including all relevant information specific to the Grants. For easier access, in February 2012 "eeagrants.hu", in June "norwaygrants.gov.hu" domain names were created and directed to the FP's website. The website is also available in English since June 2012.

The Implementing Agency takes over some parts of the communication tasks: the IA is working on establishing and launching a separate webpage operated by them. This future website is considered to contain programme level information and also available general information about the FMs.

The NFP got some promotional materials prepared, e. g. brochures, roll-ups, which can be used not only for the events at national level, but also for using them on programme related events.

e) Sharing information on an aggregate, overall level on the achievements of the FMs 2009-2014 in Hungary

The NFP works closely with the POs and monitors their operation by aggregating all data on progress. After the FM enters into the next phase, more actions can be taken in accordance with the strategy. The NFP provides information, prepares reports and summaries on the Grants for the governmental institutions if necessary.

f) Ensuring transparency of application procedures and the regulations of project implementation, and clearly communicating them

The task will be relevant from 2013, once the call procedures will start. In 2012 the NFP paid special attention to meeting all transparency, regularity, efficiency and functionality criteria particularly during its procurements or the course of the IA selection procedure. The NFP has ensured that all planning procedures, both related to programmes and the management and control systems have been conducted with involving relevant stakeholders, in a transparent and open manner.

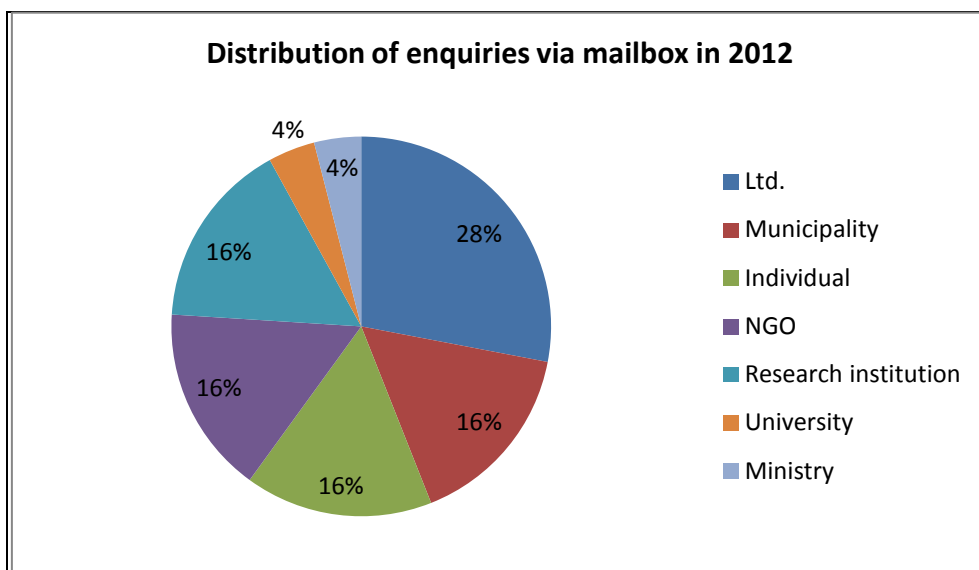
The FMO organized the Risk Management and Good Governance Seminar in September 2012 at which the NFP not only participated, but also gave a presentation on its experiences and lessons learnt.

g) Reaching not only stakeholders, but the general public as well with information on the contributions of the FMs 2009-2014

Although the task will actually be relevant from 2013, after the calls will be open, the NFP already received many enquiries about the FMs in 2012 in various forms, e.g. in forms of contacting via telephone or email and personal contacts during certain events.

The main channel of communication is however the mailbox established specifically for receiving enquiries on the Grants (norvegalap@nfu.gov.hu). The address is displayed on

the website of the FP. The FP staff regularly checks and answers the received enquiries. Based on the interests received by mail, this chart shows the enquiries by institution types:



h) Observing and supervising the activities of the Programme Operators and Implementation Agency with regard to communication on the FMs 2009-2014

The NFP works closely with the POs and the IA, and monitors their operation by aggregating all data of progression. The NFP participates in the meetings of working groups and Cooperation Committees as observer and provides information to the POs and IA in order to assist their regular operation and to contribute to the effectiveness and adequacy. In June 2012 the NFP organized a DoRIS training for POs.

After the FM enters into the next phase, more actions can be taken in accordance with the strategy.

Planned actions of the communication activity at national level in 2013, in accordance with the Communication Strategy:

- procurement of external expert to assist in the implementation of communication activities;
- launching event for the EEA and Norway Grants (25 April, 2013) with a press event;
- establishing an individual web-site for the EEA and Norway Grants and ensuring its regular update (through the IA),
- creating promotional materials,
- publishing news and advertisements
- operating a mailbox, also for ensuring an adequate complaint mechanism.

4.7. Work plan

The indicative work plan outlining the milestones of the implementation of the FM in

Hungary during 2013 is summarized below. The table contains activities that the FP is in charge for (and not programme level activities).

Action	Planned timing	Responsible entity
Monitoring Committee meeting	April 2013	NFP
Approval of Programme Proposals	March-June 2013	Donor States
Signing the Programme Agreements	April–August 2013	NFP and Donor States
Signing Programme Implementation Agreements	May-September 2013	NFP, Programme Operators and Implementing Agency
Approval of the Work Plan and Implementation system of the National Fund for Bilateral Relations	April 2013	Donor States
Annual Meeting	April 2013	NFP, Programme Operators, Donor States
Launching event	April 2013	NFP in cooperation with the Embassy
Launching open calls for the National Bilateral Fund	3st quarter of 2013	FP with the assistance of the Implementing Agency
Submission of the description of the management and control systems of programme	from November 2013 on	NFP, POs

The work plans regarding the planned calls for proposals and Cooperation Committee meetings by Programmes can be found at in the following chapter, Chapter 4 detailed.

5. REPORTING ON PROGRAMMES

5.1. Programme HU02 - Energy Efficiency

Overall progress

After the acceptance by the Planning Working Group members the programme proposal has been submitted to the FMO in July, 2012.

The FMO has reviewed the submitted programme document, and **requested additional information** (RAI, September, 2012). Through RAI and telephone conference the FMO raised basic issues related to the programme concept, and requested several details. **PO prepared answers and modified the concept** until November, 2012, considering as well as the issues raised by external experts appointed by FMO at the **Appraisal Meeting** (November 21, 2012).

FMO raised a further **issue related to the indicators**. PO analyzed the experiences of EEOP, based on these data modeled the options, and sent several options to FMO (January, 2013). Based on PO's answer related to the indicators **FMO sent comments about the expected details of the programme** (indicators, grant rate, etc., February, 2013), the FMO accepted the indicator values proposed by PO, and public schools as eligible applicants as well. In accordance with comments of FMO **PO implemented the proposed amendments, prepared the requested documents and sent them to the FMO** (March, 2013). It appears consensus has been achieved on all issues, finally.

Potential risks

The following potential risks may threaten the achievement of the objectives set out in the Programme:

Own resource: potential beneficiaries may have difficulties raising own resources (preparation cost and 15% of the project implementation cost), it may happen there will not be enough well prepared application.

In order to reduce this risk PO intends to ensure appropriate publicity (through e.g.: workshop for potential beneficiaries) and provide assistance during project preparation period.

Lack of human resource: due to the specificity of the sector projects may have lack of proper knowledge, competence and capacity which could result difficulties at the project selection period or during the project implementation.

In order to reduce this risk PO intends to provide assistance during project preparation period.

Timing: due to the specificity of the sector the most part of the renovation of the school buildings should be performed during the summer school holiday (in Hungary between June 17 and 31 August), if project starts in a few months late may also result in full-year delay.

In order to reduce this risk PO has been modified the submitted plans: first stage (preparation) will not be launched.

Major deviations from plan

According to the Timeline stipulated at the submitted Programme document in July 2012, programme approval was expected at the fourth quarter of 2012, launching of call for proposals was planned between fourth quarter of 2012 and first quarter of 2013. Because of the delay of the process the programme document will presumably not be approved at the first quarter of 2013. Due to the negotiations with FMO PO has been modified the submitted plans: first stage (preparation) will not be launched, so still there is a chance not to delay a full year.

Due to the delay of the approval procedure grants of EEOP are already closed, there will be no competition between the two funds, but it also means that many potential beneficiaries have submitted application to the other fund already.

Because of the delay of approval process PO modified the submitted plans: first stage (preparation) will not be launched.

Work Plan for 2013

Action	Planned timing
Launching of call for proposals – Improving Energy Efficient Public Schools	Programme approval date + min. 3 months
Launching of call for proposals – Bilateral fund I., Networking grant for Schools	Programme approval date + min. 8 months
Launching of call for proposals – Bilateral fund II., Networking grant for NGOs	Programme approval date + min. 8 months
Workshop for potential subcontractors	Programme approval date + min. 1,5 months
Workshop for potential beneficiaries	Programme approval date + min. 2 months

5.2. Programme HU03 - Renewable Energy

Overall progress

The Renewable Energy Programme Area's **Cooperation Committee and Planning Working Group** were set and the kick-off meeting was organised on 14 December 2011. Based on the kick-off meeting discussion the exact areas to be funded were further specified at the Planning Working Group and Cooperation Committee meetings during 2012 (5 meetings were organised). In June 2012 a web-based public consultation was carried out. Through the preparation phase consensus was achieved related to the scope and content of the Renewable Energy Programme Proposal, and the programme proposal was submitted to the FMO in July 2012.

Related to the submitted programme proposal an **appraisal visit** had been carried out on 12th December 2012 at the PO premises, with the participation of the appointed appraising company, PO, IA and NFP. The Appraisal Report was sent to the FMO by 17th

December 2012 by the Appraisal Team. The FMO sent the external appraisal report to the PO in February 2013, outside the reporting period. Now the FMO evaluates the submitted official response by the programme operator on the external appraisal report.

Potential risks

Regarding the **potential risks that may threaten** the achievement of the objectives, delay is to be scheduled in the announcing of the calls for proposals and applications as the Programme Proposal is not approved. The full achievement of the proposed outcomes can be threatened by further delay as the implementing period gets shorter until the Programme Proposal will be approved.

Bilateral relations

The **Donor Programme Partner** from Iceland - Icelandic National Energy Authority - had greatly facilitated the cooperation with one of the Donor States and the development of the Renewable Energy Programme Area so far.

As the Renewable Energy field is a fairly wide and innovative sector, therefore the Programme Operator **started to enhance the cooperation with the other major Donor State, Norway as well.** Having been invited by the Center for Geothermal Energy Research (CGER) to an annual meeting for the partners of the Center, representatives of the Programme Operator took part in the meeting on 14th November 2012 in Bergen, Norway. Parallel with it the following institutions were visited to enhance bilateral relations: Innovation Norway, Norwegian Water Resources and Energy Directorate (NVE), Institute for Energy Technology.

Work Plan for 2013

According to the revised work plan, the following actions are planned in 2013, depending on the date of programme approval:

Action	Planned timing
Preparation of call for proposal related to the 0602 outcome. This outcome will be reached by one open call for proposals, the purpose of which is to give grant assistance to a few geothermal heat plants in Hungary.	Within 4 month following the approval of the Programme Proposal PO prepares the call for proposal and sends it to the relevant bodies for approval
Preparation of call for proposal and applications related to the 0607 outcome. The proposed calls, as follows: 1) Awareness raising of renewable energy technologies 2) Increasing geothermal awareness at professional level through short courses at UNU-GTP, RU and with bilateral cooperation	1) Within 4 month following the approval of the Programme Proposal PO prepares the call for proposal and sends it to the relevant bodies for approval. 2) Within 4 month following the approval of the Programme Proposal PO prepares the call for proposal and sends it to the relevant bodies for approval. The calls will be published continuously.

3) Increasing geothermal awareness through MSc programme of RU 4) Increasing geothermal awareness through UNU-GTP	3-4) Within 4 month following the approval of the Programme Proposal PO prepares the call for proposal for the 2014 spring semester and sends it to the relevant bodies for approval. The calls will be published annually.
Renewable energy programme area opening conference related to the announcement of the call for proposals	Parallel with the announcement of the calls
Active web-based dissemination of the Renewable Energy Programme Area	Parallel with the announcement of the calls
Renewable Energy Programme Area's Cooperation Committee and Planning Working Group meetings related to the call for proposals and applications.	No later than one month after the approval of the Programme Proposal

5.3. Programme HU04 – Adaptation to climate change

Overall progress

The FMO is entrusted with operating the programme, and the **Regional Environmental Center for Central and Eastern Europe (REC) was directly contracted by the FMO** as a Fund Operator for the programme. REC in cooperation with the Programme Donor Partner, the Norwegian Directorate for Civil Protection, prepared a programme proposal and submitted it to the FMO. FMO is now in the process of finalising an agreement with REC on the implementation of the programme.

The programme includes 3 outcomes i) Developed strategies and measures for adapting to a changing climate; ii) Increased capacity to assess vulnerability to climate change; and iii) Increased awareness of and education in climate change adaptation”.

The aim of the programme is to promote a detailed understanding of climate change impacts and vulnerability in Hungary, to promote actions for increased climate resilience at local level, to raise awareness of climate change impacts, and to show examples of replicable projects reducing the impacts of climate change.

The programme has **four main components**, all of which are focused on climate change and adaptation measures:

- National Adaptation Geoinformatic System;
- Local climate change adaptation capacity building;
- Local climate change adaptation strategies;
- Pilot climate change adaptation measures at local and regional level.

No outputs are achieved to date, since the programme implementation has not yet started.

Potential risks

Potential risks that may threaten the achievement of the objectives set out in the programmes are the followings.

The **overall objective of the programme is reduced human and ecosystem vulnerability to climate change**. The Fund Operator has done a thorough risk assessment of the potential obstacles to achieving the objective, including mitigation measures addressing the identified risks.

Bilateral relations

The **programme will contribute to strengthening cooperation between Hungarian and donor state entities**. The Fund Operator will work with the Donor Programme Partner to facilitate establishing bilateral contacts, and the calls for proposals are open for bilateral partnership projects.

5.4. Programme HU05 – Civil society – NGO Fund

Overall progress

The **Programme Agreement was signed on 21 December 2012** following the appraisal of the programme and consultation meetings with FMO/Donors. The partnership and management team is established and functioning. The Programme launched its first set of calls for proposals in February, for micro and macro projects. The calls will close in the spring/early summer.

The **programme aims to achieve a more resilient and developed civil society in Hungary**. In order to be able to defend the most vulnerable groups in society and to contribute to sustainable and democratic development, the programme will focus on seven priority areas:

- Human rights and democracy;
- Gender and equal opportunities;
- Local community and organisational development;
- Children and youth;
- Environment and sustainable development;
- Empowerment of vulnerable groups (Roma integration);
- Basic and welfare services.

The Programme has identified 8 outcomes that these areas will contribute to throughout its implementation.

The programme will address **horizontal concerns** such as: hate speech, extremism, racism and xenophobia, homophobia, anti-Semitism, tolerance/multicultural understanding, Roma, sexual harassment, violence against women and trafficking.

No outputs are achieved to date, since the Programme has just launched its first calls.

Potential risks

The overall objective of the Programme is strengthened civil society and its contribution to social justice, democracy and sustainable development. The Operator has done a thorough **risk assessment** of the potential obstacles to achieving the objectives, such as applicant's focus on core activities instead of project ideas, low capacity in the gender

field, and generally a weakened sector in management terms due to the current situation. The Operator has proposed mitigating measures for these. In terms of management capacity no major risks are foreseen at Operator level. Management, reporting and financial flows are in place, a description of such systems will be provided within 6 months of the first IFR.

Bilateral relations

The **programme will contribute to strengthening cooperation with the donor states, Council of Europe and other beneficiary states**. The programme expects to achieve 20 project partnership agreements. Projects with donor state partners may apply for a 10% increase in the grant amount to cover additional costs related to joint activities. The fund operator will work with the Norwegian Helsinki Committee (NHC) to facilitate establishing bilateral contacts. The Programme plans to support amongst others internships in donor state NGOs

5.5. Programme HU06 - Children and Youth at risk

Overall progress

The planning process was conducted with the involvement of the relevant stakeholders according to the MoU. A **Planning Working Group** was set up, which was responsible for the elaboration of the first version of the main strategy of the programme. The delegated **Cooperation Committee** members were responsible for appraising and deciding on the main strategy of the programme. The members of the Planning Working Group and the Cooperation Committee continuously consulted on the challenges and needs with the relevant NGOs.

3 CC meetings and 7 Planning Working Group Meetings were held in 2012. Besides these, many **non-formal meetings and negotiations** were organised. The many participants and stakeholders, the negotiation of many interests caused some delay in the process. Moreover, during the planning, there was a **public consultation** period. It was an opportunity for NGOs and other interested parties to give proposals and feedback on the content of the programme proposal. Several meetings were organised between the PO and the FMO in order to clarify and negotiate the programme elements and the planning process. The first deadline of the submission of the programme document was in July 2012, but the PO had to ask for an **extension for submission** of the proposal as the bilateral part of the programme and the 2 social elements were not approved by the Donor Programme Partner (DPP), the Council of Europe (CoE). Finally the programme document was submitted to the FMO on 26 September 2012. After the **request for additional information** (RAI) in November, the PO was invited to discuss the programme personally with the FMO and the CoE. The meeting clarified many open questions, and the PO started to elaborate a pre-defined project for the CYR area. By the end of 2012, the selection of the project promoter had already started and negotiations took place with the donor project partner, the CoE, on the content and structure of the project.

Potential risks

The following potential risks may threaten the achievement of the objectives set out in the programme:

- The measurement of the involvement of the Roma population has to be clearly determined and agreed.
- The planning and preparation of the programme was a learning process for both the donor and beneficiary countries: changes have been introduced, new guidelines given, clarifications made; clear and elaborated procedures will be needed from both sides.
- Because of the high number of involved stakeholders and insights, the process may slow down also in the future.

Major deviations from plan

- The programme approval was planned till December 2012. However, during the course of negotiations, there have been major modifications in the structure and content of the programme, so the date of approval is expected to be in April 2013.
- The process of elaboration and approval will affect the date of the open calls.
- There is an ongoing negotiation on the possible ways of ensuring proper Roma targeting. The PO asked for further clarification from the FMO on the subject as well as for the professional opinion of PO experts.
- Generally, the PO has strengthened communication with the stakeholders in order to better understand their expectations and decrease the risk of further delay.
- The elaboration of the two pre-defined projects suggested by the FMO and DPP.
- The necessity of the justification of the Outcome 3 – the improvement of care system of children and youth with special needs – for the agreement of the donors and the DPP.

Work plan for 2013

Action	Planned timing
2 day meeting with the experts of the Council of Europe to discuss and set up the framework of the pre-defined project	24-25.01.2013
Meeting with the CREDA Consulting on the issue of Roma Inclusion in the programme	14.02.2013
Meeting with the expert of the Council of Europe to discuss the framework of the pre-defined project with the project promoter and the line ministries	22.02.2013
Work meeting with Office of the Minister of State for Social Inclusion to develop the project management structure of the PDP	25.02.2013
Work meeting with the state secretariats of the Ministry of Human Resources to develop the content structure of the PDP	26.02.2013

Action	Planned timing
Work meeting with the state secretariats of the Ministry of Human Resources to develop the description of the PDP	06.03.2013
Meeting of the PO, PDP promoter, CoE and FMO in Strasbourg	08.03.2012
Planned approval of the programme	April 2013
Co-operation Committee Meeting	April 2013
PDP kick off	May 2013
Co-operation Committee Meeting	June 2013
Co-operation Committee Meeting	September 2013
Co-operation Committee Meeting	December 2013
Announcement of open calls	December 2013
Publicity events	December 2013

5.6. Programme HU07 – Cultural heritage

Overall progress

Action	Timing
Submission of the programme proposal	12 th July
RAI document received from FMO	7 th September
PO response on RAI to FMO	29 th October
Annex I&II received from FMO	29 th November
PO submits Annexes to FMO	4 th December
Kick-off conference for the cultural sector on in Oslo	11 th October
Co-Operation Committee meeting	23 rd January, 11 th April, 21 st May, 23 rd November
Planning Working Group meeting	24 th January, 4 th April, 25 th May, 14 th September, 23 rd November

Potential risks

Risk	Mitigation plan
Fluctuation of staff	Addition of an extra status
Changes in the public and private institutional structure relevant to the programme	Regular contact with ministries involved in the planning phase to stay ahead of changes
Changes in the legal framework relevant to the programme	Daily scanning of Hungarian Bulletin (Magyar Közlöny) to be current with legislation

Risk	Mitigation plan
Suppliers with poor quality	Requirements of public procurement should be call for highest quality suppliers
Project deliberation in initial stages (weakly prepared)	Requirements in open calls to be clearly worded, project objectives clearly expressed
Time constraint with regards to the requirement of certain permits (e.g. building permit)	In the calls we require permits for restoration works already at project submission

Major deviation from plan: approval of the programme is prolonged compared to initial scheduled (end of 2012). As a result, the launch of open calls that were planned for Q1, have now been rescheduled for Q2 2013.

Work plan 2013

Action	Planned timing
Programme approval (estimate)	early Q2 2013
Launch of open calls (A1,A2,A3, SGS call no. 1)	Q2 2013
Deadline for submission of proposals	Q3 2013
Appraisal and selection of projects	Q4 2013
Concluding project contracts, starting project implementation	Q1 2014
Programme launch event and partnership seminar	25 April 2013
Information Day for Hungarian applicants	early April 2013
Media appearance	Q2 2013
Public consultation of open calls	Q2 2013
Co-Operation Committee meeting	7th February, 26th April, Q3, Q4 2013
Planning Working Group meeting	5th March, end of March, April 2013
Selection Committee meeting	deadline of submission of proposals+3 months

5.7. Programme area HU08 - Scholarship

Overall progress

During the preparation phase the PO cooperated with the Donor Programme Partners in discussing the different aspects of the scholarship programme. The main frameworks of the cooperation have been agreed upon during this preparation phase.

The programme appraisal process is nearly finished, the **final approval** of the programme and the green light are waited to go ahead with the implementation of the

programme, such as information days, awareness raising campaign and launching of the first calls.

Deviations from the original plan are mostly connected to the timeline of the programme, due to the prolonged evaluation and negotiation phase the original schedule had to be modified, and the milestone activities of the programme had to be postponed to 2013.

Potential risks

- if the approval of the programme will not be given in March or early April 2013, it could cause further delays in the programme
- delay in approval of the planned call for applications
- delay or any malfunction in developing the envisaged informatics system for Scholarship applications
- applicants will be reluctant to apply for grants due to financial difficulties

As a risk mitigation action, in case of further delay the PO has to modify the schedule of the programme. Regarding the IT system continuous conciliations are necessary to build well-functioning and adequate information system. The Programme Operator will provide information days and the Implementing Agency will operate call centre for the applicants. The calls will provide 90-100% grant rate for the applicants with high advance payment, thus applicants with weaker financial background could also implement scholarship projects.

Work plan 2013

Action	Planned timing
Final approval of the programme	March 2013
Cooperation committee meeting	1st meeting May 2013, 2nd meeting October 2013
Launching conference (serving as a partner finding activity and information day in connection with the first call for Measure 1 as well)	October 2013
General updated information on the website of the Tempus Public Foundation (general information, partner searching database, events, news, scholarship searching function, application materials, lists of granted projects, best practice examples, publications)	continuous activity
Information materials (leaflets, TPF Newsletter, press releases: TPF Magazine, relevant portals and networks)	Start date: after the approval of the programme
Call for proposals for Measure 1	Upon approval of the programme

Action	Planned timing
First call for proposal for Measure 2	Open between July and September 2013
Consultation with potential applicants	between July and September 2013 (depending on the launching of the call and the submission deadline)
Information days and project management seminars for the applicants of the next round (launching between January and March 2014)	November 2013
Next call for proposal (Measure 2,3,4)	Open between January and March 2014

6. Summary listing of issues and recommendations

Overall assessment of the implementation – challenges and risks

The Focal Point welcomed the changes in connection with the new period of the Grants, particularly regarding the **programme level approach**. In order to ensure a successful implementation and to fulfil the duties arising from the increased responsibility of the Beneficiary State, the FP has ensured the establishment of a new institutional system. It was a challenge to create an effective and efficient implementation set-up, considering the size of the Grants, its complexity and novelty, including many institutions at many levels. All the Hungarian institutions had to get familiar with this new management and control system of the FM, and to abide by both national legislation, the Regulation and other EU and international obligations.

Although the uniqueness of this system still may cause challenges at the early stages of the implementation, procedures might be less smooth and swift, and needs for further adjustments might arise, the system established is considered to be appropriate and able to handle the increased responsibility put on the Beneficiary States. Besides the implementation set-up created at national level, the programme level systems are also well elaborated. The required professionalism of the Programme Operators can contribute to the achievement of the overall objectives and outcomes of the Grants, whilst the involvement of the Implementing Agency provides an effective technical assistance for the day-to-day operation of the Programmes.

Recently, the initiatives of the Donors indicate that despite the foreseen strategic, programme level approach and increased national responsibility of the Beneficiary States, the Donor States still would like to closely follow progress also beyond the programme level, i.e. at the level of specific calls and selected projects. This situation caused several difficulties in the programme preparation work, and the very detailed requests for additional information and clarification slowed down the consultation process in the finalization of programme agreements. Some examples for this are listed below:

- Requirement for very detailed description of the conditions, eligibility rules, selection criteria, the actual content of the foreseen projects and the process of the call for proposals.
- The modification of the Regulations providing the new possibility to the donors to comment on the call texts prior to the publication of the call for proposals.
- Exact determination, also limitation of the grant rate in some cases, although the Regulations do not exclude the higher intensity.

The set requirements beyond the programme level sometimes seem to confront the foreseen strategic approach and may be not in line with the needs and challenges revealed by the PO in its programme proposal. This on the one hand might negatively affect the responsibility that a PO or the FP can bear for the implementation of the Programme. On the other hand, the FP is also concerned, that the FMO and Donor State entity may also be in lack of capacity to follow such closely the implementation in each of the Beneficiary countries beyond the programme level.

A signal of such capacity constraints on the Donor side was the **delay of the appraisal**

process of the programmes. According to the Regulations the donors have 4 months for the evaluation of the programme programme proposals. Considering that the majority of Hungarian programmes were submitted by July 2012, we expected to have approved programmes by the end of 2012, early 2013. The necessary negotiations and revisions extended the process, therefore the appraisal stage was not concluded to any of the programmes at the end of 2012. It also has to be mentioned that the available amount of programme preparation costs is in many cases not enough for the extended preparatory period which hinders POs and the IA to ensure adequate resources for the proper preparation for the implementation of the programmes.

The FP deems it crucial to **speed up the approval of programmes**, and launch the calls as soon as possible. Due to the additional consultation requirements with the Donors regarding the calls, and also national level consultation requirements, the preparation of calls will be also a time-consuming procedure. **Institutional changes** in Hungary regarding the set-up for EU funds are on the agenda that, on the longer term may also influence the set-up created for the implementation of the FM. Although no actual changes are foreseen to happen before 2014 related to the institutions involved in the FM, it is still important to ensure that the implementation of the programmes achieve a significant progress in the current stable situation.

The Focal Point is also concerned about the decreased implementation period, the and would like to draw the Donors' attention to consider the opportunity of the **extension of the implementation period** of programmes, in order to ensure that objectives are achieved and expected outcomes are delivered.

The Focal Point is committed to contribute to the overall objective of **reducing social and economical disparities** in Hungary. Nevertheless, conditions and requirements determined during the appraisal phase of the programmes and not known prior to or during the programme preparation process are potential **risks factors**. For example:

- In the Bilateral Research Cooperation programme the Donors set a new requirement regarding 20 % allocation to social sciences, that was a criteria not agreed in the MoU and not communicated during the programme preparation phase.
- In the Cultural Heritage programme the indicators had to be changed several times due to technical difficulties caused by DoRIS. Such problems were not known until the finalization of the draft Programme Agreement, and the end result unfortunately limits the opportunity for the measurement of the programme's results.
- In the Energy Efficiency programme extremely high requirements were set during the appraisal phase regarding the indicator value on CO2 reduction, although the rate of reduction proposed by the PO was professionally justified.
- In the Renewable Energy programme the necessary proportion between geothermal energy and other renewable energy sources was not clearly defined by the Donors, and the ongoing discussions slowed then significantly the appraisal process.
- Some programmes shall put special emphasis on support of the Roma population. The requirement to measure such results in these programmes is unclear. The

Hungarian legislation does not allow recording the Roma population such as requested by the donors. This problem was indicated in several fora by the Focal Point as well as by the PO. The solution that should be applied is to accept targeting and accessing the most vulnerable, disadvantaged groups in Hungary, also including Roma.

The Focal Point is committed to contribute to the overall objective of **strengthening bilateral relations** between the Donor States and Hungary. Nevertheless the followings make difficulties in the effective work and jeopardize the achievement of the goals:

- The Focal Point submitted the Work Plan for the national fund for bilateral relations in July 2012 according to the Regulations and revised it after the recommendation of the donors in November, 2012. Unfortunately the Focal Point has received the approval for the Work Plan only in March 2013 after significant delays. Therefore the funds were not actually available during the preparatory period (except for some activities permitted individually by the donors), that would be however crucial to provide strong basis for bilateral relations during the implementation period.
- Programme areas such as the Bilateral Research Cooperation and the Capacity Building are exclusively dedicated to donor partnership projects. According to the experience during the preparation period, the low level of existing relations, the lack of capacity on the donor side may present difficulties in deepening the bilateral cooperation. However the Focal Point declares the commitment to strengthen the bilateral relations, the proactive approach from both the Hungarian and donor state entities will have to be taken to find the common interest and to encourage partnerships.

Overall assessment of the implementation – Good practices and positive points

The Focal Point is satisfied with the helpfulness of the Donor States, especially of the staff of Financial Mechanism Office. During the preparatory period the flexibility of the FMO promoted the progress and contributed to the adequate content of the necessary documents. The Focal Point and the POs could receive appropriate answers for their questions raised in the preparation period.

The FP highly appreciated the Donors intervention in some cases, when issues seemed to be stuck at national level, or when the progress in some programmes was not considered satisfactory. The FP also welcomes in the future any form of support from the Donor States in order to ensure that the implementation stays on the right track, and contributes to the expected results.

The Focal Point is pleased to learn the professionalism and helpfulness of the Donor Programme Partners dedicated to the programme areas. The experience and promotion of the DPPs contributed to the quality of the programme documents and hopefully will raise the effectiveness of the implementation.

The Focal Point is aware that in the implementation period a number of questions will have to be treated by the Donors as well as the Beneficiary States. It is important to emphasize that the key of effectiveness is the proactivity and rapid reaction capability,

which are expected from each party responsible for the Grants.

Additional issues for the annual meeting

Besides providing a summary of this report, the FP proposes to highlight the following issues at the Annual Meetings:

- An overview of the status of programmes and foreseen schedule of approval / implementation,
- The Donors assessment on the proposal of the FP on the allocation of the reserve,
- The implementation of the National Fund for Bilateral Relations.

7. Attachments

As the FM is at an early stage of implementation, there are no separate attachments to the current report. All data and information relevant and available regarding the reporting period are included in the report.