EUROPEAN PARLIAMENT

DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTEMENT D: BUDGETARY AFFAIRS

HUNGARY

Delegation of the Committee on Budgetary Control

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DRAFT

TABLE OF CONTENTS

1. BACKGROUND INFORMATION ON HUNGARY

1.1 Basic data on Hungary[1]

Topography map[2]

Total area:	93,030 sq km
Population:	9,976,062 (July 2011 est.)
Ethnic groups:	Magyar 92.3%, Roma 1.9%, German 2.6%, Serb 2%, Slovak 0.8%
Capital:	Budapest 1,712,000
Main cities:	Debrecen 206,000 Miskolc 170,000 Szeged 169,000 Pécs 157,000 Győr 130,000 Nyíregyháza 118,000 Kecskemét 111,000 Székesfehérvár 102,000
Main languages:	Magyar 98.2%, other 1.8%
Religions:	Roman Catholic 51.9%, Calvinist 15.9%, Lutheran 3%, Greek Catholic 2.6%, other Christian 1%, other 11.1%
Currency:	Forint (Ft)
Natural resources:	bauxite, coal, natural gas, fertile soils, arable land

1 http://news.bbc.co.uk/2/hi/europe/country_profiles/1049641.stm; Country Report - Hungary, Economist Intelligence Unit, May 2011;

2 http://upload.wikimedia.org/wikipedia/commons/c/c6/Hungary_topographic_map.jpg

1.2 Political structure - overview[3]

Official name	Hungarian Republic
Form of state:	Multiparty republic
Legal system:	Based on the constitution of 1949, substantially altered in October 1989. A new constitution will enter into effect on January 1st, 2012.
National legislature:	Unicameral parliament of 386 members, of whom 176 are elected from single-member constituencies.
Electoral system:	Universal direct suffrage over the age of 18
National elections:	April 2010 (parliamentary), and June 2010 (presidential); the next parliamentary and municipal elections are scheduled for 2014; the next presidential election is scheduled for 2015
Head of state:	President, currently **Pál Schmitt** (former MEP), who was elected to a five-year term by parliament on June 29th 2010
National government:	A centre-right majority government, led by Viktor Orbán and comprising the Fidesz - Hungarian Civic Union (Fidesz). The government has 263 seats in parliament
Main political parties:	Fidesz-Hungarian Civic Union (Fidesz); Hungarian Socialist Party (MSZP); Christian Democratic People's Party (KDNP); Jobbik; Politics Can Be Different (LMP)
Prime Minister:	**Viktor Orbán** (Fidesz)
Speaker of the Assembly:	Dr. **László Kövér** (Fidesz)
Key ministers:	**Deputy prime minister & minister for public administration & justice:** Tibor Navracsics (Fidesz) **Deputy prime minister:** Zsolt Semjén (KDNP) **State secretary & head of the Prime Minister's Office:** Mihály Varga (Fidesz) **Agriculture:** Sándor Fazekas (Fidesz) **Defence:** Csaba Hende (Fidesz) **Foreign Affairs:** János Martonyi (Fidesz) **Interior:** Sándor Pintér (Fidesz) **National Development :** Tamás Fellegi (Fidesz) **National Economy:** György Matolcsy (Fidesz) **National Resources :** Miklós Réthelyi (Fidesz)
Central bank governor:	**András Simor**

[3] http://www.kormany.hu/en; http://www.parlament.hu/angol/angol.htm; Country Report - Hungary, Economist Intelligence Unit, May 2011;

1.3 Economy overview[4]

Hungary has a small and open economy, and therefore the country is vulnerable to developments in the external environment. As a result of the global economic crisis, Hungary's economy entered recession in 2009.

	2006	2007	2008	2009	2010	2011[5]
Real GDP growth (ann.% ch)	3.6	0.8	0.8	-0.7	1.2	2.8
Origin of GDP : Agriculture Industry Services	-6.6 5.2 3.9	-21.7 4.0 0.2	54.5 -1.5 -0.8	-15.2 -12.2 -4.3	-15.4 6.6 0.1	5.0 5.0 1.5
Unemployment (%)	7.5	7.3	7.8	10.0	11.2	11.0
Inflation (ann. % ch)	3.9	8.0	6.0	4.2	4.9	4.2
Current account balance (USD m)	-8.63	-9.58	-11.11	-700	2.69	1.8
Government balance (% of GDP)	-9.4	-5.1	-3.7	-4.5	-4.2	1.9
Export of goods and services (% real change)	18.7	16.2	5.5	-9.3	14.1	9.2
Import of goods and services (% real change)	14.9	13.3	5.3	-14.2	12.0	9.0

Agriculture products:	meat, corn, wheat, sunflower seeds, potatoes, sugar beets, and dairy products
Industry:	machinery, vehicles, chemicals, precision and measuring equipment, computer products, medical instruments, pharmaceuticals, and textiles
Exports products (2010):	machinery and transport equipment, electric and electronic equipment, foodstuffs, tabacco, chemicals
Major Export partners:	Germany, Austria, Italy, France, U.K., Romania, Poland
Imports products (2010):	machinery, vehicles, manufactured goods, fuels and electric energy, food, beverages, and tobacco
Major Import partners:	Germany, Austria, Italy, France, Netherlands, Poland, Russia, and China

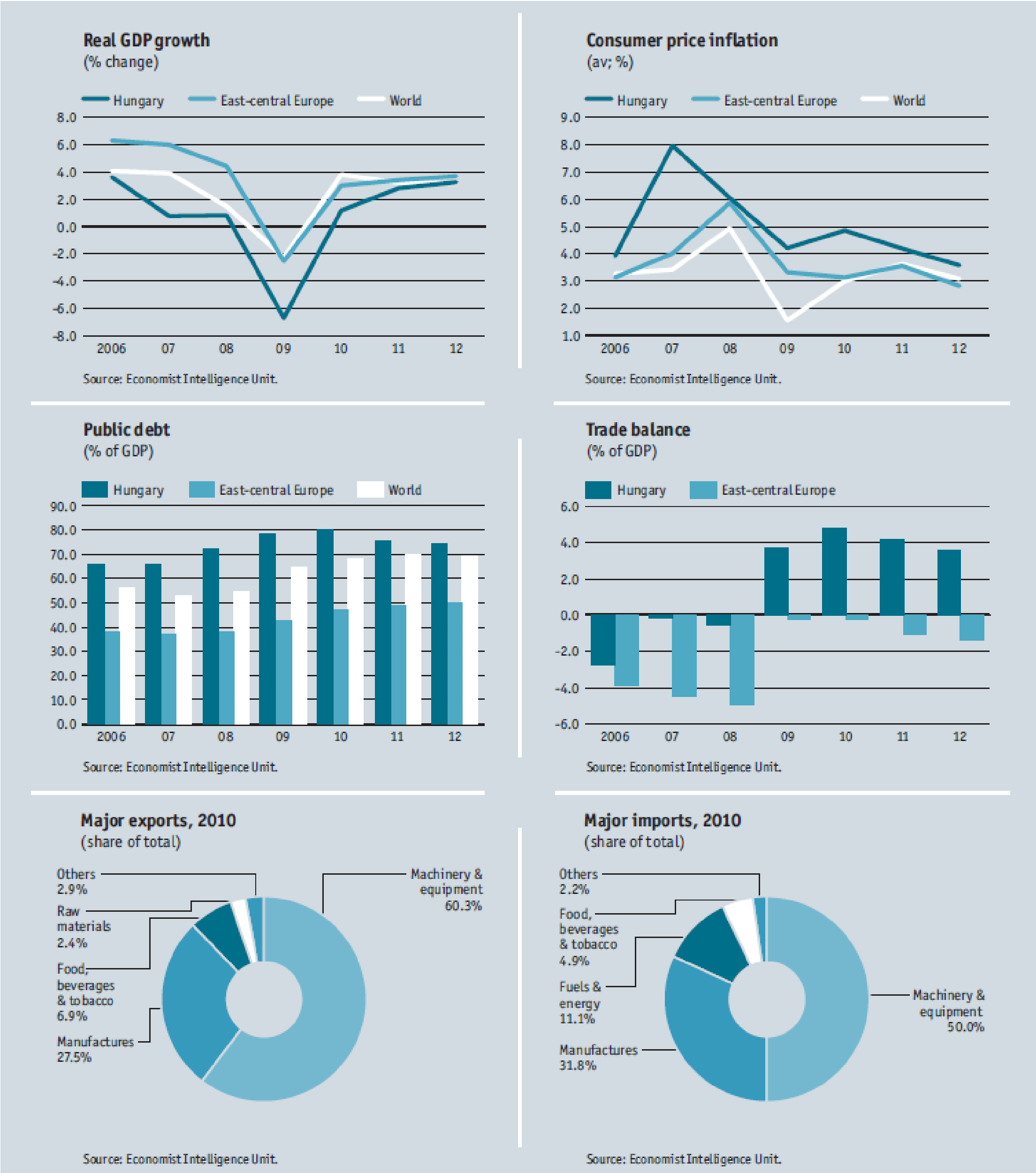
The government's economic policy is based on two pillars: increasing competitiveness and the levels of employment. Objectives include creating one million new jobs in ten years, mainly in the following sectors: construction industry, agriculture, and tourism. Generating economic growth, stable fiscal policy, simplified tax system, improved education, research and innovation, support of SMEs, reduced layers of bureaucracy, and consumer protection are among the aims.

4 http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb020; Country Report - Hungary, Economist Intelligence Unit, May 2011;

5 Economist Intelligence Unit forecast, Country Report - Hungary, Economist Intelligence Unit, May 2011;

Nearly 90% of GDP is now generated by the private sector compared with just 10% in 1990. Hungary is concentrating on structural investment, and has a higher skills-base than most of its neighbours; over 75% of trade is now with the European Union. In terms of business, Hungary has many advantages but lack of transparency and over-regulation are some of the problems doing business in the country.

Main economic trends:[6]



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[6] Country Report - Hungary, Economist Intelligence Unit, May 2011;

1.4 The EU financial assistance to Hungary

The Commission decision on the 13 operational programmes (OP) funded by the European Regional Development Fund (ERDF) and the 2 programmes funded by the European Social Fund (ESF) opens the way for Hungarian regions to start implementing the new policy in the framework of the strategic plan agreed between Hungary and the Commission on the 7th of May 2007. Overall, Hungary benefits from € 25 billion under the new programming period. The country is the 6th largest beneficiary of EU Cohesion policy.

The fifteen operational programmes include seven regional and eight sectoral programmes. The Transport OP is the biggest programme. Is includes investments of nearly € 6.2 billion from the European Regional Development Fund and from the Cohesion Fund. The programme on "Environment and Energy" receives investments of nearly € 4.2 billion, from the ERDF and the Cohesion Fund.

The EU support from the European Social Fund (ESF) is channelled through two operational programmes. The Social Renewal OP, providing nearly € 3.5 billion of funds, aims to increase labour market participation by improving employability and adaptability, providing quality education and ensuring all people have access to education. It also focus on developing the content and organisation of higher education, strengthening social inclusion and participation, health preservation and human resource development in health systems. The State Reform OP plans to use the € 146,5 million of funding to increase the public administration's performance by reviewing processes and organisational development and improve the quality of its human resources.

The ERDF also contributes towards the financing of the "European Territorial Cooperation Objective".

Hungary is taking part in following operational programmes:

- Cross border cooperation with Slovakia, Austria, Romania and Slovenia
- Transnational cooperation between Central-Eastern Europe and South Eastern Europe
- Interregional cooperation in the European Union among all the Member States.

I. Economic Development Operational Programme 2007- 2013 - Programme under the Convergence Objective, co-funded by the European Regional Development Fund (ERDF)

1. Overview

On 1 August 2007, the European Commission approved the Economic Development Operational Programme for Hungary covering the period 2007-2013. The Programme involves Community support for Hungary under the Convergence Objective. The total budget for the Programme is €2.9 billion, with Community assistance through the ERDF amounting to some €2.5 billion (approximately 11.6% of the total EU investment earmarked for Hungary under Cohesion Policy 2007-2013).

2. Aim and purpose of the programme

The Programme finances to a large extent the microeconomic measures of the National Reform Programme and complements its regulatory instruments.

The overall objective of the Programme is to promote permanent growth of the Hungarian economy by strengthening its production sector's competitiveness. More specifically, the objectives are as follows:

- Increased research and development (R&D)/innovation capacity and activities, and related cooperation activities;
- Comprehensive development of corporate capacities;
- Development of the business environment;
- Facilitating small and medium sized enterprises (SME) access to finance.

3. Expected impact of investments

The Programme is expected to have the following impacts:

- Increased growth of Gross Value Added created by the corporate sector, especially among SMEs;
- More new jobs created;
- A higher *e*-business index;
- Increased corporate R&D expenditures.

4. Priorities

The Programme is structured according to the following priorities:

Priority 1: R&D and innovation to encourage competitiveness [approximately 34% of total funding]

This priority focuses on:

- boosting corporate R&D and innovation activities;
- better use of research capacities and results;
- support for cooperation between those involved in R&D&I processes.

The aim is to provide assistance to corporate research projects prior to launching new products and services on the market. Funding is available for the development of human resources linked to R&D and innovation activities. Support is targeted at the establishment of modern R&D infrastructure, knowledge and technology transfer, networking among researchers, training, and sharing expertise. Priority is given to the selected key scientific fields as specified in the Midterm Scientific, Technology and Innovation Strategy. Support for research infrastructure within development poles is envisaged to ensure concentration of investments and to contribute to Hungary's territorial cohesion.

Priority 2: Complex enterprise development with a focus on SMEs [approximately 31% of total funding]

The objective is to increase the income and market position of enterprises with growth potential, primarily micro-enterprises, but also small and medium-sized enterprises.

In order to achieve this, financing is planned for complex enterprise development projects which could include: technological upgrading, development of corporate organisation and human resources, promotion of ICT, and development of business and marketing skills in enterprises. This priority focuses on modernising the SME sector by closing the gap in terms of productivity between SMEs and mostly foreign-owned large enterprises. Support prioritises the introduction of new technologies and solutions that have a positive impact on the environment, energy and material savings, as well as investments that generate job opportunities in regions lagging behind.

Priority 3: Development of a modern business environment [approximately 7% of total funding]
This priority addresses the following: establishing a modern ICT network infrastructure, business site development and providing consulting services to enterprises. Access to broadband networks receives support in the underdeveloped and disadvantaged regions, resulting in extended coverage and improved information security.
Competition between different broadband technologies is promoted. The priority also aims to develop logistics centres, with a focus on inter-modality, including further improvement of related consulting and other services. A country-wide advisory network will be further developed, providing high level legal, financial and trade-related advice to enterprises.

Priority 4: Financial engineering [approximately 24% of total funding]
In accordance with the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative, this priority looks to tackle the failures of financial markets in Hungary and to improve the access of small and medium-sized enterprises to a variety of financial instruments and related advisory assistance. The financial instruments proposed are micro-credit guarantee instruments and equity investments.

Priority 5: Technical assistance [approximately 4% of total funding]
This priority finances technical and administrative tasks in relation to implementation of the Programme. Support is provided for the operations of the Programme's Monitoring Committee and for reporting and evaluation requirements.

5. Breakdown of financing by priority (in euro)

Priority	EU Contribution	National Public Contribution	Total Public Contribution
1. R&D and innovation to encourage competitiveness	842 072 499	148 601 030	990 673 529
2. Complex enterprise development with a focus on SMEs	773 938 003	136 577 295	910 515 298
3. Development of a modern business environment	191 675 068	33 825 013	225 500 081
4. Financial engineering	598 235 857	105 571 033	703 806 890
5. Technical assistance	89 847 688	15 855 475	105 703 163
Total	**2 495 769 115**	440 429 846	2 936 198 961

II. Transport 2007-13 Operational Programme - Programme under the Convergence Objective, co-funded by the European Regional Development Fund (ERDF) and the Cohesion Fund.

1. Overview

On 1 August 2007, the European Commission approved Hungary's Operational Programme for Transport for the period 2007-13. The Operational Programme falls within the framework laid out for the Convergence Objective and has a total budget of around €7.3 billion. Community assistance through the European Regional Development Fund (ERDF) and the Cohesion Fund amounts to some €6.2 billion, which represents approximately 24.5% of the total EU investment earmarked for Hungary under the Cohesion Policy for 2007-13.

2. Purpose and aim of the programme

The Operational Programme supports the development of transport infrastructure, which is seen as essential to increase economic competitiveness and stimulate job creation – the two key objectives of the EU's Lisbon Strategy for growth and jobs.

Good quality transport links make it easier for people to commute to and from work. The better links the greater distances people can travel efficiently, which in itself can enable more people to enter the jobs market. What's more, improving transport links can also strengthen social and territorial cohesion.

The programme has the following specific objectives:

- Improving Hungary's integration into the European economy and developing transport infrastructure that can support the country's emerging markets;
- Improving accessibility to Hungary's regions, both within and between individual regions;
- Improving the intermodality of Hungary's transport systems in a way that supports economic competitiveness;
- Contributing to the sustainable and economical development of public transport systems.

3. Expected impact of the investment

The Programme's impact will be seen in various infrastructure developments, which include:

- constructing about 330 km of new expressways;
- modernising about 500 km of railway track, including the upgrade of IT, safety and traffic control equipment;
- upgrading about 1100 km of roads so that they can take an 11.5 tonnes axle load capacity.

The Programme provides Hungary with a host of new urban transport systems including a sub-urban railway for Budapest. In addition, urban transport is improving in Hungary's major regional centres through investment in infrastructure such as trams, trolley buses, intermodal hubs, etc.

4. Priorities

The Operational Programme is structured around the following priorities:

Priority 1: Improving international accessibility to the country's road network and regional centres [approximately 19.0% of total funding]

Increasing international access to Hungary is vital for the country's economic prospects. Work to address this issue includes developing Hungarian motorways and expressways that form part of the EU's Trans-European Transport Network (TEN-T). The new expressways, which are building using programme funding, help to improve accessibility, reduce environmental load and increase transport safety.

Priority 2: Improving international accessibility to the country's rail and waterway networks [approximately 27.7% of total funding]
The objective is to better integrate Hungary into the European economy and to maximise the potential of emerging markets by developing the country's rail and water transport infrastructure.
Activities include:

- developing Hungarian railways lines that are part of the TEN-T rail network;
- developing relevant information technology and telematics and investing in safety measures; and
- developing the Danube as an EU inland waterway corridor.

Priority 3: Improving regional accessibility [approximately 24.5% of total funding]
This priority focuses on improving accessibility to Hungary's regional centres. In practice, this means developing main roads to improve links between regions and the TEN-T network. Programme funding is also used to strengthen the load-bearing capacity of main roads to comply with EU standards.

Priority 4: Linking modes of transport and improving the intermodality and transport infrastructure of economic centres [approximately 2.4% of total funding]
Improving the intermodality of national and regional transport systems is a key priority. The programme helps to develop infrastructure for intelligent traffic management while improving accessibility in economical and environmentally friendly ways. Plans are drawn up to develop better infrastructure links between the country's main transport networks and important commercial hubs like ports and industrial estates.

Priority 5: Improving urban and sub-urban public transport [approximately 25.0% of total funding]
This priority access intends to make it easier for people to get in and out of Hungary's cities. The focus is on tackling overcrowding on urban transport networks, thereby improving conditions and services for users. These changes should be achieved by establishing an efficient and economic urban transport system.

Priority 6: Technical assistance [approximately 1.3% of total funding]
There is also provision for technical assistance which can be used to implement the programme. Financial support is available to cover administration, monitoring and control.

5. Breakdown of finances by priority (in euros)

Priority	**EU Contribution**	**National Public Contribution**	**Total Public Contribution**
1. Improving international accessibility to the country's road network and regional centres (Cohesion Fund)	1 182 619 139	208 697 495	1 391 316 634
2. Improving international accessibility to the country's rail and waterway networks (Cohesion Fund)	1 721 106 773	303 724 725	2 024 831 498
3. Improving regional accessibility (ERDF)	1 526 986 617	269 468 227	1 796 454 844
4. Linking modes of transport and improving the	152 074 457	26 836 669	178 911 126

intermodality and the transport infrastructure of economic centres (ERDF)			
5. Improving urban and sub-urban public transport (Cohesion Fund)	1 558 804 069	275 083 071	1 833 887 140
6.Technical assistance (Cohesion Fund)	81 838 094	14 442 017	96 280 111
TOTAL	**6 223 429 149**	1 098 252 204	7 321 681 353

III. Social Infrastructure Operational Programme under the Convergence Objective, co-funded by the European Regional Development Fund (ERDF)

1. Overview

On 30 July 2007, the European Commission approved a Social Infrastructure Operational Programme for Hungary covering the period 2007-13. The Programme involves Community support for six regions of Hungary under the Convergence Objective, namely the Western Transdanubia, Central Transdanubia, South Transdanubia, North Hungary, North Great Plain and South Great Plain regions. The total budget of the Programme is approximately €2.3 billion and includes Community investment through the European Regional Development Fund (ERDF) of some €1.95 billion (approximately 7.7% of the total EU money invested in Hungary under the Cohesion Policy for 2007-13).

2. Aim and purpose of the programme

Human public services benefit from support in an effort to provide the infrastructure required for increasing employment and improving service quality. The Programme also provides support for introducing structural reforms in the education, health, social and employment sectors, and contributes significantly to the revised Lisbon Strategy for growth and jobs.

The overall goal of the Programme is to increase labour market participation. To achieve this, two specific objectives have been established: (i) reducing territorial disparities in terms of infrastructure for human services, at the same time improving access to them; and (ii) improving the efficiency of human public services and ensuring that the reforms are fully introduced.

3. Expected impact of investments

The following are some of the expected impacts stemming from the Programme's investments:

- activity rate of the working age population to increase from 62% (2006) to 65.7% (2013);
- employment rate to increase from 57.3% (2006) to 61.1% (2013);
- 35 000 classrooms to be equipped with modern ICT devices (definition: interactive table and corresponding workstation);
- percentage of the population reachable by ambulance within 15 minutes to increase from 78.9% (2007) to 90% (2013);
- social and child protection services able to support 9 000 people.

4. Priorities

The Programme is structured according to the following priorities:

Priority 1: Development of the Education Infrastructure [approximately 27.8% of total funding]

This priority aims to improve the infrastructure for skill-based education and lifelong learning. The activities provide support for developing infrastructure related to formal and non-formal education, including ICT development in schools, development of higher education institutions, non-formal learning spaces and multi-functional community centres.

Priority 2: Development of Infrastructure for the Health Care System [approximately 50.1% of total funding]

The objective under this priority is to extend healthy lifetimes by establishing a more efficient, better quality and regionally more balanced health care network. The main activities include support for IT developments in the health sector and the development of regional out-patient care centres, in-patient care centres and infrastructure for specialised treatments.

Priority 3: Development of Infrastructure Supporting Labour Market Participation and Social Inclusion [approximately 18.5% of total funding]

This priority aims to improve access and quality in respect of services supporting labour market participation and social inclusion. Activities include the development of regional vocational training centres, an integrated employment and social service, institutions for social inclusion and elderly care.

Priority 4: Technical Assistance [approximately 3.6% of total funding]

Technical assistance will be provided for implementing the Programme. Financial support will also be available and will cover administration, monitoring and control.

5. Breakdown of financing by priority (in euros)

Priority	**EU Contribution**	**National Public Contribution**	**Total Public Contribution**
1. Development of the Education Infrastructure	542 586 384	95 750 539	638 336 923
2. Development of Infrastructure for the Health Care System	976 204 587	172 271 398	1 148 475 985
3. Development of Infrastructure Supporting Labour Market Participation and Social Inclusion	359 970 745	63 524 250	423 494 995
4. Technical Assistance	70 161 225	12 381 393	82 542 618
TOTAL	**1 948 922 941**	343 927 580	2 292 850 521

IV. Environment and Energy Operational Programme - Programme under the Convergence Objective, co-funded by the European Regional Development Fund (ERDF)

1. Overview

On 1 August 2007, the European Commission approved a Regional Operational Programme for Hungary for the 2007-13. The Operational Programme falls within the Convergence Objective framework (only the "convergence" regions are eligible) and has a total budget of around €4.9 billion. Community assistance through the European Regional Development Fund (ERDF) amounts to some €4.2 billion, which represents approximately 16.5% of the total EU investment for Hungary under the Cohesion Policy for 2007-13.

2. Aim and purpose of the programme

The aim of the Environment and Energy Operational Programme includes the following goals:

- Quality of life improvement through pollution reduction: Preservation, improvement and restoration of healthy environmental conditions by reducing or eliminating dangerous pollutants, toward enhancing the quality of life of the population;

- Protection and preservation of natural assets: The protection of ecosystems; sustainable use of natural resources and land; environmental damage prevention; improvement of natural asset protection management, preservation of bio-diversity, and environmentally safe living conditions;

- Prevention, economy, and efficiency: Harmonizing social and environmental sustainable development; prevention of pollution and waste creation; application of technologies that use low energy and low materials; increasing the share of renewable energy sources; strengthening environmental awareness.

3. Expected impact of investments

The programme anticipates the following impact:

- a higher percentage of the population will have access to modern wastewater treatment, proper drinking water supply and selective waste collection - improved municipal solid waste management;

- a higher share of the population will be properly protected from floods, and the number of clean and ecologically sound surface waters will increase through the preservation of habitats and species in the Habitat protection directive;

- the share of renewable energy sources in power generation and bio-fuels production will increase;

- the energy intensity of the economy (as measured by energy consumption per unit of GDP) will reduce;

- the domestic consumption habits will be improved and the number of environmentalists in the population will grow.

4. Priority axes

Specific objectives of the Environment and Energy Operational Programme include:

- improved environmental conditions of sustainable settlement development;
- more satisfactory quality of life;
- healthier environmental conditions;
- better circumstances for human life.

The Environment and Energy Operational Programme is structured along the following priority axes:

Priority axis 1: Healthy and clean settlements [approximately 53,1% of total funding]

This priority axis aims to improve environmental conditions of sustainable settlement development and to ensure a satisfactory quality of life, a healthy environment and better life circumstances. To achieve these objectives, intervention in the following areas is foreseen:

- Waste management: The creation of solid waste management systems of similar standards all over the country, though adapted to local conditions;

- Wastewater treatment: The implementation of the National Settlement Wastewater Collection and Treatment Programme; construction, modernisation and extension of wastewater collection and treatment systems and sludge treatment facilities; the application of environmentally-friendly small-scale technologies;

- Drinking water supply: The implementation of the National Drinking Water Development Programme, which aims to ensure the supply of good quality, healthy drinking water to the population and to eliminate any regional drinking water quality disparity.

Priority axis 2: Good water management [approximately 28.7% of total funding]

The activities financed under this priority axis focus on two main intervention areas:

- Implementation of good flood protection practices (complex water management) aiming to increase safety from floods and to retain water for periods of deficiency

- Protection of the quantity and quality of water reserves. The status of Hungarian surface water was surveyed based on the Water Framework Directive, which expects their good ecological status to be achieved by 2015. The measures aim to achieve this goal. Special attention is paid to the big lakes, whose good status is considered an important social requirement.

Priority axis 3: Wise management of natural assets [approximately 2,8% of total funding]

The conservation of biodiversity is targeted through the rehabilitation, restoration and sustainable management of *NATURA 2000* and other protected natural areas. Measures are planned to reduce the isolation of semi-natural habitats to improve the ecological integrity of the country.

The planned interventions are:

- restoration, improvement and preservation of protected natural assets and areas of community and cultural importance;
- creation of the infrastructural basis for habitat-conserving agriculture and forestry;
- damage reduction to nature and landscape caused by linear facilities;
- nature school network infrastructural development.

Priority axis 4: Increasing the use of renewable energy sources [approximately 5.2 % of total funding]

The objective is to influence the structure of energy resources and to promote the shift from traditional to renewable energy sources. Promotion of the following renewable energy sources is foreseen: biomass, waste cooking oil and animal fat, biogas, geothermal, solar (photovoltaic, solar collectors and passive utilisation in buildings), hydro (only efficiency improvement of existing facilities), wind (only local or communal solutions not feeding into the national grid, as long as the grid is not upgraded).

Priority axis 5: Efficient energy use [approximately 3.1 % of total funding]

The main goal of this priority axis is to contribute to the annual 1% decrease in energy consumption in line with the Action Plan to improve Energy Efficiency in the European Community.

The following interventions are foreseen to improve energy efficiency:

- improving the energy efficiency of public buildings
- modernizing district heat supply and reducing network heat losses
- improving energy efficiency in the competitive sector.

Priority axis 6: Promotion of sustainable production and consumption habits [approximately 1.6 % of total funding]

This priority axis serves the revised Lisbon Agenda in the field of preventive environmental protection. In the area of sustainable production, planned interventions include the preparation of company audits, the definition of Best Available Technologies (BAT), and environmentally friendly product development among just a few. Other planned projects include a sustainable consumption habits campaign, support to sustainability labels, as well as investments and pilot projects promoting sustainable consumption patterns and alternative solutions. A separate intervention focuses on e-environmental protection, which aims for the quantitative and qualitative development of special electronic contents (urban and regional environmental GIS databases, open information systems, etc.).

Priority axis 7: Project preparation [approximately 4.0 % of total funding]

The EEOP finances project preparations implemented in the period from 2007 to 2013.

Priority axis 8: Technical Assistance [approximately 1.6 % of total funding]

5. Breakdown of financing by priority axis (in EUR)

Priority axis	EU Contribution	National Public Contribution	Total Public Contribution
1. Healthy and clean settlements	2 217 569 580	391 335 808	2 608 905 388
2. Good water management	1 199 328 900	211 646 276	1 410 975 176
3. Wise management of natural assets	114 989 621	20 292 286	1 352 81 907
4. Increasing the use of renewable energy sources	215 113 165	37 961 147	253 074 312
5. Efficient energy use	131 215 775	23 155 725	154 371 500
6. Promotion of sustainable production and consumption habits	65 928 350	11 634 415	77 562 765
7. Project preparation	167 571 738	29 571 483	197 143 221
8. Technical assistance	67 129 212	11 846 332	79 975 544
TOTAL	4 178 846 341	737 443 472	4 916 289 813

V. Electronic Public Administration Operational Programme - Programme under the Convergence and Regional Competitiveness and Employment Objectives, co-funded by the European Regional Development Fund (ERDF)

1. Overview

On 1 August 2007, the European Commission approved the "Electronic Public Administration" Operational Programme for Hungary for the period 2007-13. The Operational Programme falls within the framework laid out for the Convergence and Regional Competitiveness and Employment Objectives and has a total budget of around €422 million. Community investment through the European Regional Development Fund (ERDF) amounts to some €358 million, which represents approximately 1.4% of the total EU investment earmarked for Hungary under the Cohesion Policy for 2007-13.

2. Aim and purpose of the Programme

The overall objective of the operational Programme is to improve the performance of the Hungarian public administration. Specific objectives are the improvement of public administration operational efficiency and services effectiveness.

3. Expected impact of investments

The Programme is expected to have the following results:

- increased use of the electronic public administration services by citizens and companies;
- faster processing of an average case by the public administration;
- increase in number of state administration bodies providing on-line case handling services;
- Increase in the proportion of citizens and businesses making online payments to state administration bodies.

4. Priorities

The Operational Programme is structured according to the following priorities:

Priority 1: Renewal of the internal procedures and the services of public administration [approximately 35.7% of total funding]

The main objective of this priority is to increase efficiency in the functioning of the state administration on national, regional and local level though the reorganisation of administrative processes with the support of IT systems. Internal processes is streamlined and adopted to the provision of electronic services to citizens and businesses within the public administration. These interventions support the development of the Hungarian public administration in line with the EU i2010 Programme.

- Priority 1.1 (Computerisation of the processes of public administration) supports the establishment of 20 common basic public services required by the EU in a standardised framework. A local public administration framework applicable throughout the country is setting-up to avoid developing isolated systems. Application Service Providers (ASPs) will be the central tool of this framework.
- Priority 1.2 (Establishment of central electronic services for the efficient operation of public administration) covers the development of the central services to be used by the departmental systems of the public administration. Parallel sectoral elements should replace with central services as far as this is possible.

Priority 2: Developments aimed to improve public service access that deliver customer services [approximately 41.5% of total funding]

The main objective of this priority is to deliver necessary actions required to improve citizen services. Special attention is paid to citizen service accessibility by disadvantaged groups of society.

- Priority 2.1 (Provision of service interface to customers) allows customers to access services from home or from public internet access points electronically. This priority provides for front-office applications, such as the Government Portal, the Government Customer Information Centre, and the Client Gate.
- Priority 2.2 (Development of the central electronic service system and IT security infrastructure) supports "central services" for the various IT connections between customers and public administration.
- Priority 2.3 (Electronic authentication of citizens) is dedicated to the introduction of a new system of electronic identification.

Priority 3: "Preferential developments" [approximately 20.9% of total funding]

The aim of this priority is to improve efficiency and quality of public administration services within the Central Hungary region.

- Priority 3.1 (Renewal and 'computerisation' of administrative procedures) mirrors priority axis 1 and is exclusively for the institutions located in Central Hungary.
- Priority 3.2 (Developments for improving access to public services) mirrors priority axis 2 and supports operations that provide access to electronic services in Central Hungary region.

Priority 4: Technical assistance in regions falling under the Convergence objective [approximately 1.4% of total funding] Priority 5: Technical assistance for the Central Hungary region [approximately 0.4% of total funding]

Technical assistance finances technical and administrative tasks in relation to the implementation of the Programme. There is provision for the support toward the operation of the Monitoring Committee of the Operational Programme as well as for the support for all reporting and evaluation requirements.

5. Breakdown of financing by priority (in euros):

Priority	**EU Contribution**	**National Public Contribution**	**Total Public Contribution**
1. Renewal of internal procedures and services of public administration	128 066 036	22 599 889	150 665 925
2. Developments aimed at improving access to public services	148 880 117	26 272 962	175 153 079
3. "Preferential developments"	75 046 947	13 243 580	88 290 527
4. Technical assistance in Convergence regions	5 076 406	895 836	5 972 242
5. Technical assistance in Central Hungary	1 375 607	242 753	1 618 360
TOTAL	**358 445 113**	63 255 020	421 700 133

VI. West Pannon Regional Operational Programme – Programme under the European Convergence Objective, co-funded by the European Regional Development Fund (ERDF)

1. Overview

On 1 August 2007, the European Commission approved a Regional Operational Programme for the West Pannon region in Hungary for the period 2007-2013. The Operational Programme falls within the framework laid out for the Convergence Objective and has a total budget of around €545 million. Community funding through the European Regional Development Fund (ERDF) amounts to some €464 million, which represents approximately 1.8% of the total EU investment earmarked for Poland under the Cohesion Policy for 2007-2013.

2. Purpose and aim of the programme

The Programme aims to bolster economic and public service infrastructures in the West Pannon region and promote growth and employment in line with sustainable development principles.

Specifically, the Programme:

- helps build an economy based on local innovative resources and enterprise networks;
- develops tourism based on high-quality services that take advantage of the region's cultural heritage;
- fosters a network of attractive cities that fulfil roles as regional centres;
- provides a clean environment and safe access to regional centres and sub-centres; and
- invests in public service infrastructure that can meet local needs.

3. Expected impact of the investment

The Programme is expected to increase the region's Gross Domestic Product (GDP) per capita. The Programme also aims to increase the value added generated by the region's enterprises and helps a number of disadvantaged pupils to attend supported education and training institutions.

4. Priorities

The Programme is structured around the following priorities:

Priority 1: Regional economic development [approximately 15.4% of total funding]

This priority aims to develop the region's enterprises by supporting their networking activities and by providing modern consulting services to entrepreneurs. It helps to improve business park infrastructure and strengthen the regional character of vocational and higher education, in line with the economy's specific needs.

The Programme supports improvements to regional cluster services and helps to develop West Pannon's regional higher education cooperation network. In addition, the Programme seeks to stimulate the investment environment, develop marketing activities and set up technology transfer centres and incubators.

Priority 2: Tourism development – renewal of the Pannon heritage [approximately 23.6% of total funding]

The aim is to develop thermal spa tourism in West Pannon, provide activities linked to the region's historic and cultural heritage, and support thematic programmes and services that are linked to eco-tourism. Renewal of the region's tourism management bodies is also a priority.

To achieve these objectives, the Programme supports a range of activities, such as:

- improving access roads and cycles paths around tourist attractions;
- renovating the likes of castles and churches;

- developing regional eco-tourism programmes;
- expanding capacity in the tourism accommodation sector; and
- providing support to local and regional tourism marketing organisations.

Priority 3: Urban development [19% of total funding]
City centre renewal promises to be a major focus. Work are undertaken to improve energy efficiency in public buildings, reduce traffic congestion, introduce more pedestrian zones, revitalise brown field sites and increase "green" spaces.
Action is taken to arrest the decline of impoverished housing estates and to support the introduction of more cultural, sporting and leisure facilities. To improve transport infrastructure, the Programme supports the development of intermodal systems, along with the construction and renovation of public transport facilities.

Priority 4: Environmental protection and transport infrastructure [approximately 20.1% of total funding]
The objectives here are to raise environmental awareness, improve surface water quality – in line with the EU Water Framework Directive – and improve access to local settlements.
This priority includes following activities:

- improvement of waste water management in small settlements;
- rehabilitation of municipal waste deposits;
- improvement the quality of surface water;
- establishment and development services to safeguard the environment;
- development of better regional transport connections, with a particular focus on improving roads.

Priority 5: Development of local and regional public services [approximately 18.3% of total funding]
The goal here is to ensure access to, and improvement of, public services, taking account of the region's settlement structure.
The Programme supports the creation and development of a knowledge-based information society tailored to regional needs. In addition, it supports the development health infrastructures and related IT services, along with improved social services provision for children, elderly people, disabled people and the homeless etc. Work focus on developing public education infrastructures and initiatives to promote the information society.

Priority 6: Technical assistance [approximately 3.6% of total funding]
Technical assistance will be provided to help implement the programme. There is provision to support the work of the programme's Monitoring Committee, as well as for reporting and evaluation activities.

5. Breakdown of finances by priority (in euros)

Priority	**EU Contribution**	**National Public Contribution**	**Total Public Contribution**
1. Regional economic development	71 305 470	12 583 318	83 888 788
2. Tourism development	109 573 484	19 336 497	128 909 981
3. Urban development	88 293 607	15 581 225	103 874 832
4. Environmental protection and transport infrastructure	93 059 226	16 422 217	109 481 443
5. Development of local and regional public services	84 824 451	14 969 021	99 793 472
6. Technical assistance	16 696 655	2 946 468	19 643 123
Total	**463 752 893**	81 838 746	545 591 639

VII. South Great Plain Operational Programme- under the Convergence Objective, co-funded by the European Regional Development Fund (ERDF)

1. Overview

On 27 July 2007, the European Commission approved an Operational Programme for the South Great Plain region in Hungary for the period 2007-13. The Programme involves Community support for the region within the framework laid out for the Convergence Objective. The total budget of the Programme is about €881 million and includes Community investment through the European Regional Development Fund (ERDF) of some €749 million (approximately 3.0% of the total EU money invested in Hungary under the Cohesion Policy for 2007-13).

2. Aim and purpose of the programme

The Programme builds on the region's existing research and innovation facilities and on the potential offered by the health and wellness tourism sectors. The Programme also provides support for the development of basic environmental and transport infrastructure in an effort to increase regional cohesion.

The overall goals of the Programme are to ensure sustainable growth, boost employment and reduce intra-regional disparities. Two specific objectives have been established: (i) increasing the competitiveness of the regional economy by promoting economic restructuring based on innovation; and (ii) improving municipal and environmental conditions in order to increase regional cohesion. In line with the National Strategic Reference Framework, the Programme makes a significant contribution to meeting the objectives of the Growth and Jobs agenda.

3. Expected impact of investments

The following are some of the expected impacts stemming from the Programme's investments:

- 26% increase in the average GDP per capita in the region;
- employment rate of the working age population to increase from 53.8% (2005) to 55%;
- 7% annual growth in sales revenues of businesses taking part in clusters or supported cooperation arrangements;
- number of people receiving high-quality specialised out-patient care to increase from 3.8 million (2004) to 4.4 million per year;
- 200 businesses per year with plants established in the region covered;
- 5 000 disadvantaged students per year learning in schools that have been developed.

4. Priorities

The Programme is structured according to the following priorities:

Priority 1: Regional Economic Development [approximately 17.4% of total funding]

This priority is aimed at promoting high value-added economic activities in the region, boosting the competitiveness of the small and medium-sized enterprise (SME) sector and increasing the level of employment. The main activities include developing technology centres and bridging institutions, supporting clusters and economic networks, reinforcing SME support services, developing industrial parks and incubation centres and rehabilitating brown-field areas.

Priority 2: Tourism Development [approximately 18.3% of total funding]

The objectives of this priority are to increase tourism income, the average duration of tourist visits and the number of people employed in the tourism sector. The priority also provides support for developing health tourism facilities based on thermal water resources, as well as cultural heritage sites and tourist attractions. The final focus under this priority is to improve the quality of tourism services and develop a regional tourism destination management organisation.

Priority 3: Development of Transport Infrastructure [approximately 21.1% of total funding]

This priority aims at improving the accessibility of lesser developed micro-regional centres and reducing intra-regional disparities. The activities include developments for regional roads, bicycle routes and public transport infrastructure.

Priority 4: Development of Human Infrastructure [approximately 18.8% of total funding]

The objectives under this priority are to improve the mental and physical health of the population, establish a high-quality human infrastructure, and increase the level of employment. Support targets the development of kindergartens, primary and secondary schools, and basic social services. In the health sector, there are plans to develop out-patient care centres as well as diagnostics, screening and rehabilitation centres. Support targets also efforts to improve accessibility in public buildings.

Priority 5: Settlement Development Actions [approximately 20.8% of total funding]

This priority aims to strengthen social cohesion, establish an attractive urban environment and improve environmental safety. The main activities include support for integrated urban development actions, social-type rehabilitation and housing. In terms of the environment, efforts focus on developing wastewater management infrastructure, re-cultivating landfills and running environmental awareness-raising campaigns.

Priority 6: Technical Assistance [approximately 3.6% of total funding]

Technical assistance is provided for implementing the Programme. Financial support is also available and covers administration, monitoring and control.

5. Breakdown of financing by priority (in euros)

Priority	**EU Contribution**	**National Public Contribution**	**Total Public Contribution**
1. Regional Economic Development	129 916 508	22 926 443	152 842 951
2. Tourism Development	137 134 092	24 200 134	161 334 226
3. Development of Transport Infrastructure	158 145 290	27 907 993	186 053 283
4. Development of Human Infrastructure	140 742 884	24 836 979	165 579 863
5. Settlement Development Actions	155 819 605	27 497 577	183 317 182
6. Technical Assistance	26 956 229	4 756 982	31 713 211
TOTAL	**748 714 608**	132 126 108	880 840 716

VIII. North Great Plain Operational Programme - Programme under the Convergence Objective, co-funded by the European Regional Development Fund (ERDF)

1. Overview

On 1 August 2007, the European Commission approved a Regional Operational Programme for the Hungarian North Great Plain region for the 2007-2013. The Operational Programme falls within the Convergence objective framework and has a total budget of around €1.1 billion. Community assistance through the ERDF amounts to around €975 million, which represents approximately 3.9% of the total EU investment earmarked for Hungary under the Cohesion Policy for 2007-13.

2. Purpose and aim of the programme

The overall objective of the Programme is two-fold: (1) to increase regional competitiveness; and (2) to reduce territorial imbalances attributed to national, social heritage and characteristics of the North Great Plain region.
The specific objectives of the Programme are:

- strengthening the region's small and medium sized enterprises (SMEs) sector
- improving the income-generating capacity of tourism
- improving the population's mobility
- developing human resources
- improving the conditions in built-up areas and the environment.

As the Sectoral Operational Programmes and the European Agricultural Fund for Rural Development were expected to finance significant investments in the region, the Programme partially address the North Great Plain region's socio-economic development needs.

3. Expected impact of the investments

The Programme's overall objectives include simultaneously increasing the region's per capita GDP by 39% and creating 1500 new jobs by 2015.

4. Priority axes

The North Great Plain Operational Programme is structured along the following priority axes:

Priority axis 1: Regional economic development [approximately 14.4% of total funding]
The priority aims to:

- establishing a favourable infrastructural environment
- promoting regional co-operation
- improving the availability of information for and innovation potential of economic actors.

The main activities include:

- infrastructural development of the regional business environment
- support to clusters, corporate co-operations, supplier networks, development of research centres, bridging institutes and technology transfer institutes.

Priority axis 2: Tourism development [approximately 18.0% of total funding]
The priority aims to extend the tourist season and increase tourist destinations. The main activities include the development of tourism products and attractions, (including thermal and medicinal centres, cultural, historical monuments), support to commercial accommodations as well as the development of destination management.

Priority axis 3: Improving transport conditions [approximately 17.4% of total funding]

The objective is to improve access to regional centres, industrial sites and public services as well as to put an end to the reduction of the proportion of communal transport within public transport. The activities to be supported include:

- infrastructural development of regional and local roads
- transport associations establishment
- communal transport services quality improvement, including passenger information and reservation systems.

Priority axis 4: Development of human infrastructure [approximately 20.6% of total funding]

The priority aims to improve regional public services quality. The priority anticipates primary and secondary education infrastructural development, primary care health infrastructure development, outpatient care and rehabilitation as well as improving accessibility for disabled people to local government institutions.

Priority axis 5: Urban and regional development [approximately 25.8% of total funding]

The objective is to improve the quality of developed areas and to protect the natural environment as well as to strengthen the role of non-governmental organisations. The main activities are in the field of:

- urban development, including integrated action-based rehabilitation
- nature and environmental protection development
- co-operation programs between NGOs and local governments.

Priority axis 6: Technical assistance [approximately 3.6% of total funding]

There is provision for technical assistance in order to implement the Programme. Financial support is available covering administration, monitoring and control.

5. Breakdown of finances by priority axis (in EUR)

Priority axis	**EU Contribution**	**National Public Contribution**	**Total Public Contribution**
1 Regional economic development	140 242 688	24 748 710	164 991 398
2. Tourism development	177 183 290	31 267 639	208 450 929
3. Transport	169 945 563	29 990 394	199 935 957
4. Human infrastructure	200 776 395	35 431 129	236 207 524
5. Urban and regional development	251 816 463	44 438 199	296 254 662
6. Technical assistance	35 105 787	6 195 139	41 300 926
TOTAL	**975 070 186**	172 071 210	1 147 141 396

IX. Central-Hungary 2007-2013 Operational Programme - Programme under the Regional Competitiveness and Employment objective, co-funded by European Regional Development Fund (ERDF)

1. Overview

On 1 August 2007, the European Commission approved an Operational Programme for the region of Central Hungary for the 2007-2013. The Operational Programme falls within the Regional Competitiveness and Employment Objective framework and has a total budget of around €1.73 billion. Community assistance through the European Regional Development Fund (ERDF) amounts to €1.47 billion, which represents approximately 5.8% of the total EU investment earmarked for Hungary under the Cohesion Policy for 2007-13.

2. Purpose and aim of the programme

The programme covers the Central Hungary region, which consists of the counties Budapest and Pest.

The overall objective of the programme is to improve the international competitiveness of the region while respecting the principles of sustainable development. Specific objectives include developing the factors that are decisive for competitiveness as well as strengthening internal cohesion. R&D and the innovation potential of the region are at the foundation of the programme; which addresses its infrastructure development needs in the areas of transport, education and health. Specific actions are designed to address important development needs of the under-developed micro-regions in Pest country.

4. Priority axis

Specific objectives of the Operational Programme Central-Hungary 2007-13 include:

- strengthening the R&D and innovation activities
- integrating regional roads into the international road networks
- improving competitiveness for the region's tourism
- increasing standards of education and health
- raising the overall appeal of the living environment.

The Operational Programme is structured around the following priority axes:

Priority axis 1: Development of the knowledge-based economy oriented towards innovation and entrepreneurship [approximately 27.7% of total amount of funding]

This priority is aimed at stimulating R&D and innovation activities in the region. It is meant to increase business efficiency and to help develop activities that offer high benefit and good potential for growth.

Activities include:

- research centres development
- spin-off companies support
- technological businesses modernisation
- SME (small and medium sized enterprises) financial capital access improvement (i.e. venture capital, seed capital)
- business environment development.

Priority axis 2: Improvement of the framework conditions for competitiveness [approximately 22.2% of total funding]

This priority aims to increase competitiveness by integrating the region into international road networks, by improving the conditions of community transport and by fostering the use of alternative means of transport. Activities include developing main road networks related to the Trans-European Networks (TEN), developing intra-regional road connections and supporting transport associations.

Priority axis 3: Development of the region's attractiveness [approximately 12.7% of total funding]

The objective of this priority is to increase the competitiveness of the region's tourism, to develop the environmental service system and to preserve the region's natural assets. The priority foresees tourist attraction support, wastewater management, nature preservation and natural environment rehabilitation.

Priority axis 4: Development of the institutional system of public services [approximately 19.2% of total funding]

This priority will mainly address needs related to human infrastructure development. Support is given to infrastructure development in the field of education, for primary and secondary schools as well as for resources for higher education linked to regional centres of knowledge. Diagnostic, screening and rehabilitation centre development is also foreseen in the health maintenance sector.

Priority axis 5: Renewal of settlement areas [approximately 14.7% of total funding]

This priority is aimed to increase quality of life for citizens through improving the environment and the development of more attractive settlements. Main activities include social-type rehabilitation, renewal of Brownfield areas and the development of settlement centres through integrated action-based rehabilitation.

Priority axis 6: Technical assistance [3.6% of total funding]

Technical assistance is provided in order to implement the Operational Programme. Financial support is available and covers administration, monitoring and control of the Programme.

5. Breakdown of finances by priority axis (in EUR)

Priority axis	**EU Contribution**	**National Public Contribution**	**Total Public Contribution**
1. Knowledge economy, innovation, entrepreneurship	406 714 683	71 773 180	478 487 863
2. Framework conditions competitiveness	325 118 945	57 373 931	382 492 876
3. Attractiveness	186 492 093	32 910 369	219 402 462
4. Human infrastructure	280 923 642	49 574 760	330 498 402
5. Settlement development	215 123 017	37 962 885	253 085 902
6. Technical assistance	52 823 973	9 321 878	62 145 851
TOTAL	**1 467 196 353**	258 917 003	1 726 113 356

X. North Hungary Operational Programme- Programme under the Convergence Objective, co-funded by the European Regional Development Fund (ERDF)

1. Overview

On 30 July 2007, the European Commission approved an Operational Programme for the region of North Hungary for the 2007-13. The Operational Programme falls within the Convergence objective framework and has a budget of around €1.063 billion. Community assistance through the European Regional Development Fund (ERDF) amounts to €903 million, which represents approximately 3.6% of the total EU investment earmarked for Hungary under the Cohesion Policy for 2007-13.

2. Aim and purpose of the programme

The main objective of the North Hungary Operational Programme 2007-2013 is to increase the economic competitiveness of the region of Northern Hungary by reducing territorial and socio-economic disparities.

The Operational Programme partially focus on the socio-economic needs of North Hungary region. Sectoral programmes and the European Agricultural Fund for Rural Development are expected to make significant investments.

3. Expected impact of the investments

It is expected that the programme will deliver an additional Gross Domestic Product (GDP) of 27% and over 4 220 new jobs by 2015. By 2015, induced investment is expected to reach €144 million.

4. Priority axes

Specific objectives of the North Hungary Operational Programme include:

- economic competitiveness
- tourism sector development
- social cohesion support
- attractive economic and living conditions development
- regional transport development.

Priority axis 1: Creating a competitive local economy [approximately 14.5% of total funding]

Ensuring the spread of new products and technologies, by enhancing co-operation between enterprises and research centres of technology development, is a principal objective under this priority axis. This objective encourages also start-ups and new jobs creation.

The main activities undertaken include the establishment of bridging institutions, research and innovation transfer offices, support to clusters and industrial estates, and management and advisory services.

Priority axis 2: Strengthening the potential of tourism in the area [approximately 20.1% of total funding]

The main goal of this priority axis is to increase the profitability of regional tourism, to develop internationally competitive products and to increase the time spent in the region (measured by the number of hotel guest nights).

Activities undertaken in this respect focus on developing regional tourist attractions and commercial accommodations, supporting destination management and establishing a regional cluster centre together with the Northern Great Plain region.

Priority axis 3: Development of settlement [approximately 28.5% of total funding]

Projects financed under this priority axis focus on increasing the attractiveness of settlements by supporting new economic, communal and social functions as well as by preventing segregation in disadvantaged micro-regions. The supported activities consist of integrated, action-based rehabilitation of urban districts (e.g. urban dwellings), Brownfield land and estates threatened by deterioration, as well as micro-regional centres development.

Priority axis 4: Development of social cohesion [approximately 22.56% of total funding]
The key objective under this priority axis is to ensure the efficient use of micro-regional level public services; to foster the mitigation of territorial disparities; and to improve employability. Actions foreseen include modernising health services, developing social care, supporting educational infrastructure, and developing local administration Information Technologies.

Priority axis 5: Development of regional transport [approximately 10.1% of total funding]
The main goal of this priority axis aims to improve micro-regional centres accessibility to main road networks, with special attention paid to improving small settlements accessibility to workplaces and public services. The activities include the development of 4-5 digit roads, cycle tracks, public transport, support to regional transport associations and improvement of water-way traffic.

Priority axis 6: Financing the implementation of the Northern Hungary Operational Programme [approximately 3.6% of total funding]
Technical assistance is used to implement the programme, which covers administration, monitoring and control.

5. Breakdown of financing by priority axis (in EUR)

Priority axis	**EU Contribution**	**National Public Contribution**	**Total Public Contribution**
1. Competitive local economy	130 965 118	23 111 491	154 076 609
2. Tourism	188 191 882	33 210 332	221 402 214
3. Settlement development	257 195 571	45 387 454	302 583 025
4. Human, community infrastructure	203 874 538	35 977 860	239 852 398
5. Regional transport	90 959 410	16 051 661	107 011 071
6. Technical assistance	32 537 070	5 741 836	38 278 906
TOTAL	**903 723 589**	159 480 634	1 063 204 223

XI. Central Transdanubia Operational Programme - Programme under the Convergence Objective, co-funded by the European Regional Development Fund (ERDF)

1. Overview

On 30 July 2007, the European Commission approved a Regional Operational Programme for the region of Central Transdanubia in Hungary for the 2007-13 period. The Operational Programme falls within the Convergence Objective framework and has a total budget of around €598 million. Community assistance through the European Regional Development Fund (ERDF) amounts to some €508 million, which represents approximately 2.0% of the total EU money invested in Hungary under Cohesion Policy 2007-13.

2. Purpose and aim of the programme

The Programme includes following specific objectives:

- creating an innovative and competitive economic environment
- improving the touristic potential of the region
- providing for sustainable development of the town network in the region
- increasing regional cohesion through the development of environment and transport infrastructure
- developing human infrastructure capabilities and capacities.

3. Expected impact of the investments

It is expected that the gross benefit produced by enterprises will reach €211.7 million by 2015, as well as an amount of induced investment of €37.6 million.

4. Priority axes

The Central Transdanubia Operational Programme is structured along the following priority axes:

Priority axis 1: Regional economic development [approximately 15.5% of total funding]

The objective of this priority axis is to reinforce the international competitiveness of the region through innovation-oriented economic development in conformity with the principle of sustainable development. The aim is to attract strategic working capital capable of producing added value and stimulating small and medium-sized enterprises (SMEs). The main interventions foreseen include:

- fostering networking and cooperation between businesses
- supporting industrial parks
- training
- consultancy services.

Priority axis 2: Regional tourism development [approximately 22.7% of total funding]

The priority aims to improve the market position of the region as a tourist destination through a complex and integrated development of regional tourism. The main interventions include:

- regional tourist attraction and products support
- qualitative and quantitative touristic and recreational services development
- clustering
- integrated regional and local touristic institutions development
- marketing services.

Priority axis 3: Sustainable settlement development [approximately 14.3% of total funding]

The objective of this priority is to support regional town networks through economic renewal. The foreseen interventions include:

- revitalization of urban centres
- rehabilitation of town districts experiencing or threatened by deterioration.

Priority axis 4: Development of local and regional environment and transport infrastructure [approximately 29.8% of total funding]

This priority axis aims to increase accessibility and creating more liveable rural environments. It seeks also to protect natural assets and public facilities along the Danube and Lake Balaton through measures that aim to reduce the risk of landslip. The main interventions include development of regional 4-5 digit roads, community transport, bicycle roads, wastewater management and water systems reconstruction.

Priority axis 5: Human infrastructure development [approximately 14% of total funding]

This priority axis aims to reduce territorial differences in terms of access to public services. The main interventions include support to kindergartens, primary and secondary schools, health infrastructure (prevention, rehabilitation, and geriatrics), social infrastructure and institutional development.

Priority axis 6: Technical assistance [approximately 3.6% of total funding]

There is provision for technical assistance in order to implement the programme. Financial support is available covering administration, monitoring and control.

5. Breakdown of finances by priority axis (in Euros)

Priority axis	**EU Contribution**	**National Public Contribution**	**Total Public Contribution**
1. Economic development	78 727 575	13 893 101	92 620 676
2. Tourism	115 315 875	20 349 861	135 665 736
3. Settlement development	72 632 537	12 817 506	85 450 043
4. Environment and transport infrastructure	151 563 279	26 746 461	178 309 740
5. Human infrastructure	71 393 758	12 598 899	83 992 657
6. Technical assistance	18 286 812	3 227 085	21 513 897
TOTAL	**507 919 836**	89 632 913	597 552 749

XII. South Transdanubia Regional Operational Programme 2007-2013- under the Convergence Objective, co-funded by the European Regional Development Fund (ERDF)

1. Overview

On 1 August 2007, the European Commission approved an Operational Programme for South Transdanubia in Hungary for the period 2007-13. The Programme involves Community support under the Convergence Objective. The total budget of the Programme is approximately €829 million and includes Community investment through the European Regional Development Fund (ERDF) of some €705 million (approximately 2.8% of the total EU money invested in Hungary under the Cohesion Policy for 2007-13).

2. Aim and purpose of the programme

The Programme takes a sustainable development approach and taps into the region's potential in terms of natural assets and culture. The overall objective is to close what is currently a significant gap between the national and regional GDP growth rates.

The three specific aims identified are to:

- develop a model region of high environmental quality;
- establish a competitive economy built on local characteristics;
- halt the increasing intra-regional social disparities.

In line with the National Strategic Reference Framework, the Programme contributes to achieving the objectives set out in the Growth and Jobs agenda.

3. Expected impact of investments

The expected impacts of the investments include maintaining the average regional GDP at 71% of the national average, generating gross added-value growth among enterprises of HUF 24 billion annually (approximately €90 million), providing 259 000 more patients with high standard outpatient care per year (in clinics targeted by the Programme), and providing an additional 55 000 people per year with a sewage treatment system in line with EU criteria.

4. Priorities

The Programme is structured according to the following priorities:

Priority 1: Competitive Economy based on the Development of Urban Areas [approximately 10.5% of total funding]

This priority aims to increase the employment rate by developing small and medium-sized enterprises (SMEs) and business infrastructure. The main activities include providing support for clusters and networks, reinforcing SME support services, developing industrial parks and incubation centres and rehabilitating brown-field areas.

Priority 2: Strengthening the Region's Tourism Potential [approximately 18.6% of total funding]

The objectives under this priority are to increase the competitiveness of the region's tourism sector, increase the number of tourists visiting the region and encourage tourists to stay for longer periods of time. The priority targets support at integrating regional tourism attractions and quality tourism services, and developing a regional tourism destination management organisation. The tourism development focus on six areas that the region is renowned for, with different tourist products developed based on local features and traditions.

Priority 3: Development of Human Public Services [approximately 18.5% of total funding]

The main aim under this priority is to increase access to human public services, particularly in areas lagging behind. Kindergartens, primary and secondary schools, and basic social services benefit from specific support. In the health sector, support targets outpatient care centres, diagnostics, screening and rehabilitation centres. Improved access to public buildings benefits also under this priority.

Priority 4: Integrated Urban Development [approximately 22.8% of total funding]

This priority aims to strengthen the region's urban network and promote the sustainable upgrading of deprived urban areas in terms of social structures and the environment. The main activities include social-type rehabilitation and the development of settlements through integrated urban development actions. Support targets also the project 'Pécs - European Capital of Culture 2010'.

Priority 5: Improving Accessibility and Environmental Development [approximately 26% of total funding]

This priority aims to improve the accessibility of micro-regional centres, slow down the shift from public to private means of transport, improve environmental safety and increase environmental awareness. Activities designed to achieve these aims include developing regional roads, bicycle routes and public transport, developing wastewater management infrastructure, re-cultivating landfills and raising awareness about the environment.

Priority 6: Technical Assistance [approximately 3.6% of total funding]

Technical assistance is provided for implementing the Programme, with financial support also available for administration, monitoring and control purposes.

5. Breakdown of financing by priority (in euroS)

Priority	**EU Contribution**	**National Public Contribution**	**Total Public Contribution**
1. Competitive Economy based on the Development of Urban Areas	74 219 181	13 097 503	87 316 684
2. Strengthening the Region's Tourism Potential	130 895 586	23 099 221	153 994 807
3. Development of Human Public Services	130 227 765	22 981 370	153 209 135
4. Integrated Urban Development	160 844 693	28 384 358	189 229 051
5. Improving Accessibility and Environmental Development	183 562 474	32 393 378	215 955 852
6. Technical Assistance	25 387 289	4 480 110	29 867 399
TOTAL	**705 136 988**	124 435 940	829 572 928

XII. Implementation Operational Programme under the Convergence Objective, co-funded by the Cohesion Fund

1. Overview

On 1 August 2007, the European Commission approved the Hungarian Operational Programme "Implementation" for the period 2007-13. The Programme involves Community support for six Hungarian regions under the Convergence Objective, namely Western Transdanubia, Central Transdanubia, South Transdanubia, North Hungary, North Great Plain and South Great Plain. The total budget of the Programme is approximately €371 million and includes Community investment assistance through the Cohesion Fund of some €315 million. This represents about 1.2% of the total EU investment earmarked for Hungary under the Cohesion Policy for 2007-13.

2. Aim and purpose of the programme

The aim of the Programme is to provide financing for running the institutions and operating the tools required for implementing Operational Programmes under the Hungarian National Strategic Reference Framework (NSRF). Its overall objective is to ensure efficient and effective implementation of the NSRF and ensure full and timely use of the resources made available over the 2007-13.

Three specific objectives have been identified:

- Ensure that the institutions involved in implementing EU Cohesion Policy in Hungary work to the highest standards;
- Ensure that effective monitoring and evaluation systems are available for controlling the efficient use of EU Funds; and
- Fulfil all requirements concerning information and publicity and the provision of locally accessible advisory services to beneficiaries.
- The Programme aims to use 100% of the NSRF's available funds and close all projects by 2015.

3. Expected impact of investments

The following are some of the expected impacts stemming from the Programme's investments:

- Availability rate of data infrastructure required for monitoring and evaluation;
- Human resources capacity required for implementing the Operational Programmes;
- Acceptance rate of the New Hungary Development Plan (NHDP) results among the adult population.

4. Priorities

The Programme is structured according to the following priorities:

Priority 1: Operation of Central and Horizontal Institutional System [approximately 68.9% of total funding]

This priority aims to provide the administrative capacity required by central institutions responsible for deploying the EU support. Financing is provided for running the central institutions, building their capacity and carrying out training activities.

Priority 2: Qualitative Implementation Tools [approximately 31.1% of total funding]

Activities under this priority include developing the IT system for monitoring how the EU funds are used, evaluating the implementation of Operational Programmes, providing information to beneficiaries and the public, carrying out partnership activities and establishing a local advisory network for project preparation.

5. Breakdown of financing by priority (in euros)

Priority	EU Contribution	National Public Contribution	Total Public Contribution
1. Operation of Central and Horizontal Institutional System	217 038 743	38 300 955	255 339 698
2. Qualitative Implementation Tools	98 094 194	17 310 740	115 404 934
TOTAL	315 132 937	55 611 695	370 744 632

The European Social Fund in Hungary, 2007-2013[7]

The Hungarian strategy for ESF funding aims to raise participation in the labour force to support continued economic growth while reducing regional disparities in employment and improving opportunities for disadvantaged groups. Further, it is modernising the education and training system to provide the skilled workers businesses need, today and for the future, as well as improving the performance of public administration.

Hungary's ESF priorities are implementing through two Operational Programmes covering the whole country:

XIV. The Operational Programme: Social Renewal

The social renewal programme is consume by far the largest part of ESF funding and aims at supporting both growth and employment through measures primarily focused on improving of the quality of human resources.

The main priorities are as follows:

- Improving employability and promoting entry into the labour market through training, help for job-seekers, development of the employment services and support for social economy. Particular support will be given to increasing labour market participation among women, young people, older age groups, the Roma population and people living with disabilities.
- Improving the adaptability of individuals and organisations by facilitating access to training, developing the institutional system, and providing targeted support to social partners and non-governmental organisations.
- Providing quality education and access to it for all through the implementation of the national lifelong learning strategy. Supporting the dissemination of competence-based education and decreasing the segregation of disadvantaged pupils will be given a particular emphasis.
- Developing the content and structure of higher education to support the needs of businesses and the knowledge economy. This includes the enhancement of research and development capacities.
- Strengthening social inclusion by improving access to social services for disadvantaged groups to join the labour market. Particular support will be given to the most disadvantaged regions with significant Roma populations, to youth programmes, and to the development of local communities and the civil society.

As part of a major reform and upgrade in the provision of health services in Hungary, support will be given to improving human-resources development in the health sector, including their organisation. This will improve the quality and efficiency of health service provision and contribute to addressing the relatively poor health and low life expectancy in Hungary compared to other EU countries.

[7] http://ec.europa.eu/esf/main.jsp?catId=384&langId=en

XV. The Operational Programme: State Reform

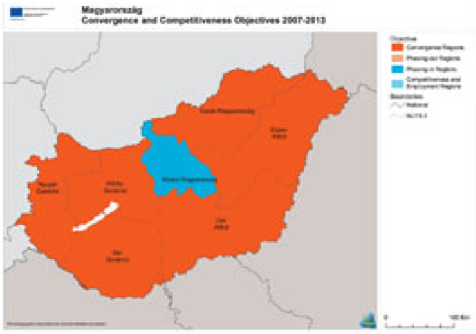
Support under this programme aims to increase the quality of administrative and judicial services' operations and improve the functioning of government as well as those non-governmental organisations with administrative functions.

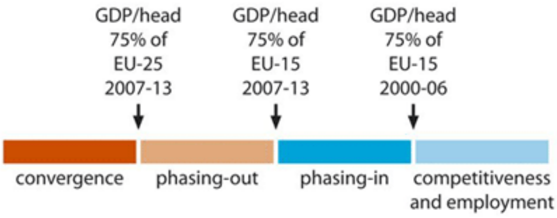
Supported activities include:

- Implementing better processes and organisational development in the public administration.
- Improving the quality of human resources in the public administration.

Eligible regions, 2007-2013:

The level of ESF funding differs from one region to another depending on the relative wealth.
Central Hungary region is eligible under the regional competitiveness and employment objective.
All the remaining regions with a GDP per head of less than 75% of the EU-25 average are eligible under the convergence objective.





Financial plan, 2007-2013 (euro):

Operational Programme	Community funding	National counterpart	Total funding
Social renewal	3 482 518 044	614 562 011	4 097 080 055
State reform	146 570 507	25 865 384	172 435 891
Total	3 629 088 551	640 427 395	4 269 515 946

OLAF briefing for EP Committee on Budgetary Control - delegation visit to Hungary - 20-22 July 2011

I. OLAF’s relationship with the HU authorities

In recent years OLAF has established a very good working relationship with the Hungarian authorities, in particular the police authorities, the General Prosecutor's Office and the Hungarian Customs and Finance Guard.

On 1 January 2011 the Hungarian Customs and Finance Guard merged with the National Tax Authority and the new **National Tax and Customs Administration** (hereafter with HU abbreviation NAV) was created.

I.1 **AFCOS**

The relations with **AFCOS HU** are very good. The Hungarian Coordination Bureau (AFCOS) is a department of the NAV but it acts independently in performing its duties.

AFCOS HU has no investigative role or function but coordinates the tasks arising in relation to organising on-the-spot checks conducted in Hungary. AFCOS HU can assist and upon request can participate in on-the-spot checks. If OLAF does not contact national authorities directly, AFCOS HU forwards OLAF's requests to the competent national bodies. It is also responsible for providing OLAF with the quarterly irregularity reports concerning EU funds and keeps statistical records. It is entitled to access the whole documentation concerning the utilisation of EU money.

AFCOS HU proactively participates in the annual AFCOS Round Table meetings, organised by OLAF.

In February 2010 AFCOS HU introduced a web based Anti-Fraud and Irregularity Portal. Its main objective is to support OLAF, Member States and other countries in their fight against any illegal activities affecting the EU’s financial interests by providing the opportunity for an informal communication and cooperation to all those colleagues who deal with the management and the protection of the EU budget.

I.2 **Judicial authorities**

The working relationship with the HU judicial authorities has been further facilitated by the (08/2009) **amendment of the HU Criminal Procedure Code** which permits the HU authorities to provide OLAF, at its request, with information on ongoing criminal proceedings. **However, the new legislation may be improved** by allowing also the HU authorities (i) to inform OLAF spontaneously and (ii) to transfer information to OLAF during the so-called "covert" or "secret" investigation phase.

Hungary **ratified the Protection of Financial Interests Convention** and its Protocols in January 2010. However, the offence of **"fraud affecting the financial interests of the EU"** had already been introduced in the Hungarian Criminal Code (Art.314) in 2002.

II. OLAF's ACTIVE INVESTIGATIONS INVOLVING HUNGARY

Sector	Number of active investigations
Agriculture	1
Cigarettes	2
Customs	0
Direct Expenditure	0
EU Bodies and Agencies	2
EU Institutions	0
External Aid	0
Precursors	0
Structural Funds	3
Trade	1
VAT	0
Total	9

The above describes the situation up to 5 July 2011.

III. CIGARETTES

Hungary is primarily a transit country for contraband cigarettes smuggled from countries neighbouring the EU which are destined for the illegal markets in Member States with the highest prices such as Germany, the UK and Ireland. Active enforcement by the Customs and Police has limited the size of the illicit market in Hungary.

On 14-15 April 2011 the Hungarian Presidency organised a High Level Seminar in Budapest concentrating on Customs Cooperation on the Eastern Border. The Presidency identified combating cigarette smuggling as a major priority.

The Commission has appreciated the commitment and continued support of the Hungarian Presidency to the on-going negotiations of a Protocol on the Elimination of the Illicit Trade in Tobacco Products to the World Health Organization Framework Convention on Tobacco Control (FCTC). The conclusion of a strong and meaningful Protocol would be a valuable tool for enhancing international cooperation between law enforcement authorities in the fight against serious and organised cigarette smuggling.

Action Plan to fight against smuggling of cigarettes and alcohol along the EU Eastern Border[1]

[1] http://eur-lex.europa.eu/Result.do?T1=V7&T2=2011&T3=621&RechType=RECH_naturel&Submit=Search

Large scale smuggling of especially cigarettes and alcohol takes place at the Eastern Border of the EU causing huge losses for the budget of the EU and the Member States. Commissioner Semeta has tasked OLAF and TAXUD to prepare an Action Plan to fight against this smuggling along the EU Eastern Border. The Action Plan was adopted by the Commission on 22 June 2011 as a Staff Working Document accompanying the Commission Anti-Fraud Strategy.
The purpose of the Action plan is to provide for a comprehensive overview of existing measures at EU level, to identify remaining gaps and loopholes, to define objectives for future actions and finally to propose actions or measures that could be undertaken in order to tackle the smuggling. The Action Plan would thus allow for a more streamlined implementation.

As part of the Action Plan, OLAF organised a regional operational conference in Bucharest, Romania, from 22 to 24 June 2011, attended by relevant customs, police border guards and security services from Ukraine, Moldova, Romania, Bulgaria and **Hungary**.

IV. Reporting of irregularities

Agriculture

IV.1. **Reporting of irregularities**

Hungary is a small player as far as EAGF and EAFRD subsidies are concerned. It spends approximately 2%-2.5% of the total EU-budget.

Hungary reported during 2010 for the agricultural expenditure domain (EAGF and EAFRD) a relatively high number of cases of irregularities. It reported 116 out of a total of 1,825 cases. The total amount affected was about €26 million.

Hungary classified 69 cases as suspected fraud and 1 case as established fraud. The total amount affected by these fraud cases was about €21.1 million. All these cases concern the cereals sector.

The Commission determines every year per Member State a so called compliance rate. This rate indicates how well a Member State complied with the reporting obligations of Reg. 1848/2006. Hungary scored for 2010 a compliance rate of 87% compared with the EU-27 average rate of 90%. Hungary had in 2009 a compliance rate of 93%. The impression is that the Hungarian AFCOS does not always get the full support and cooperation of the Hungarian services (e.g. paying agencies) to forward in a timely manner all necessary information.

IV.2 **Irregularity and fraud rates**

Rates can only be determined for financial years that can be considered as finalised. The financial years 2004-2005 can be considered as finalised now that audit programmes and plans have been executed and irregularities have been reported. The Hungarian irregularity rate in the area of agriculture for these years is 0.06% and the fraud rate is 0%.

The rates for the financial years 2006 – 2010 should be seen as half-time-results as audit programmes and plans are still running which implies that more cases of irregularities, including fraud, can be expected in the coming years. The irregularity and fraud rate are for this period 0.57% and 0.42%, which are the highest and second highest rates in the EU.

Hungary reported for the financial years 2006-2010 the highest amount affected by irregularities and suspected fraud cases, respectively € 29 million and € 21 million. Almost all cases concern the sector "intervention measures in the form of public storage" as described in Reg. 884/2006[2].

Cohesion

IV 3 **Programming Period 2004-2006**

- The irregularity rate is 2.5%, lower than the then EU-25 average (1.9%). The fraud rate is 0.10%, less than half the EU average (0.25%).

IV 4 **Programming Period 2007-2013**

- The irregularity rate is 0.4% and is half the EU average (0.8%). However, this value is influenced by a very limited number of cases presenting a very high financial impact. Therefore, taking this into account the HU rate is almost in line with that of the EU.

IV.5 **Coordination meeting**

In the framework of the (bilateral) Annual Coordination Meetings for the coordination of control strategies between audit services of the Commission and the Member States, OLAF provides a presentation aiming at:

- Fraud awareness raising;

- Fraud prevention (summarising the main findings of analytical work and indicating risk indicators);

- Profiling economic operators involved in detected cases of suspected fraud in terms of typology, financial support received and geographical "origin".

[2] See explanation of cereals case in annex.

Annex

<u>Explanation of cereals case in the area of agriculture</u>

Cereals were stored in the intervention stocks on date A. Some time later on date B it was established that x tonnes of cereals had gone missing due to theft or deterioration. The average market price for the standard quality of cereals in Hungary on date B was significantly higher than the basic intervention price on date A. In such cases where cereals go missing, Reg. 884/2006 requires the market price to be reimbursed by the Member State plus 5%. The difference between the amounts collected by applying the market price and the amounts booked to the EAGF by applying the intervention price has then to be credited to the EAGF at the end of the accounting year among the other elements of credit.

Hungary therefore included the costs of intervention, which also had to be repaid, in the amount to be recovered (EUR 25 million) and as a consequence the total amount to be recovered is substantially higher than the total EAGF-expenditure on date A. This has led to a specific impact on the calculation of the Hungarian irregularity rate and for these reasons the rather high Hungarian rate should not be directly compared with the rates of the other Member States.

IB. INFORMATION ON THE MANAGEMENT AND CONTROL SYSTEMS FOR THE STRUCTURAL FUNDS IN HUNGARY – AUDIT ISSUES

1) Audit activity on the 2000-06 programming period

The audit assurance to enable the auditors to draw conclusions as to the effective functioning of the management and control systems for the period 2000-2006 for Hungary is obtained via a combination of audit procedures:

- system audits of the key bodies of the management and control system (Managing Authority, Paying Authority, Intermediate Bodies, Winding-Up Body) and sample checks

- review of the work carried out by the Winding-Up Body in preparation for closure

- analysis and follow up of national system audit reports

- analysis and follow up of audits carried out by the Government Audit Office

- analysis of the annual control reports required under article 13 of Regulation 438/2001

and article 12 of Regulation 1386/2002 (for the Cohesion Fund)

- analysis of the Annual Summary

- analysis of Winding-Up declarations submitted by the Winding-Up body

Audits carried out by DG REGIO for the 2000-06 programming period

For Hungary, system audits have been carried out during the years 2005-2007 for 3 Operational Programmes and for the Cohesion Fund (Regional Development OP, Economic Competitiveness OP, Environmental Protection and Infrastructure OP, Cohesion Fund Environment and Transport Sector).

Additionally, 4 audits focusing particularly on public procurement were carried out between 2005-2009 (mainly covering the transport and the environmental sector of the Cohesion Fund).

In 2008 an audit focusing on the review of the work of the Winding-Up Body, responsible for all mainstream and Interreg OPs and all Cohesion Fund projects, was carried out.

In December 2009 a public procurement audit was carried out focusing particularly on contract modifications related mainly to Cohesion Fund projects. As a result of this audit financial corrections of EUR 2.6M have been accepted by the Member State authorities to date.

In November 2010, an additional audit focusing on the review of the work of the Winding-Up Body was carried out in relation to two Cohesion Fund projects, for which the Winding-Up Declarations had been submitted to the Commission. The contradictory procedure for this audit has not been closed yet.

The audit work carried out for the period revealed in several cases weaknesses in the effective functioning of the management and control systems, more particularly as regards the verification of public procurement. During the follow up procedure DG Regio auditors have verified that the audit recommendations have been adequately addressed, remedial actions taken and where applicable, that the necessary financial corrections and recoveries have been carried out.

As a result of an audit carried out in November 2007 on the Budapest Waste Water Treatment Plant Cohesion Fund project (2004HU16CPE001) a financial correction of EUR 40,5M was proposed in respect of a serious breach of the public procurement rules. This correction was accepted by the Member State in February 2009.

As a result of the audit carried out in November 2009, a financial correction arising from irregularities related to contract modifications, amounting to ca. EUR 2.2M, was accepted by the Member State authorities.

A Cohesion Fund project audit is planned for July 2011 as part of the enquiry related to the review of the work of the Winding-Up Body.

Analysis of reports and Winding-up Declarations by DG REGIO

From the analysis of the Winding-Up declarations it could be concluded that a sufficient level of sample checks has been carried out and no material systemic weaknesses have been reported and for any of the 4 mainstream programmes. Error rates reported in the Winding-Up Declarations were all below the 2% materiality level.

From the analysis of the annual control report under article 12 of Regulation 1386/2002 for the year 2009 for the Cohesion Fund, it could be concluded that a sufficient level of sample checks has been carried out and no material systemic weaknesses were reported.

Overall Assessment

As a result of all of the audit work carried out as described above and on the basis of the Winding Up declarations submitted, DG REGIO auditors concluded in the Annual Activity Report for 2010 that:

-for the Regional Development OP, the management and control systems were functioning well (unqualified opinion).

-for the Economic Competitiveness OP a qualified opinion was issued due to the high level of outstanding recoveries and an ongoing irregularity procedures after the closure

- for the Human Resources Development OP a qualified opinion was issued as additional audit work was requested from the Winding-Up Body due to insufficient coverage for one specific measure of the OP.

-for the Environmental Protection and Infrastructure OP a qualified opinion was issued as the procedure of the Managing Authority for handling irregularities was considered high risk.

For the Cohesion Fund a qualified opinion with moderate impact was issued due to the error rate above the materiality level in the Transport sector, due to pending financial corrections and due to doubts on the ability of the control system to detect public procurement related irregularities and due to weaknesses in the system for applying financial corrections.

Requests for the closure of the assistance have been submitted already for the 4 mainstream OP and 2 Interreg programmes. For the Regional Development OP and for the Interreg programme Hungary-Slovakia-Ukraine, the winding up declarations have been accepted. For the Economic Competitiveness OP, the Human Resources Development OP and for the Hungary – Serbia Montenegro Interreg programme additional audit work has been requested from the Winding up Body.

For the Cohesion Fund, from a total of 47 projects 12 have been closed, and Winding Up declarations were received for 16. The majority of the remaining Winding-Up Declarations is expected to be submitted to the Commission in the 2nd half of 2011.

2) Audit activity on the 2007-13 programming period

Summary of the audit strategy of DG REGIO (2007-2013)

In the framework of the single audit concept, the Commission services seek to rely on the work done by the audit authorities for the programming period 2007-2013. Therefore, Directorate-General Regional Policy launched an enquiry in 2009 to review the work done by the audit authorities for the ERDF and Cohesion Fund pursuant to Article 62 of Regulation (EC) 1083/2006. The main objectives of the review are

- (i) to obtain reasonable assurance that the work carried out by the audit authority is compliant with the requirements of Regulation (EC) 1083/2006, in particular with Article 62;

- (ii) and consequently, to assess the degree of reliance to be placed by the Commission services on the results of the work of the audit authority presented in the annual control reports and annual opinions submitted under Article 62.d.(i) and (ii) of Council Regulation (EC) No 1083/2006.

The audit approach consists of the following audit work modules:

1) Desk review in Brussels and participation as observers in an audit mission carried out by the Audit Authority.
2) Audit work on the spot to review the working papers of the Audit Authority.
3) Re-performance of systems audits done by the Audit Authority.
4) Re-performance of audits of operations done by the Audit Authority.

Audit work done by DG REGIO in relation to Hungary (2007-2013)

In the framework of the above enquiry DG REGIO has carried out seven audit missions in Hungary:

- Module 1 and 2 missions in 2009: only minor findings were reported;
- two Module 3 missions and one Module 4 mission in 2009-2010: only minor findings were reported;

- two additional Module 4 missions planned for September-October 2010 covering the Environment and Energy OP/Transport OP and the Electronic Public Administration OP;

Based on the work carried out in the 4 Modules the auditors of DG REGIO have obtained reasonable assurance that the work carried out by the Audit Authority is compliant with the requirements and the results of the AA's audit work, presented in the annual control reports and annual opinions, can be relied on for building the overall assurance, except for the following deficiencies:

- the system for following up audit findings and imposing financial corrections related to irregularities in public procurement needs to be improved;

- the Audit Authority should improve its methodology for auditing public procurement to better address issues relating to the interpretation of Community public procurement provisions.

The final report in relation to the enquiry was issued on 5 May 2011.

According to the information received from the Audit Authority in reply to the interim report, measures have already been initiated to address the above deficiencies.

Additional audit work done by DG REGIO in relation to Hungary (2007-2013)

Two additional missions were carried out under the framework of the enquiry "To obtain assurance on the functioning of the management and control systems through the audit of high risk Operational Programmes/ areas and horizontal themes (2010-2012)". This enquiry is aimed at complementing the 2007-2013 Review of the audit work of the Audit Authority for the period in question.

The audit of the Social Infrastructure OP which was carried out from 21 to 25 March 2011 brought to light the following main findings:

- lack of due diligence by beneficiaries when awarding contracts for design services
- quasi-direct award of service contracts and conflict of interest issues
- limitation of competition through overly restrictive selection criteria

The contradictory procedure for this audit has not been closed yet. Nevertheless, due to the gravity of the findings the procedure to suspend interim payments and the interruption of payment deadline has been initiated on 1 June 2011.

An audit of the Transport OP was carried out in April 2011 focusing on public procurement and the related management verification. The related audit report is currently under preparation.

Country Fiche for HUNGARY
June 2011

1. Basic Country Details

Key Statistics

HUNGARY			*Updated: 02/05/2011*
GENERAL ECONOMIC DATA :	**YEAR**	**HUNGARY**	**EU-27**
Population (million)	2010	10.0	501.1
Population aged 65+ (% of total population)	2010	16.6	17.2
Population change	2009	-1.7	2.8
GDP Head (pps) EU=100	2009	65	100
Real GDP growth rate (% change prev.year)	2010	1.2	1.8
Average inflation rate	2010	4.7	2.1
Price index, 2000=100 (based on euro)	2010	159	117
Unemployment rate (% of labour force)	2010	11.2	9.6
General government gross debt (% GDP)	2010	80.2	74

FUNDS FOR HUNGARY IN BILLION € 2007–13

Objective	Fund	EU	National Public	Total
Convergence	CF	8.6	1.5	10.1
	ERDF	11.2	2	13.2
	ESF	3.2	0.5	3.7
Total Convergence		**22.9**		
Regional Competitiveness and Employment	ERDF	1.5	0.3	1.8
	ESF	0.5	0.1	0.6
Total Regional Competitiveness and Employment		**2**		
Total European Territorial Cooperation*	ERDF	0.4	-	0.4
TOTAL		**25.3**	**4.4**	**29.7**

Figures have been rounded up

* Each Territorial Cooperation programme includes a minimum of 15% co-financing from each participating Member State.

COHESION POLICY :				*Updated: 02/05/2011*
Earmarking:	*Convergence: 53.3%;* *Competitiveness and Employment 52.1%*			
Absorption:		**ERDF**	**ESF**	**SF TOTAL**
Commitments:	HUNGARY	70.8%	71.2%	67.6%
	EU-27	70.5%	70.5%	69.5%
Payments:	HUNGARY	26.3%	18.2%	24.3%
	EU-27	25.7%	24.7%	24.7%

Socio-economic context

In Hungary, since early in 2010, financial market conditions have continued to improve, uncertainty about the recovery has gradually subsided, and investor confidence has picked up, as shown by several new flagship investments by large multinationals (benefiting in particular the auto industry, with car production capacity now set to expand to match that of Slovakia). The pick-up in economic activity has been supported mostly by recovering exports reflecting better than expected global trade demand. The healthy performance of the German manufacturing sector has in particular led to an upward revision for GDP growth, expected to have reached 1.2% in 2010.

In contrast to exports, domestic consumption has remained predictably subdued. High unemployment and, more recently, higher interest costs on Swiss franc-denominated mortgages due to the depreciation of the Hungarian forint have kept a lid on disposable income and consumption. The unemployment rate, which had usually been low, reached more than 11% in 2010. Hungary had obtained EUR 20 billion balance-of-payments assistance from the EU, the IMF and the World Bank to counter its liquidity problems during the financial crisis.

The fiscal position is now stabilized and the targets in terms of public deficit may be reached in the medium term. The fiscal and budget constraints may constitute an obstacle for the implementation of some of the measures included in the new Government programmes.

In 2009 and 2010, the Structural and Cohesion Funds played a crucial role in the European Economic Recovery Package put in place to counter the negative effects of the severe economic downturn in Hungary. Considering the difficult situation of the public finances in Hungary, EU Cohesion Policy has an essential role in ensuring a stable frame for the public investments in the medium term. The resources of the National Strategic Reference Framework (NSRF) are practically the only ones available to sustain investments aiming to generate balanced and sustainable long-term development.

Government

The Hungarian implementation system for the NSRF is centralized; all Managing Authorities are situated in one body, the National Development Agency (NDA). The NDA is under the authority of the Ministry of National Development. Since the elections in spring 2010, the Ministry is led by Mr. Tamás Fellegi.

Regions

In Hungary the regional planning is defined on the base of seven statistical NUTS2 regions: one, Central Hungary, being a "competitiveness" region, the others are "convergence" regions. There are no directly elected regional institutions. In each region, a Regional Development Council has been set up, which consists of delegates from the central administration and from local authorities (counties and main municipalities).

Cohesion Policy 2007-2013

Financial allocation: EUR25.3 billion (current prices)
Absorption (17.06.2011):
- Commitments:
  ERDF – 70.8% (EU27: 70.5%); Cohesion Fund – 61.3% (EU27: 65.6%)
- EU payments:
  ERDF – 26.8% (EU27: 26.5%); Cohesion Fund – 24.1% (EU27: 22.4%)

2. Structural Funds Facts

NSRF (2007-2013 Programming Period)

	ERDF	Cohesion Fund	ESF	**Total Cohesion Policy**	EAFRD	EFF
2007-13	12,988	8,642	3,629	**25,259**	3,806	34

In EUR million.

2007-13 Operational Programmes and financial allocations

Operational Programme	M EUR	Share of total Structural and Cohesion Funds (%)
Structural Funds **Convergence** Objective		
OP for Economic Development	2.858,8	11,47 %
OP for Environment and Energy	4.178,8	16,77 %
OP for West Pannon	463,7	1,86%
OP for South Great Plain	748,7	3,00%
OP for Central Transdanubia	507,9	2,04%
OP for North Hungary	903,7	3,63%
OP for Transport	6.027,2	24,19 %
OP for Social Infrastructure	1.782,0	7,15%
OP for North Great Plain	975,0	3,91%
OP for Implementation	315,1	1,26%
OP for South Transdanubia	705,1	2,89%
OP for Electronic Public Administration (multi-objective)	282,0	1,31%
OP for Social Renewal (multi-objective ESF)	3.038,7	12,19 %
OP for State Reform (multi-objective ESF)	102,9	0,41 %
Total	**22.889,6**	**91,85 %**
Structural Funds **Competitiveness** Objective		
OP for Central Hungary	1.467,2	5,89%
OP for Electronic Public Administration (multi objective)	76,4	0,31%
OP for Social Renewal (multi-objective ESF)	443,7	1,78 %
OP for State Reform (multi-objective ESF)	43,6	0,18 %
Total	**2.030,9**	**8,15 %**

3. Implementation update

Financial implementation (as of 17 Jun 2011)

OP	Fund	Financial allocation			Payments MS 1 EUR=269,16 HUF)			Payments EU	
		EU	National	Total	Approved	Contracted	Paid	Interim	Total
Economic Development	ERDF	2.858.823.730	504.498.305	3.363.322.035	67,6%	64,7%	26,9%	19,5%	27,3%
Environment and Energy	ERDF, CF	4.178.846.341	737.443.472	4.916.289.813	48,8%	37,4%	6,6%	5,3%	17,4%
West Pannon	ERDF	463.752.893	81.838.746	545.591.639	61,5%	58,5%	31,5%	21,7%	30,7%
South Great Plain	ERDF	748.714.608	132.126.107	880.840.715	60,5%	54,3%	31,1%	21,0%	30,0%
Central Transdanubia	ERDF	507.919.836	89.632.912	597.552.748	61,1%	56,3%	27,0%	20,1%	29,1%
North Hungary	ERDF	903.723.589	159.480.633	1.063.204.222	55,5%	51,2%	27,2%	16,1%	25,1%
Transport	ERDF,CF	6.027.275.303	1.063.636.818	7.090.912.121	78,8%	69,0%	21,4%	14,0%	25,9%
Social Infrastructure	ERDF	1.782.022.174	314.474.501	2.096.496.675	69,1%	66,9%	18,7%	10,4%	20,2%
North Great Plain	ERDF	975.070.186	172.071.209	1.147.141.395	53,7%	49,9%	25,3%	18,3%	27,3%
Implementation	CF	315.132.937	55.611.695	370.744.632	61,5%	65,7%	43,6%	36,6%	49,1%
South Transdanubia	ERDF	705.136.988	124.435.939	829.572.927	63,9%	58,1%	35,7%	25,3%	34,3%
Electronic Public Administration	ERDF Obj 1	358.445.113	63.255.020	421.700.133	46,5%	45,2%	24,9%	17,2%	24,2%
Electronic Public Administration	ERDF Obj 2							3,0%	5,0%
Central Hungary	ERDF	1.467.196.353	258.917.003	1.726.113.356	75,5%	69,5%	35,9%	28,0%	37,0%
Total		**21.292.060.051**	**3.757.422.362**	**25.049.482.413**	**65,5%**	**58,6%**	**22,0%**	**15,3%**	**25,8%**

General information on the Operational Programmes

In the current programming period, the main programme is the Transport OP (24% of the NSRF budget) which mainly focuses on trans-European transport network (TEN-T) (EUR 3.4 billion). Substantial investments are also foreseen for improving urban and suburban public transport, with important investments in the Budapest metro and in tram lines in Budapest and in the Hungarian middle-sized cities. This programme concerns all Hungarian regions.

The Environment and Energy OP (16.7% of the NSRF budget), also covering the whole Hungarian territory, mainly focuses on flood control and water and waste management (EUR 4.1 billion). Only EUR 400 million are planned for efficient energy use and renewable energy.

The "convergence" Economic Development OP (11.47% of the budget) plans to invest over EUR 1 billion in Research & Development (R&D) and innovation, in particular in the regional growth poles, but this axis is lagging behind. Direct grants for SMEs, including ‘support clusters’ and business advisory services; will amount to more than EUR 1 billion, too. Moreover, approximately EUR 750 million is allocated for financial engineering (JEREMIE), through a national holding fund. In Central Hungary the Regional OP finances similar measures.

The 6 Convergence Regional OPs, absorbing 17.33% of the available budget, mainly concern investments realised by municipalities both for infrastructures and for promoting local development. A significant amount in these programmes is devoted to urban development and renewal to be realised through an integrated approach. Regional Development Agencies, reporting to Regional Development Councils, operate as Intermediate Bodies in their implementation. The Competitiveness Central Hungary OP which absorbs 5.9% of the budget has a wider scope and includes measures for promoting innovation and enterprise development (including financial engineering) for an amount of EUR 590 Million.

Around 14% of the NSRF budget is planned for actions in the area of education and vocational training and increasing the adaptability of workers, firms, enterprises and entrepreneurs through the Social Renewal OP financed by the European Social Fund (concerning the whole country of Hungary). As a result, more than 400000 people from the working-age population are expected to take part in training. These actions are accompanied by the investment in education, health and social facilities financed in the convergence regions by the Social Infrastructures OP (7% of the NSRF).

The twin programmes State Reform (financed by the Social Fund: 0.6% of NSRF) and Electronic Administration OP (1.6% of NSRF) aim to improve the effectiveness of the public administration of and to promote its modernisation.

The institutional structure and the delivery system

Following the general election in April, a new Government took office in July.

PM Orbán heads a government of **only 8 larger ministries** in charge of wide portfolios (instead of the 13 ministries under the previous government), with roughly **40 state secretaries**; some of them practically act as "Junior Ministers" with substantial power.

The Minister of National Development is now in charge of Structural policy and Structural Funds and is, at the same time, responsible of the Transport and Environment Sectors. The National Development Agency, which is the Managing Authority of the all OPs, most of the Intermediate Bodies (in particular for Transport and Environment) and some main beneficiaries are now under the authority of the Minister of National Development. The Ministry intends to radically simplify the national implementation and management system of EU regional funds (shorter deadlines, simplified calls for proposals, fewer Intermediate Bodies).

The delivery system put in place by the Hungarian Authorities can be considered until now effective, well organised and adequately staffed. The new Government has decided to confirm this organisational set-up.

State of implementation

The implementation of the Hungarian OPs is proceeding reasonably well (more than 20% of total allocation paid by the Commission). Even if payments have been slowing down in relative terms in 2010, the data concerning the approved projects (around 60% of the total allocation) and the contracts signed (above 53% of total allocation) are partly reassuring. In 2011 it is important to launch operations and to prepare an adequate pipeline of projects covering the entire current planning period and possibly also the next planning period. This is particularly important for programmes including projects requiring lengthy preparation and implementation, as the Transport OP.

23 major projects have been adopted until now. 5 new major projects are presently under examination. JASPERS assists in an effective manner the beneficiaries and the Intermediate Bodies for the preparation of the projects and for their review before their submission to the Commission. It has been agreed that all the applications submitted to the Commission are accompanied by a JASPERS completion note.

In 2010 many decisions were reported by the former government, waiting for the election outcome and, once installed, the new government introduced changes to the governmental and administrative structures, and prepared new plans and decisions that will be finalised in 2011. Consequently it is expected that the implementation will be accelerated in 2011.

4. Current issues

- SMEs: The Hungarian NSRF has a strong focus on SMEs. Hungary makes a wide use of financial engineering-based instruments in favour of SMEs (see also next point). The intervention in favour of SMEs through direct grants has been increased in 2009. A further extension is conditional on the results of the assessment of the effectiveness of these measures. The question of the best mix of instruments for ensuring the development of SMEs has to be examined in depth in the next months.
- Financial engineering/JEREMIE: Hungary has put a very important focus on revolving financial instruments (i.e. financial engineering instruments) in the current programming period: with a volume of roughly EUR 750 million, its JEREMIE Holding Fund is the biggest in the EU-27. The Holding Fund is Venture Finance Hungary Plc., a national institution owned by the Hungarian Development Bank. Hence, there is no involvement from the European Investment Fund (EIF) regarding JEREMIE's implementation in Hungary. However, it remains to be seen whether this huge amount of available financial instruments finds corresponding demand on the ground. The products implemented (micro credit, SME loan, SME working capital loan, venture capital…) have so far only had limited success in matching local demand and in leveraging private capital. The new Hungarian Government intends to reform the range of financial engineering products and introduce new ones, e.g. combinations of grants, loans and guarantees, leasing products etc. Partly, these innovative products are already being implemented.
- Some positive aspects of the Hungarian planning can be mentioned:
  - Increased focus on innovation and research. A decision concerning the inclusion in the OP Economic Development of an important project of basic research, ELI (extreme light infrastructure), has been confirmed by the new government on 14 January 2011)
  - Integrated approaches in growth poles, urban and rural areas to promote innovation and development of deprived areas.
- New Széchenyi Plan: The Hungarian Government is preparing a medium term plan (the New Széchenyi Plan) that will apparently cover the same areas as concerned by the Europe 2020 strategy. The OPs will be the main instruments for its implementation. Some adaptation of the OPs may be required, even if most of the actions can probably be done on the basis of existing priorities. No official request or indication has been presented to the Commission until now.
- Absorption/Implementation: Hungary's absorption is around the average of the EU-27 (see table above for absorption (commitments/payments) data). 23 major projects have been approved out of 27 submitted. The implementation and delivery system can be considered effective. The new government has confirmed the National Development Agency as the Managing Authority of all the programmes. The Agency, most of the Intermediate Bodies and some main beneficiaries are now under the authority of the Minister for National Development. It has to be clarified how the segregation between beneficiaries and controllers can be ensured in some sensitive areas such as public procurement. Most of the managers of the Operational Programmes have been replaced. It has to be avoided that these changes disrupt and delay the implementation.

- Public procurement: Public procurement is the most critical issue for the sound management of Cohesion Policy in Hungary, particularly in OPs with many major projects such as Transport. The National Audit Authority identified serious deficiencies in the management and control systems for the Transport OP, especially concerning the contracts related to the Budapest Metro 4 major project. Deficiencies have been identified in other OPs. Corrective and remedial measures should be taken.

- Transport OP: In the Transport OP, no functional independence is ensured between the Managing Authority, the Intermediate Body, and the main beneficiary. In other words, the institutional set-up must be improved so as to ensure a proper segregation between these three entities. In particular, the European Commission is concerned by the fact that the Intermediate Body (KIKSZ Zrt.) and the main beneficiary (NIF Zrt.) are not only supervised by the same Ministry, but are also both owned by the Hungarian Development Bank. A recent audit also revealed that members of the management of the Intermediate Body also assumed, until recently, roles in the supervisory board of the main beneficiary.

- Partial interruption of the Social Infrastructure OP: On 1 June 2011 the Commission services have decided to interrupt for the Social Infrastructure Operational Programme the interim payments at the level of Priority axis 1 (Development of the infrastructure of education) and Priority axis 2 (Development of the infrastructure of the health care system). The decision of interruption is based on an audit report of DG REGIO which has shown that there is a serious deficiency in the functioning of the management and control system of the assistance in question related to first-level management verifications of the Managing Authority. In particular, the serious deficiency in the functioning of the management and control systems relates to public procurement irregularities identified in three of the fourteen contracts audited during the audit mission.

- Risks of decommitment/N+3: There are no risks of decommitment/no problems with N+3. In 2011 only for the Electronic Public Administration OP in the Competitiveness Objective there could be a marginal problem of absorption of funds in 2011 (loss of 1-2 millions €). Further problems of absorption could appear for this programme and also for Environment and Energy OP in 2012 and 2013..

EUROPEAN COMMISSION
Employment, Social Affairs and Inclusion DG

Social Market Economy in Member States I: ESF

Spain, Portugal, Hungary

Briefing for the delegation of the Budgetary Control Committee of the European Parliament to Hungary (20 July - 22 July 2011)

Contents

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1. Operational Programmes

Social Renewal OP (SOROP) (2007HU05UPO001)

The major part of ESF allocation targets the Social Renewal OP *(€3.483 billion)*, managed by the **Human Resources Programmes Managing Authority**[1]. Its overall objective is to increase labour market participation to be achieved primarily through measures addressing the supply side of the labour market. The OP strategy embraces employment policy, education and training, social services and services aimed at maintaining and restoring health standards.

The specific objectives of the OP are as follows:

- Improving alignment of labour market demand and supply
- Reducing the regional differences in activity
- Promoting adaptability to changes
- Promoting lifelong learning
- Improving the state of health and ability to work
- Strengthening social inclusion, promoting equal opportunities

The objectives are translated into six thematic priority axes, which are complemented by one dedicated priority axis for Central Hungary (the only Regional competitiveness and employment region) and two priority axes on technical assistance - one for each objective.

Priority axes and interventions	**ESF contribution (€, in current prices)**	**Share**	
		Obj.	**OP**
Convergence			
1.) Improving employability, promoting entry to the labour market	680 518 375(*)	26,3%	19,5 %
2.) Improving adaptability	549 739 133(*)	21,2%	15,8 %
3.) Providing quality education and ensuring access for all	756 138 748	24,9%	21,7%
4.) Developing the content and organisation of higher education to create a knowledge-based economy	380 576 402	12,5%	10,9%
5.) Strengthening social inclusion and participation	377 315 000	12,4%	10,8%
6.) Health preservation and human resource development in health system	188 086 286	6,2%	5,4%
7.) Technical Assistance in the convergence regions	106 355 531	3,5%	3,1%
Total Convergence	3 038 729 475	100%	87,3%
Regional competitiveness and employment			
8.) Implementing the OP's priority axes in the Central Hungary Region	428 255 970	96,5%	12,3%
9.) Technical assistance in the Central Hungary region	15 532 599	3,5%	0,4%
Total Regional competitiveness and employment	443 788 569	100%	12,7%

[1] In July 2006, the government set up the National Development Agency by merging the National Development Office and the authorities managing the implementation of the National Development Plan. All the different Managing Authorities work under the umbrella of the agency, the over-all co-ordination being ensured by the Co-ordination Managing Authority.

Priority axes and interventions	ESF contribution (€, in current prices)	Share	
		Obj.	OP
OP Total	**3 482 518 044**		**100%**

The Compliance Assessment documents were accepted by the COM on 22 October 2008. Both the Audit Strategy and the Communication Plan were submitted to, and accepted by, the COM.

In response to the economic crisis, the launching of ALMP measures has been speeded up. Furthermore - in line with the encouragement by the Commission for crisis-related interventions - the OP was modified on 21 August 2009. The re-allocation (76.923.077 EUR from Priority axis 2 to Priority Axis 1) resulted in increasing the resources allocated to active labour market interventions, as well as to the support of disadvantaged people and those who have been made redundant as a result of the economic crisis.

As far as implementation is concerned (up to end of February)**, only 39% of the OP budget has been contracted with 23% paid to the Final Beneficiaries** (data 04 July 2011)**.** This slow rate of financial implementation and payments to beneficiaries poses increasing absorption problems.

The main bottlenecks previously identified pointed to the need to i) re-enforce **policy planning** and the **co-operation mechanisms** between all institutions concerned *i.e.* the Managing Authority, line ministries and the Intermediary Bodies[2] (IB), ii) **streamline reporting** requirements for project beneficiaries, iii) **strengthen and optimize control mechanisms** and iv) address **delays** in the payment to the Final Beneficiaries.

In addition to the delivery mechanisms, the focus should also remain on the **policy substance**. In order to achieve the OP's objectives, priority measures identified in the context of the wider policy assessment processes, in particular Europe 2020 and Social Inclusion / Social Protection, should receive special attention. The Commission has stressed on several occasions that given the budgetary constraints arising from the economic downturn, ESF support should be better mobilised in response to the crisis. Moreover, the proper use of the EU funds should help Hungary to prepare for the recovery and to strengthen its economy. In this context, a detailed **Action Plan** had been requested from the MA and further discussed about at a meeting on 09 September 2010. The mentioned document was completed in April 2011 and is being fine-tuned, based on the comments by the COM.

Moreover, COM came to the conclusion that - with a view to help all the actors (Managing Authority, Co-ordination Managing Authority, Intermediary Body, line State Secretariats) concerned and with their full participation -, it is necessary to hold regular **technical monitoring meetings** in Hungary (the first set of these taking place already at the end of March 2011 with the second one held between 06-08 June 2011), with the ultimate goal of making the right moves for alleviating those bottlenecks which impede the successful implementation process.

During the recent meetings, both due to the enactment of **new national implementing regulations** aiming at simplification and the **new streamlined sectoral policies**, COM has received certain reassurance that the exponential speeding-up of the implementation process might take place in the coming months.

[2] *N.B.* Three IBs had been involved in the management of the SOROP until 31 December 2010, having merged into one as off 01 January 2011.

State Reform OP (SROP)
(2007HU05UPO002)

Hungary made use of the opportunities provided under the new Structural Funds Regulations in having a dedicated Public Administration Reform Programme, namely the State Reform OP *(€147 million)* whose overall objective is to increase the performance of the administration. The OP is managed by the Public Administration Programmes Managing Authority.

The overall objective to be achieved will be through measures addressing the procedural aspects of public administration and provision of services on the one hand whilst improving the quality of human resources in public administration on the other. The instruments of implementing this strategy are primarily training, the revision and redesign of procedures, better regulation of legal procedures and services affecting the public and enterprises as well as methodological support for the management and organisation of targeted public administration bodies.

The specific objectives of the OP are as follows:

- To improve the social outcome of public administration functioning;
- To ensure a more economic use of social resources in public administration and
- To improve the attitude of civil servants.

The objectives are translated into two thematic priority axes, which are complemented by one dedicated priority axis for Central Hungary (the only Regional competitiveness and employment region) and two priority axes on technical assistance - one for each objective.

As far as implementation is concerned, only 34,77% of the over-all OP budget has been contracted with 20,61% paid to the Final Beneficiaries (data: 01July 2011)**.**

The underlying **reasons** for the delay:

- The HU Government, at its meeting of 17 December 2008, **decided to initiate the transfer** of HUF 16 billion (*i.e.* 40% of the resources) from the budget of the State Reform Operational Programme to the 2nd priority axis of the Social Renewal Operational Programme.
- As a result of the formerly mentioned issue, **the Action Plan[3] covering years 2009-2010 was only adopted by the government in September 2009, resulting in delays in the implementation**.
- Due to an **EMPL systems audit** (included the audit of 5 operations as well) in March and April 2009, the Director General signed the letter of **interruption of the payment deadline** on 02/10/2009. After the 6-months contradictory period, the corrective measures taken by the MA were considered as a sufficient basis on which to formally end the interruption of the payment deadline, and in late 2010 two payment claims were processed. Nevertheless, implementation lost its speed also due to these delays.

The **bottlenecks** identified point towards the need to
i) use the resources concentrating on the key areas in order to prevent fragmentation;
ii) accelerate the contracting procedures and
iii) launch the calls and guidelines of the modified 2009-2010 Action Plan as soon as possible.

[3] Given the fact that in the new Programming Period there is no PC, the HU Government opted for a bi-yearly (for the last period tri-yearly) 'Action Plan' (containing all planned measures) which is commented by the Monitoring Committee and approved by the Government.

As already described for the SOROP, the Geo Desk has undertaken the holding of dedicated bi-monthly technical meetings with the line ministry and the MA, in order to accelerate the implementation process.

The MA submitted a 'position paper' for the MC meeting of 11/02/2011 on a **possible OP modification**, the need of which is also explicitly mentioned in the mid-term evaluation.

2. Issues - Implementation

The new Hungarian Government taking office on 29 May 2010 inherited a **sluggish implementation curve** for the ESF OPs. This is mainly a problem for the ***Social Renewal OP*** with special regards to 4 out of 6 convergence priorities, the Central Hungary Region potentially facing N+3. The main bottlenecks previously identified pointed to the need to i) reinforce policy planning and the co-operation mechanisms between all institutions concerned *i.e.* the Managing Authority, line ministries and the Intermediary Bodies[1] (IB), ii) streamline reporting requirements for project beneficiaries, iii) strengthen and optimize control mechanisms and iv) address delays in the payment to Final Beneficiaries (FB).

Therefore, COM came to the conclusion that - with a view to help all the actors (Managing Authority, Co-ordination Managing Authority, Intermediary Bodies, line State Secretariats) concerned and with their full participation -, it was necessary to hold regular **technical monitoring meetings** in Hungary with the ultimate goal of making the right moves for alleviating those bottlenecks which impede the successful implementation process. The Ministry of National Development helps COM organize the said meetings. This one in question was the second set of meetings, following the ones at end March 2011.

The bi-monthly technical implementation meetings serve **several purposes**: a) to have all interested parties (*i.e.* the planning side, the line state secretariats and the implementation side, the Managing Authority) around the same table, resulting in the same understanding of the underlying problems and possible solutions to the latter and b) to allow the Managing Authority to have more insight to the policy developments.

During the second round of bi-monthly implementation meetings (06-09 June 2011), regarding the **progress in the implementation of the Social Renewal OP**, COM came to the conclusion that there were marked differences between the different priority axes.

Concerning ***social policies*** (priority axis 5), important developments have taken place following the establishment of a department in the Ministry for National Resources, dedicated to strategic planning. A detailed plan was presented for the launching of the calls for proposals (a big part of which will take place in the summer) and the need for a higher number of staff will also be solved by employing contractual colleagues.

In the case of ***health*** (priority 6 which is the worst performing priority), the State Secretary himself was chairing the meeting, showing the high importance that the government attaches to this field. The enactment of the new health strategy of the Government *i.e.* the 'Semmelweis Plan' took place one week before the meeting, which would help speed up the implementation.

On the contrary, in the case of ***public and higher education*** (priorities 3 and 4), COM received far less re-assurance as to the exponential speeding up of the implementation. The reasons behind are multifold: on the one hand, the new acts of public and higher education are still under discussion (a coalition tension being present as well in this field); while on the other hand, there are significant human resources shortages. However, COM did not get straightforward assurance as to the resolving of the latter.

By way of a conclusion, it can be stated that the second set of meetings was of much **higher quality** (both in terms of presentation and content) and that this kind of joint discussions proved to be useful for the Hungarian side as well, in that all different partners could express their standpoint.

As regards the **State Reform OP**, it was stated by the MA that during this year there would not be any financial loss; however, next year the latter might become a reality. Unfortunately, the Action Plan[4] of the State Reform OP is strongly linked to that of the Electronic Administration OP, as the Government wanted to keep the two processes together. Nevertheless, the latter is not necessarily a negative feature in the sense that complex planning is taking place.

The MA re-iterated its view that an ***OP modification*** would be necessary, due to the lack of funding in the technical assistance priority axis[5], as well as in the Central Hungary Region. COM suggested to the MA to approach this issue from different angles and come up with a set of suggested solutions on 05 September.

The **next technical implementation meetings** will take place on 12-13 September.

3. Administrative structure – MAs & IBs

MAs

National Development Agency (under the umbrella of the Ministry of National Development) – encompasses all the MAs

Social Renewal OP: *Human Resources Programmes MA*

State Reform OP: *Public Administration Reform Programmes MA*

IBs

Social Renewal OP: *ESZA Non-profit Ltd.*
(*N.B*. Three IBs had been involved in the management of the SOROP until 31 December 2010, having merged into one as off 01 January 2011)

State Reform OP**:** *VÁTI Non-profit Ltd.*

[4] Given the fact that in the new Programming Period there is no PC, the HU Government opted for a bi-yearly (for the last period tri-yearly) 'Action Plan' (containing all planned measures) which is commented by the Monitoring Committee and approved by the Government.

[5] During the negotiations, the State Reform OP received half as much technical assistance budget as the Social Renewal OP.

4. Recent Audits

Social Renewal OP

EMPL Unit I/04 conducted a **systems audit from 25 to 28 May, as well as the audit of 8 operations in Budapest and Pécs from 21 to 29 June 2010**. As part of the audit, I/04 examined the design, efficiency and effectiveness of the Management and Control Systems in place for the implementation of the OP.

Based on the preliminary results from the systems audit and the follow-up project-based audits, the initial assessment of the EMPL auditors is to put this programme under **CATEGORY 3 i.e. limited assurance with significant impact**.

An **IPP fiche** was sent to the ESF PMB of 15 December 2010 which was asked to take note of the developments. The draft Audit Report (EN version) was transmitted to the Hungarian Authorities on 8 November 2010, who will then have 2 months to respond following receipt of the HU version. As the level of assurance in the draft Audit Report was put under **Category 3**, a 'pre-suspension' procedure was to be launched.

However, in the meantime, during the Annual Review Meeting in December 2010 and during the introductory meetings of the new E.4 management and the HU authorities, the MS demonstrated evidence of measures taken. With a view to a continuous smooth implementation of the program, the HU authorities requested a **meeting with the audit unit and the geo desk** to present the steps taken in response to the findings of the above mentioned audit. The meeting took place on **4 March 2011**.

The overall **outcome of the meeting** was that the National Development Agency (NDA - Managing Authority) would send an answer to the different findings of the report, stating whether they agree or not. With regard to the systemic deficiencies, Hungary was advised to propose a self-correction, quantified errors resulting from the projects should be corrected as necessary. Non-quantifiable financial errors should be treated by applying a flat rate correction.

As a result of the meeting, in order to speed up the process, the National Development Agency sent a **written response dated 9 March 2011.** In this response, the HU authorities put in writing the actions and efforts they had undertaken since the wrap-up meeting in June 2010 and the draft report sent in November 2010.

The main directions of the systemic changes are as follows:

- Amendments to and improvement of the regulatory framework (regulations, rules of procedures),

- Restructuring the National Development Agency in order to strengthen control functions as well as improving management and control systems of the Managing Authorities and the audit trails,

- Revision of the supervisory, control and financing systems of the Intermediate Bodies,

- Revision and redesign of the public procurement compliance control structures, capacity building.

The NDA also gives a detailed overview concerning the different findings of the draft audit report, notifying for each the level of agreement ("agrees", "partially agrees" or "does not agree").

The **key element in the response dated 9 March** is the MS' proposal to undertake a **5% flate-rate financial correction**, corresponding to 85% of the expenditure certified up to 28th February 2011 (HUF 139,127,255.472). An initial calculation shows that the self-correction would amount to ca**. € 21,75 million covering both project related corrections and corrections for systemic findings.**
In addition, the Government expressed its **commitment to further decrease the error rate** by the on-going improvement of the processes, with a special emphasis on the further improvement and adjustment of the management and control systems and the public procurement compliance verification system.

After the preliminary evaluation of Unit H3, the **EMPL auditors upgraded this programme and put it under Category 2**. The draft Audit Report (HU version) was transmitted to the Hungarian Authorities on 28/03/2011. A preliminary response to the flat-rate financial correction of 5% on the ESF share of certified expenditure until end of February 2011 was also sent to the MS on 04/04/2011. As far as the corrective measures described in the mentioned letter are concerned, without prejudging the in-depth analysis and the final outcome of the contradictory procedure, the suggested self-correction combined with the effective implementation of the Action Plan seems to be the appropriate way to correct the impact of the deficiencies identified and to ensure, for the future, the respect of the legality and regularity of declared ESF expenditures for this operational programme.

The final response of the HU authorities was received on 10/06/2011 and is currently being analysed.

State Reform OP

DG EMPL, Unit H3 conducted a systems audit on the **State Reform Operational Programme** from 02 to 12 May 2011 in Budapest. As part of the audit, they reviewed the work of the Audit Authority so as to assess the level of reliance DG EMPL can obtain from the work of the Audit Authority DGAEF (EUTAF) on their audit work on the functioning of the management and control systems implemented by the Managing Authority and the Intermediate Body. Consequently, the reliance that can be placed on the Annual Control Report and annual audit Opinion under Article 62(1)(d).

Further to the system audit report review, 5 project files on audit of operations have been analysed and 4 on-the-spot audits on Beneficiaries have been carried out in the aim to re perform the work by the Audit Authority.

The following two key requirements were assessed less favourable:

Key requirement 3: Adequate audits of operations (art. 62.1 b) and 98.4 of R 1083, art. 16- 17, 23 c) and Annex IV of R 1828)

Key requirement 4: Adequate annual control report and audit opinion (art. 62.1 d), (i) & (ii) of R 1083, art. 18.2 and Annexes VI and VII of R 1828)

The flash Audit Report was received on 25th May 2011, underlying the following main observations that might pose a risk to the implementation of the OP:

- The auditors noticed that the audits on operations had been performed in accordance with the updated and approved audit strategy, taking into account internationally accepted auditing standards. However, the description of the methodology in the ACR 2010 presented some weaknesses: (1) it was not absolutely clear how many

[6] registration lines: invoices or group of invoices, because of the low number of projects. This method had consequences on the audits of operations which are limited in their scope: our "whole project audit approach" focussing on expenditures was not followed.

The Hungarian AA is fully aware of this problem and looking for solution in the practice of other MS having a similar situation to face.

- Some weaknesses were identified in the implementation of the audit plan, delays due partly to the restructuring of the public sector, partly because of the heavy workload linked to the comprehensive character of the system audit, including all organisms and all key requirements. An audit of operations was also suspended because legal succession discussions.

- Some weaknesses were noticed in the publicity at the documentation level (logo and ESF financing mention), but with the new "Image Manuel" of March 2011, it seems to be over. Also, final beneficiary could not always demonstrate the proof of verification of the eligibility of the training participants; the selection procedure was not always documented completely.

- the ACR 2010 was not always clear on certain points and the communicated error rate can not be considered relevant as the entire sample was not yet finalized (suspended audit). The Hungarian AA will communicate as soon as possible the final error rate, once the audit – which is at the moment in the contradictory stage – is finalized.

No financial implications of the findings have been disclosed by the Flash report.
Concerning the procedure, the EN/HU draft report will be sent in 9 weeks, then the Member State will have 2 months to react.

5. OVERVIEW OF IRREGULARITIES AND SUSPECTED FRAUD (PERIOD 2007-2013)

State of play of reported irregularities 2007-11 as presented during the Annual Coordination Meeting with the Hungarian Audit Authority on the 4th April 2011

The table presents the overall number of irregularities and suspicions of fraud reported by the HU authorities. The table also shows the Fraud Frequency Level (FFL) which represents the percentage of the irregularities classified as suspected fraud and the Fraud Amount Level, indicating the percentage of the total irregular financial amounts that are linked to cases of suspected fraud.

	N° of reported irregularities	N° of suspicions of fraud	FFL	Total irregular financial amounts	Total financial amounts for suspected fraud	FAL	Total Payments	IrR	FrR
EU 27	1.273	136	10,7%	640.192.781	435.486.318	68,0%	82.223.365.019	0,8%	0,5%
HU	66	2	3,0%	26.407.199	29.788	0,1%	6.062.708.542	0,4%	0,0%
% of TOTAL	5,2%	1,5%		4,1%	0,0%		7,4%		

[6] Common Monitoring and Information System.

The table details the information related to HU presented in the previous data by operational programme.

Programme Number	Denomination	N° of reported irregularities	N° of suspicions of fraud	FFL	Total irregular financial amounts	Total financial amounts for suspected fraud	FAL
2007HU05UPO001	Operational Programme for Social Renewal	38		**0,0%**	1.952.828		**0,0%**
2007HU05UPO002	Operational Programme for State Reform	7		**0,0%**	1.161.958		**0,0%**
2007HU161PO002	Operational Programme for Environment and Energy	8		**0,0%**	601.076		**0,0%**
2007HU161PO005	Operational Programme for Central Transdanubia	1		**0,0%**	201.058		**0,0%**
2007HU161PO006	Operational Programme for North Hungary	1		**0,0%**	24.498		**0,0%**
2007HU161PO007	Operational Programme for Transport	1		**0,0%**	21.952.950		**0,0%**
2007HU161PO008	Operational Programme for Social Infrastructure	2		**0,0%**	169.202		**0,0%**
2007HU161PO009	Operational Programme for North Great Plain	1	1	**100,0%**	14.346	14.346	**100,0%**
2007HU161PO010	Operational Programme for Implementation	2		**0,0%**	64.693		**0,0%**
2007HU161PO011	Operational Programme for South Transdanubia	1		**0,0%**	19.506		**0,0%**
2007HU162PO001	Operational Programme for Central Hungary	3	1	**33,3%**	51.751	15.442	**29,8%**
2007HU16UPO001	Operational Programme for Electronic Public Administration	1		**0,0%**	193.333		**0,0%**
TOTAL		**66**	**2**	**3,0%**	**26.407.199**	**29.788**	**0,1%**

EUROPEAN COMMISSION
Employment, Social Affairs and Inclusion DG

Social Market Economy in Member States I: ESF

Spain, Portugal, Hungary

Annex to the briefing for the delegation of the Budgetary Control Committee of the European Parliament to Hungary

(20 July - 22 July 2011)

Content:

Project fiche TÁMOP-5.3.3-08/1-KMR-2009-0002

Training-employment for disadvantaged people

Final Beneficiary:	Kiút Szociális és Mentálhigiénés Egyesület
Title of the project:	„Útravaló az újrakezdéshez”
Address of the implementation:	1077 Budapest, Wesselényi u. 17.
Contact person:	Kölesné Bukovics Zsuzsanna - 1/413-3554, kiut@t-online.hu Nonprofit Alapítvány (Partner) - Virág Tünde - 1/413-7725, flaszter@t-online.hu
Date of the call for proposal:	30 June 2009
MA approval	30 December 2009
Date of contracting:	19 April 2010
Requested amount:	41 998 540 HUF
Total amount of project support::	41 998 540 HUF
Start of implementation:	2010.05.01.
End of implementation :	2011.12.31.
State of play of payments:	9.018.989 Ft was paid for the Final Beneficiary, 5.680.500 Ft for partners. Further 15.406.427 Ft was approuved for the Final Beneficiary.

Brief summary of the project:

The project aimes at the involvement of 30 homeless people. By providing complex services, placing 20 persons for VET training, so as 15 to be able to pass successfully the exams, to obtain new qualifications. It is a very important element to find solutions for the living conditions also. For 20 people residence allocation is provided, with the aim that 16 of them could keep their housing after the supported period. Minimum 6 persons are to be at least 4 month in a job.

State of play:

1. **Progress report:**

15 unemployed homeless people was involved, who finished two modules of a work oriented competence development training course, 8 persons have started a VET course. Thanks to a job club support, 4 persons have managed to find a job. 15 persons were placed in a workers' residence.

2. **Progress report:**

From August – December 2010 personalised development plans have been prepared. 180 hours training were provided to develop key competences needed for employability (elementary skills as counting and reading and writing), also skills how to find a job, and on communication. 20 persons were involved in a certified VET program, housing was supported for 20 persons. Mentoring services were provided, crisis support was available for 24 hours, and also 'Job club', job oriented psychological support mainly for supporting motivation, carrier guidance, IT traing, socializing activities.
30 unemployed homeless people has already been involved, of that 11 has obtained new qualifications, 8 has been placed on the labour market. 12 out of 20 could keep their housing after the supported period during at least a month.

Monitoring indicator	**Unit**	Cummulative value in the former reporting period	In the current reporting period	Cummulative value	The target indicator for the given year
		(1)	(2)	(3=2+1)	(5)
Homeless people for whom an individual development plan has been prepared	prs	15	16	31	30
Housing support for whom an individual development plan has been prepared	prs	40	25	65	67
During the project implementation, once supported in housing, those who are able to keep their housing without support	prs	0	60	60	80
During the project implementation, homeless people for whom an individual development plan has been prepared and finished the training successfully	prs	0	23	23	50
Housing support for those who work continuously minimum 60 days in a 4 month period	prs	0	25	25	30

NATIONAL TAX AND CUSTOMS ADMINISTARTION OF HUNGARY

President

Reference number: 5229058832

Mr. Balázs Pataki

European Committee
TAXUD-C4
Brussels

Budapest, " " July 2011.

Dear Mr. Pataki,

Referring to your letter of 28/06/2011 in which you asked for information regarding the merger of Tax and Financial Control Administration and Customs Administration and the issue of combating VAT fraud, I

I. Merger of Tax and Financial Control Administration and Customs Administration:

The National Tax and Customs Administration of Hungary were established on 01/01/2011 with the merger of the Tax and Financial Control Administration and the Customs Administration.

The reasons for the merger were to unite the functions of the two administrations in one entity eliminating the parallelism and redundancy, to combine the professional knowledge of the organizations, to ensure fast and flexible flow of information, to reorganize a separate entity for tax investigations and with all these measures to protect and handle the widest scope of incomes from taxes and other duties on a higher level in the spirit of efficiency, professionalism and cost optimality.

Prior to the merger – as a first step - there was a half-year preparatory work of the two administrations in order to prepare the legislative and organizational conditions of the union. In the past, the two separate administrations had worked in close and widespread cooperation, helping each other by way of sharing information, conducting joint audits and joining working committees. The merger has formalized this cooperation within one organization which could work in a more cost-efficient, flexible and by synchronizing common interests, more efficient way.

In the meantime, establishing the new organization (NAV) was only the first step of the merger. In this phase the common organizational structure, the rearranged functions, powers and competences were successfully evolved. However, the full integration of the administrations is a long and gradual process in which the balance between the need for continuous change indicated by the modernization of public administration and the stability that is required for a high quality, professional work should be kept.

NAV was established as a three-level organization, at the start with separate tax administrations and customs administrations and because of the nature of their activities more separate criminal administrations at local and medium level. Accordingly, the central leadership is unified via the President, Vice-Presidents and the Central Office, the strategic goals are common but on regional level there are separate regional tax directorates and local (county) tax directorates as parts of the tax administration (tax branch) and regional customs directorates and local (county) customs directorates as parts of customs administration (customs branch). As a special organizational mechanism of NAV there are investigation authorities; Criminal Investigation Directorate as a central body and regional criminal investigation administrations.

At the beginning of the merger the uniting of central functional tasks in a more efficient and cost effective way became possible as well as the rationalization of IT functions and organizations.

In the future, the key strategic objective of NAV is defining the next phases of integration mainly by harmonizing IT systems, common IT development and by creating a unified image towards taxpayers.

At the beginning, an emphasized goal was on one side to build a service provider administration and on the other side to protect the state budget more efficiently by legislative means of tax, customs as well as criminal law. Therefore the close and well organized cooperation of the three professional branches through more coordinated audit processes of tax and customs administrations in cooperation with the criminal directorates can effectively help the fight against those who are aiming to cause losses to the state budget.

The first six month of working together showed that the integration had started in the right direction; the three professional branches did their best to coordinate their activity and to organize their capacity in order to reach the common goals and outcomes at central and local level as well. It is important to emphasize that the three branches treat each other as equals in the daily work and the joint thinking on a general NAV level now exists which can be the basis of the successful common future and of the enhancement of further integration.

II. VAT fraud in Hungary and applied risk assessment measures to combat fraud:

VAT fraud in Hungary causes serious problems like in almost all of the Member States in the EU. The problems caused by such problems - and the methods of fraud - are similar to the ones used in other Member States. The sectors under risk are also similar: trade of IT spare parts, mobile phones, provisions (mainly: crops, meat, sugar), textiles etc.

The opinion of the Hungarian tax administration is – along with the tax administrations in other Member States – that fight against fraud can only be carried out successfully with international cooperation, therefore Hungary takes active part in the EU based platforms for combating tax fraud.

We would like to emphasize the importance of the EUROFISC cooperation (taking over the program named EUROCANET), which is very is successful and efficient in Hungary. Hungary takes active part in all four working fields of EUROFISC. It is important to mention, that active cooperation was initiated with the Customs Department allowing to exchange data concerning tax fraud committed in CPC 42.00 procedures (tax-exempt import of goods released into free circulation) - in Working Filed 3. -, which was possible as the outcome of the integration of the

Tax and Customs administration, enhancing the regular and easy access to databases in the integrated administration.

The Hungarian tax administration also takes part in international organization such as IOTA, OECD, mainly in subgroups for fight against fraud.

Hungary concentrates more on fight against fraud since its accession to the EU. Hungary developed a new system for May 2004, to detect new fraud schemes.

- Prior to the joining the EU, Hungarian colleagues had visited several MSs to get to know the typical VAT fraud schemes so after learning all these methods risk indicators measuring IC trade of taxpayers were worked out. Moreover, the findings of the audit regarding the taxpayer's role in the fraud scheme are registered in the system (as codes) enabling the colleagues to make analysis of the past and to set predictive models.
- In the Hungarian national VIES application control data from VIES system on IC supplies are automatically cross-checked with the IC acquisition data from the recapitulative statements of Hungarian taxpayers. The differences can be analyzed both by auditors and risk analyzers. VIES differences are transmitted to risk systems where they are aggregated and analyzed in different ways to give a general view on a taxpayer's possible fraudulent behavior.

In 2008 and 2009 new means were developed to asses the risk of VAT fraud. In order to select fraudulent taxpayers two databases were built:

- KoKaIn System is a system mapping connection among companies and persons involved in tax frauds (information gathered from audits). This way those fraudulent taxpayers having not been audited can be selected.
- In order to detect the fraudulent traders and map up the fraudulent network, the foreign traders recorded in the EUROFISC (former EUROCANET) are regularly crosschecked with the data of the Hungarian taxpayers' recapitulative statements. This method indicates the lists of those suspicious Hungarian taxpayers who have business relationship with suspicious or fraudulent traders and we have the data of these transactions (period in question, amounts, etc.) as well. This list is the so-called KoKaIn_EU and it was uploaded in a special database (data warehouse) and it is used during the selection and risk analysis (RADAR system)

By the end of 2009., the Hungarian tax administration created an individual data warehouse for supporting risk analysis - which was funded by an EU project - and also an integrated risk analysis program named RADAR (Risk Analysing and Decision supporting Application for Revision).The RADAR program enables the application of the most up-to-date business intelligence (BI) during risk analysis in the tax administration. In the RADAR project, predictive mathematic models were created to predict the role of the actors of carousel fraud and of the black economy. These risk prediction models were created in accordance with the CRISP methodology (for financial institutes), as stated in the BASEL II rulings.

The whole scope of the VAT entities were segmented as a result of the points given by the model rulings, resulting in placing the entities into categories, not only by the entities' size, but taking into consideration the risk of the entity as well (risk matrix according to the OECD credentials).

Yours sincerely,

Dr. Ildikó Vida

1054 Budapest, Széchenyi u. 2. Tel: 428-5100

Background on the Hungarian fraud prevention experience in the field of tobacco products

1. Situation in HU

Tobacco smuggling is a significant problem in the EU, causing budgetary losses of more than €10 billion . HU is a success story of tackling the illicit trade .
Tax and price increases led to 25% illicit trade in 2005 which was successfully eliminated by 2007 (ca. 8%). The latest data suggest illicit trade of just about 3%.

2. Two major measures undertaken by the HU authorities to fight tobacco smuggling

2.a. Customs measures

- Introduction of very strict customs controls mainly on the Ukrainian border (but also on the Romanian, Serbian and so called 'green' border): 50% of the cars and people crossing the borders were checked.
- Immediate seizure of the vehicle involved, to be released after payment of high fines.
- Travellers possessing more than 2 packs of cigarettes had to provide a written declaration when crossing the (third country) border.
- Introduction of a bonus scheme for customs staff (as a percentage of the value of seizures and the excise duties which were "saved" for the benefit of the HU revenues).
- Improvement in technical conditions (sniffing dogs, mobile scanning stations etc.).
- Strict excise controls within the country (mobile control units, customs raids).
- Creation of a designated inter-services investigation task force (customs, intelligence, police, national security).
- Strong anti-corruption campaign within the customs organisation (implementation of a "motivation system").
- International and close cooperation within SECI (Southeast European Cooperative Initiative combating trans-border crime), OLAF and EUROPOL.

2.b. Tax measures

At the end of 2004, the HU MoF initiated an industry agreement focussing on the scheme of excise increases until the end of the derogation period (no increase in 2005 and two smaller increases per annum instead of repeated hikes). Furthermore, tax stamps on tobacco products were redesigned and contain particular security elements now.

Sources:
- Hungarian Customs and Finance Guard, Special Anti –Smuggling Unit, Záhony BCP

TAXUD C2/C4

Agricultural Policy Perspectives

Member States factsheets – May 2011

European Commission
Agriculture and
Rural Development

HUNGARY

Source: Eurostat.

Main figures - Year 2010	
Population (1st January)	10 014 324 inhabitants
Area	93 034 km^2
Currency	HUF – forint
Exchange rate (1 EUR = … units)	275.48
Nominal GDP at current prices	98.4 billion EUR
GDP per capita at current prices	9 845 EUR
GDP per capita at purchasing power	15 859 PPS
Harmonised index of consumer prices	4.7 annual % change
Unemployment rate	11.2% of labour force
Exports (goods and services)	85.1 billion EUR
Imports (goods and services)	77.9 billion EUR
Exports of agricultural products	5.3 billion EUR
Imports of agricultural products	3.5 billion EUR
Current account balance	1.7 billion EUR
General government balance	-4.2 billion EUR
General government gross debt	78.3 billion EUR

Sources: European Commission, Eurostat, COMEXT, DG for Economic and Financial Affairs. Updated: May 2011.

Economic forecast

Indicators	2007	2008	2009	2010f	2011f	2012f
Annual % change						
GDP growth (at current prices)	0.8	0.8	-6.7	1.2	2.7	2.6
GDP deflator	5.9	4.8	4.4	2.9	2.6	2.5
Harmonised index of consumer prices	7.9	6.0	4.0	4.7	4.0	3.5
Exports (goods and services)	16.2	5.7	-9.6	14.1	9.6	9.2
Imports (goods and services)	13.3	5.8	-14.6	12.0	9.3	8.6
% of total employment						
Unemployment rate	7.4	7.8	10.0	11.2	11.0	9.3
As % of GDP						
Trade balance	-0.2	-0.6	3.5	4.7	5.0	5.9
Current account balance	-7.0	-6.9	-0.4	1.7	1.6	1.9
General government balance	-5.0	-3.7	-4.5	-4.2	1.6	-3.3
General government gross debt	66.1	72.3	78.4	80.2	75.2	72.7

Source: European Commission, DG for Economic and Financial Affairs, *European Economic Forecast, Spring 2011.* Updated: May 2011.

1. KEY DATA

Macroeconomics			
Population (new European Commission methodology)			
Total population (000 inhabitants), of which:	2007	10 055.7	2.0% of EU-27
in predominantly rural regions (PR)	2007	47.5%	23.7% in EU-27
in intermediate regions	2007	35.6%	35.5% in EU-27
in predominantly urban regions	2007	16.9%	40.9% in EU-27
Rural population in PR regions (000 inhabitants)	2007	4 775.6	4.1% of EU-27
GDP			
In EUR (current prices):			
Million EUR	2010f	98 445.6	0.8% of EU-27
GDP per capita	2010f	9 845	
In PPS:			
Million PPS	2010f	158 593.2	
GDP per capita	2010f	15 859	65 (EU-27=100)
Real GDP growth rate (% change on previous year)	2010f	1.2%	1.8% in EU-27
Gross value added			
Agriculture, hunting and fishing (% of total GVA)	2010	3.5%	1.7% in EU-27
Financial aspects			
Agricultural expenditure			
Total expenditure (million EUR), of which:	2009	1 504.9	2.5% of EU-27
Direct payments (%)	2009	45.4%	65.1% in EU-27
Market measures (%)	2009	19.6%	11.7% in EU-27
Rural development (%)	2009	35.0%	23.3% in EU-27
Economic accounts of agriculture			
Agricultural output			
Agricultural goods output (million EUR), of which:	2010e	5 915.8	1.8% of EU-27
Crop output (%), of which:	2010e	63.9%	2.0% of EU-27
Cereals (%)	2010e	28.6%	4.1% of EU-27
Industrial crops (%)	2010e	10.9%	4.1% of EU-27
Vegetables and horticultural products (%)	2010e	11.5%	1.3% of EU-27
Animal output (%), of which:	2010e	36.1%	1.5% of EU-27
Pigs (%)	2010e	10.7%	2.1% of EU-27
Poultry (%)	2010e	10.2%	3.6% of EU-27
Gross value added at basic prices (million EUR)	2010e	1 968.3	1.4% of EU-27
Agricultural input			
Total intermediate consumption (million EUR)	2010e	4 467.5	2.1% of EU-27
Agricultural income			
Indicator A (% change on previous year)	2010e	15.0%	12.4% in EU-27
Farm structure			
Holdings			
Total (No), of which:	2007	626 320	4.6% of EU-27
UAA < 2 ha (%)	2007	81.9%	48.4% in EU-27
ESU < 1 (%)	2007	77.5%	46.7% in EU-27
Holder < 35 years (%)	2007	7.6%	6.3% in EU-27
Holder > 64 years (%)	2007	27.5%	32.7% in EU-27
UAA per holding (has)	2007	6.8	12.6 in EU-27
Labour force (in holdings of more than 1 ESU)			
Persons (No), of which:	2007	374 830	2.3% of EU-27
Women (%)	2007	40.3%	39.3% in EU-27
Holders (%)	2007	36.0%	43.2% in EU-27
Agriculture in % of total employment	2010	5.5%	4.8% in EU-27

Sources: European Commission, DG Agriculture and Rural Development and Eurostat. Updated: May 2011.

2. POPULATION AND ECONOMY

Main regional data (at NUTS 3 level)

Year 2007		Area (km²)	Population (1 000 inhabitants)	GVA (Million EUR)	Employment (1 000 persons) (*)
Predominantly Rural regions (PR)	**Hungary**	**61 695.0**	**4 775.6**	**30 195.0**	**1 840.5**
	% of total area	66.3	47.5	34.9	44.0
	% in EU-27	56.6	23.7	16.6	21.4
	% in EU-15	56.0	19.2	15.7	17.3
	% in EU-12	58.4	40.8	29.8	37.6
Intermediate Regions (IR)	**Hungary**	**30 808.6**	**3 580.9**	**24 565.2**	**1 315.8**
	% of total area	33.1	35.6	28.4	31.5
	% in EU-27	34.3	35.5	31.8	34.6
	% in EU-15	33.9	34.6	31.4	33.7
	% in EU-12	35.3	38.6	36.1	37.9
Predominantly Urban regions (PU)	**Hungary**	**525.1**	**1 699.2**	**31 796.1**	**1 024.5**
	% of total area	0.6	16.9	36.7	24.5
	% in EU-27	9.2	40.9	51.6	44.0
	% in EU-15	10.1	46.2	52.9	49.0
	% in EU-12	6.3	20.6	34.1	24.5
Total area	**Hungary**	**93 028.7**	**10 055.7**	**86 556.3**	**4 180.8**

Source: European Commission, DG Agriculture and Rural Development (2010 Rural Development Report).

Note: According to a revised urban-rural typology that classifies NUTS 3 regions based on the share of population in rural grid cells: Predominantly Rural (PR) with more than 50% of the total population living in rural grid cells; Intermediate Regions (IR) between 20-50%; Predominantly Urban (PU) less than 20%; existence of large urban centers is taken into account to re-classify regions (European Commission, based on current OECD methodology, 2010). See also http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Urban-rural_typology (*) EU averages exclude AT.

Gross domestic product

GDP	2007	2008	2009	2010f	2011f
In million EUR	100 741.9	106 373.1	92 941.6	98 445.8	105 253.3
% of EU-27	0.8	0.9	0.8	0.8	0.8
Per capita (in EUR)	10 018	10 597	9 273	9 845	10 700
Per capita (EU-27=100)	40	42	39	40	42

Real GDP growth rate	2007	2008	2009	2010f	2011f
% change on previous year	0.8	0.8	-6.7	1.2	2.7

Source: European Commission, DG for Economic and Financial Affairs, *European Economic Forecast, Spring 2011.*
Updated: May 2011.

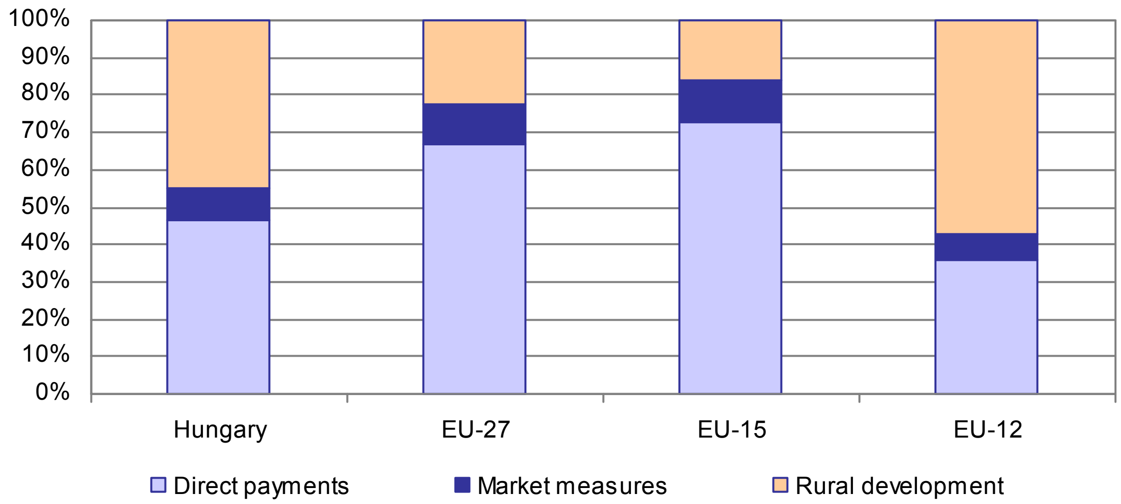
3.1. AGRICULTURE: FINANCIAL ASPECTS

CAP expenditure

Measures	2008	2009	Total 2007-2009	
	1 000 EUR		%	
Decoupled direct aids	540 210.1	681 837.8	46.4	99.8
Other direct aids	2 557.0	796.8	0.1	0.2
Additional amounts of aid	-	-	-	-
Direct payments	**542 767.1**	**682 634.7**	**46.5**	**100.0**
Cereals	-104 009.9	9 157.6	-4.0	
Rice	-	-	-	-
Refunds on non-Annex I products	1 071.8	731.7	0.1	1.0
Food programmes	9 842.5	13 205.2	0.8	6.5
Sugar	13 343.3	1 168.7	0.4	3.5
Olive oil	-	-	-	-
Textile plants	660.7	0.0	0.0	0.0
Fruit and vegetables	16 568.5	21 251.1	1.3	10.2
Wine sector	28 540.0	27 294.2	2.0	16.2
Promotion	204.2	487.9	0.0	0.2
Other plant products/measures	961.9	1 214.1	0.1	0.8
Milk and milk products	1 282.5	1 086.9	0.2	1.4
Beef and veal	457.0	1 017.1	0.1	0.6
Sheepmeat and goatmeat	-	-	-	-
Pigmeat, eggs, poultry and other	4 692.5	4 625.6	0.4	3.2
Sugar Restructuring Fund	45 885.5	213 954.7	7.1	56.6
Market measures	**18 905.9**	**295 194.9**	**8.6**	**100.0**
Rural development	**537 525.7**	**527 075.4**	**44.8**	**100.0**
TOTAL	**1 099 198.6**	**1 504 905.0**	**100.0**	**-**

Note: Payments for direct payments and market measures; commitment payments for rural development.
Sources: European Commission, DG Agriculture and Rural Development (2007-2009 EAGF Financial Reports) and Commission Decision 2006/636/EC. Updated: October 2010.

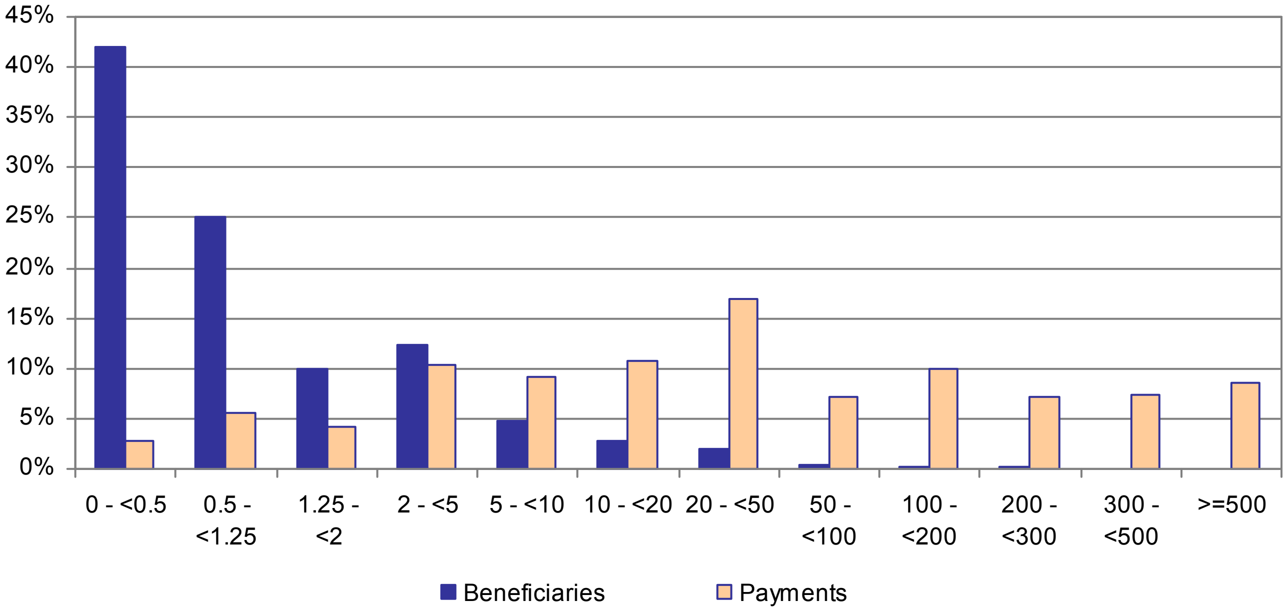
Distribution of CAP expenditure (2007-2009)



3.2. AGRICULTURE: FINANCIAL ASPECTS

Distribution of direct aids to the producers (2009 Financial year)

Indicative figures on the distribution of direct aid by size-class of aid (in 1 000 EUR)



Size-class of aid (all direct payments)	Financial year 2009			
	Beneficiaries		Payments in EUR	
	x 1 000	% of total	x 1 000	% of total
< 0 EUR	0.08	0.04%	-24	0.00%
≥ 0 and < 500 EUR	77.68	41.96%	19 561	2.86%
≥ 500 and < 1 250 EUR	46.30	25.01%	37 435	5.48%
≥ 1 250 and < 2 000 EUR	18.60	10.05%	29 255	4.28%
≥ 2 000 and < 5 000 EUR	22.87	12.35%	70 320	10.30%
≥ 5 000 and < 10 000 EUR	8.93	4.82%	62 326	9.13%
≥ 10 000 and < 20 000 EUR	5.30	2.86%	74 128	10.85%
≥ 20 000 and < 50 000 EUR	3.79	2.05%	115 548	16.92%
≥ 50 000 and < 100 000 EUR	0.70	0.38%	49 137	7.20%
≥ 100 000 and < 200 000 EUR	0.48	0.26%	67 668	9.91%
≥ 200 000 and < 300 000 EUR	0.20	0.11%	49 056	7.18%
≥ 300 000 and < 500 000 EUR	0.14	0.08%	50 649	7.42%
≥ 500 000 EUR	0.07	0.04%	57 837	8.47%
Total	**185.14**	**100.00%**	**682 896**	**100.00%**

Source: European Commission, DG Agriculture and Rural Development, *Report on the distribution of direct aids to the producers (financial year 2009),* February 2011.
Note: In order to protect the anonymity of the beneficiaries, numbers less than 10 have been made invisible in this table.

4.1. AGRICULTURE: ECONOMIC ACCOUNTS

Agricultural output

Output components	2008	2009	2010e	2009/2008	2010e/2009
	Million EUR			% change	
Cereals:	2 266.9	1 402.1	1 693.7	-38.2	20.8
Wheat and spelt	*857.8*	*456.0*	*522.2*	*-46.8*	*14.5*
Rye and meslin	*14.7*	*6.3*	*8.4*	*-56.9*	*32.3*
Barley	*213.1*	*102.7*	*107.9*	*-51.8*	*5.1*
Oats and summer cereal mixtures	*24.0*	*10.0*	*13.7*	*-58.4*	*37.0*
Grain maize	*1 082.9*	*788.2*	*994.9*	*-27.2*	*26.2*
Rice	*2.9*	*2.5*	*2.0*	*-13.8*	*-18.1*
Other cereals	*71.6*	*36.5*	*44.5*	*-49.1*	*22.2*
Industrial crops:	883.9	542.0	643.1	-38.7	18.7
Oil seeds and oleaginous fruits	*831.3*	*489.6*	*581.5*	*-41.1*	*18.8*
Protein crops	*16.0*	*11.8*	*16.3*	*-26.2*	*37.5*
Raw tobacco	*5.7*	*4.4*	*6.6*	*-21.6*	*48.4*
Sugar beet	*21.0*	*22.9*	*25.4*	*9.4*	*10.7*
Other industrial crops	*10.1*	*13.2*	*13.4*	*31.2*	*1.7*
Forage plants	188.7	151.3	149.9	-19.8	-1.0
Vegetables and horticultural products	706.2	628.6	681.3	-11.0	8.4
Potatoes	104.5	84.5	113.6	-19.2	34.4
Fruits	363.8	296.2	382.1	-18.6	29.0
Wine	107.8	95.9	82.2	-11.1	-14.3
Olive oil	-	-	-	-	-
Other crop products	33.5	32.1	31.5	-4.3	-1.8
Crop output	**4 655.5**	**3 232.7**	**3 777.3**	**-30.6**	**16.8**
Animals:	1 623.0	1 429.7	1 432.9	-11.9	0.2
Cattle	*124.1*	*113.3*	*116.3*	*-8.7*	*2.6*
Pigs	*690.0*	*627.5*	*630.8*	*-9.1*	*0.5*
Equines	*2.8*	*3.2*	*3.2*	*14.4*	*1.9*
Sheep and goats	*39.4*	*42.4*	*41.5*	*7.6*	*-2.2*
Poultry	*738.9*	*612.7*	*604.9*	*-17.1*	*-1.3*
Other animals	*27.9*	*30.6*	*36.3*	*9.9*	*18.4*
Animal products:	869.8	648.0	705.6	-25.5	8.9
Milk	*572.9*	*376.5*	*422.2*	*-34.3*	*12.1*
Eggs	*207.0*	*191.8*	*194.9*	*-7.3*	*1.6*
Other animal products	*89.9*	*79.6*	*88.5*	*-11.4*	*11.2*
Animal output	**2 492.8**	**2 077.7**	**2 138.5**	**-16.7**	**2.9**
Agricultural goods output	**7 148.3**	**5 310.4**	**5 915.8**	**-25.7**	**11.4**
Gross value added at basic prices	**2 609.8**	**1 643.3**	**1 968.3**	**-37.0**	**19.8**

Source: Eurostat, Economic Accounts for Agriculture (values at current producer prices). Updated: March 2011.

4.2. AGRICULTURE: ECONOMIC ACCOUNTS

Agricultural input

Input components	2008	2009	2010e	2009/2008	2010e/2009
	Million EUR			% change	
Seeds and planting stock	336.7	299.4	308.0	-11.1	2.9
Energy	744.4	591.5	697.4	-20.5	17.9
Fertilizers and soil improvers	551.9	434.9	403.4	-21.2	-7.3
Plant protection products	358.1	301.8	318.5	-15.7	5.5
Veterinary expenses	79.3	72.5	71.3	-8.6	-1.6
Feedingstuffs	1 710.4	1 317.8	1 449.2	-23.0	10.0
Maintenance of materials	240.5	215.2	231.4	-10.5	7.5
Maintenance of buildings	32.3	26.2	27.2	-19.0	4.1
Agricultural services	438.4	356.1	380.7	-18.8	6.9
Other goods and services	627.3	552.6	580.6	-11.9	5.1
Total intermediate consumption	**5 162.5**	**4 167.8**	**4 467.5**	**-19.3**	**7.2**
Fixed capital consumption	**955.0**	**883.6**	**919.9**	**-7.5**	**4.1**

Source: Eurostat, Economic Accounts for Agriculture (values at current basic prices). Updated: March 2011.

Agricultural income

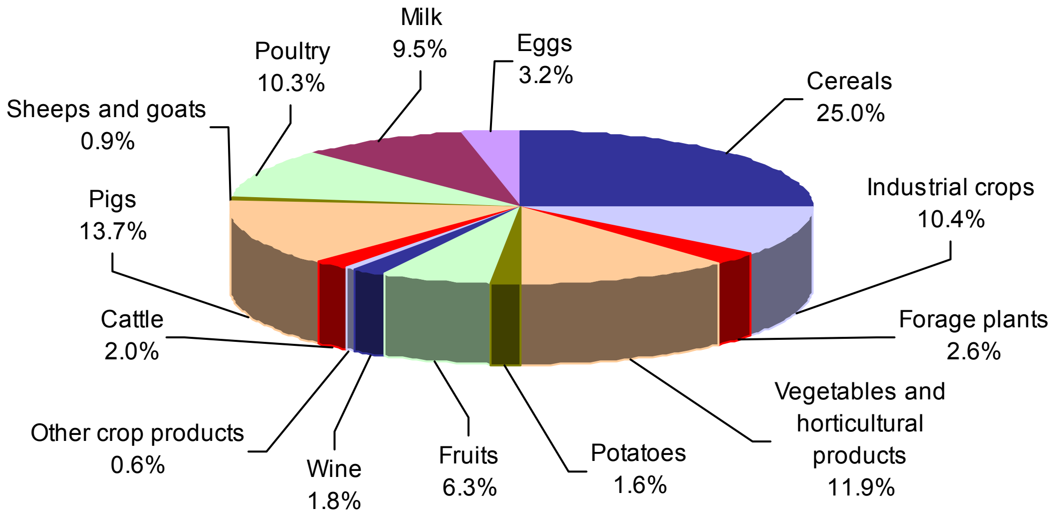
Values at basic prices	2008	2009	2010e	2009/2008	2010e/2009
	Million EUR			% change	
Output of the agricultural "industry":	**7 843.3**	**5 870.2**	**6 561.0**	**-25.2**	**11.8**
Crop output	4 655.5	3 232.7	3 799.5	-30.6	17.5
Animal output:	2 563.8	2 136.8	2 241.5	-16.7	4.9
Animals	*1 692.0*	*1 486.3*	*1 486.2*	*-12.2*	*0.0*
Animal products	*871.7*	*650.5*	*755.4*	*-25.4*	*16.1*
Agricultural services	438.4	356.1	380.7	-18.8	6.9
Secondary activities	185.7	144.6	139.4	-22.1	-3.6
- Intermediate consumption	**5 162.5**	**4 167.8**	**4 467.5**	**-19.3**	**7.2**
= Gross value added at basic prices	**2 680.8**	**1 702.4**	**2 093.5**	**-36.5**	**23.0**
- Consumption of fixed capital	955.0	883.6	919.9	-7.5	4.1
- Taxes	21.1	19.0	19.5	-9.9	2.7
+ Subsidies	1 207.8	1 120.3	1 096.0	-7.2	-2.2
= Factor income	**2 912.4**	**1 920.1**	**2 250.0**	**-34.1**	**17.2**

Agricultural income (Indicator A) (2005 = 100)	**153.4**	**107.2**	**123.3**	**-30.1**	**15.0**

Source: Eurostat, Economic Accounts for Agriculture (values at current basic prices; constant prices for Indicator A - see definition on page 9). Updated: March 2011.

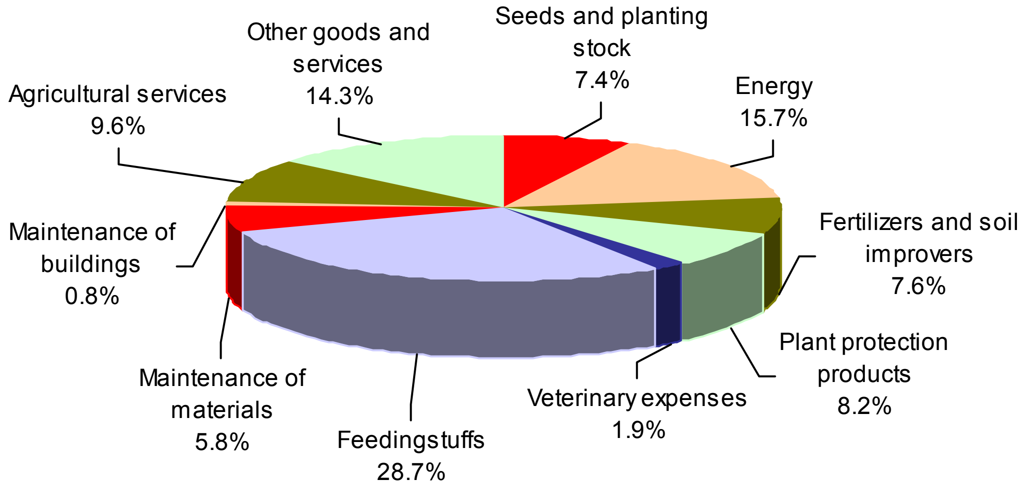
4.3. AGRICULTURE: ECONOMIC ACCOUNTS

Output components (2006e-2010e average)



Source: Eurostat, Economic Accounts for Agriculture (values at constant producer prices). Updated: March 2011.

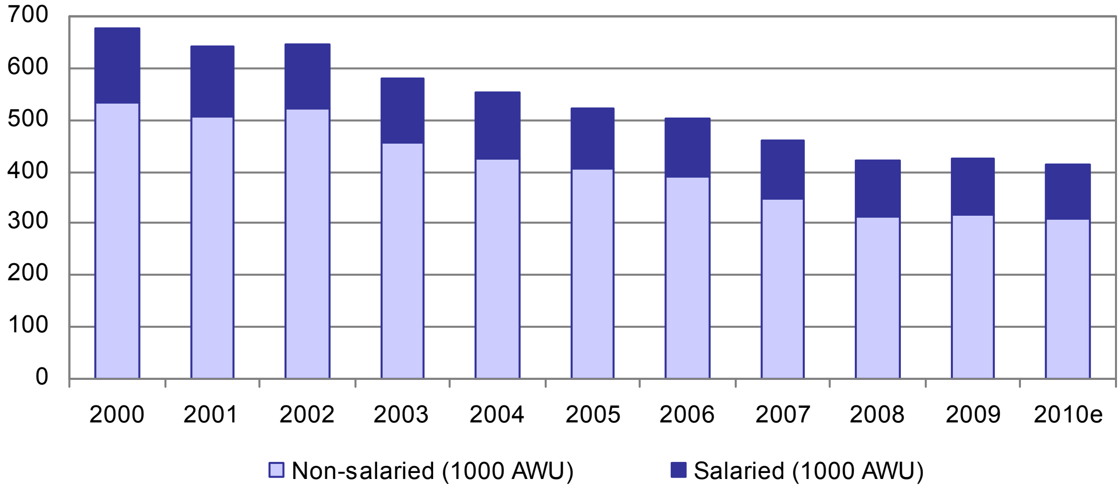
Intermediate consumption (2006e-2010e average)



Source: Eurostat, Economic Accounts for Agriculture (values at constant basic prices). Updated: March 2011.

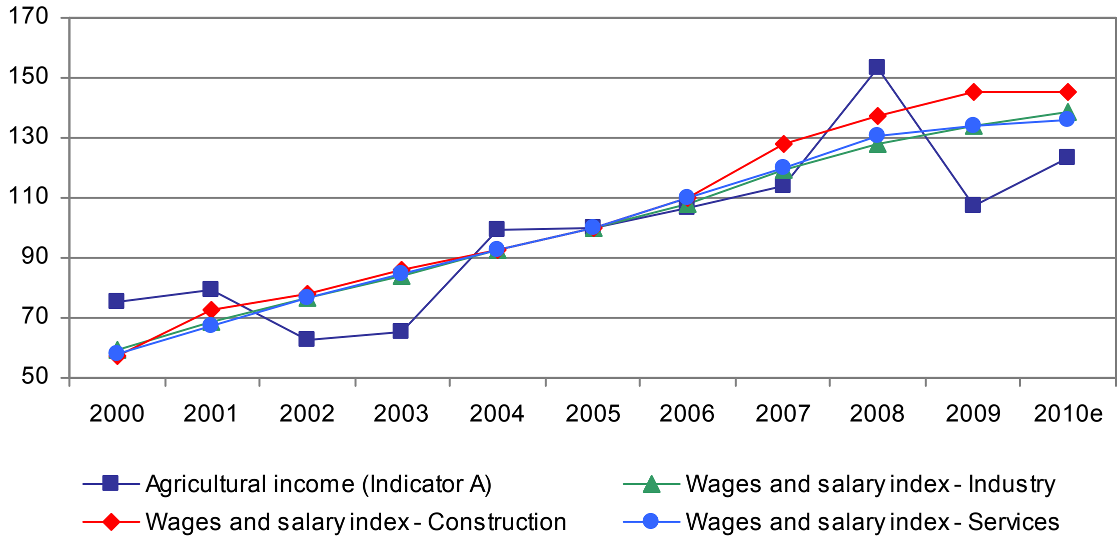
4.4. AGRICULTURE: ECONOMIC ACCOUNTS

Evolution of agricultural labour input



Source: Eurostat. Updated: March 2011.

Evolution of agricultural income (*) compared to wages and salaries in other sectors of the economy

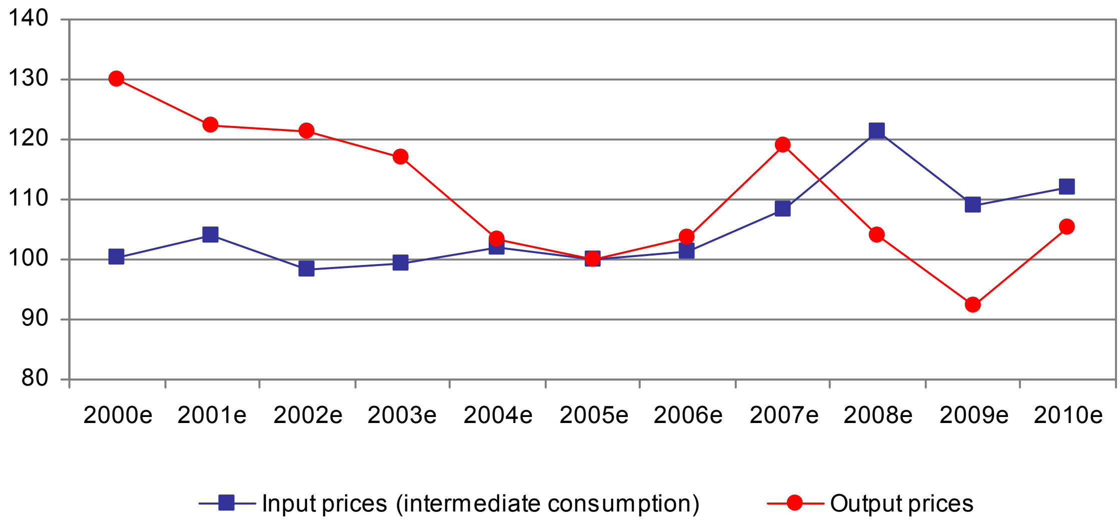


Source: Eurostat. Updated: March 2011.

(*) The so-called indicator A is the real net value added at factor cost of agriculture per annual work unit (AWU). The net value added at factor cost (factor income) is calculated by subtracting the consumption of fixed capital from gross value added at basic prices and adding the value of subsidies less taxes. The AWU is defined as the work volume corresponding to one full-time employed worked.

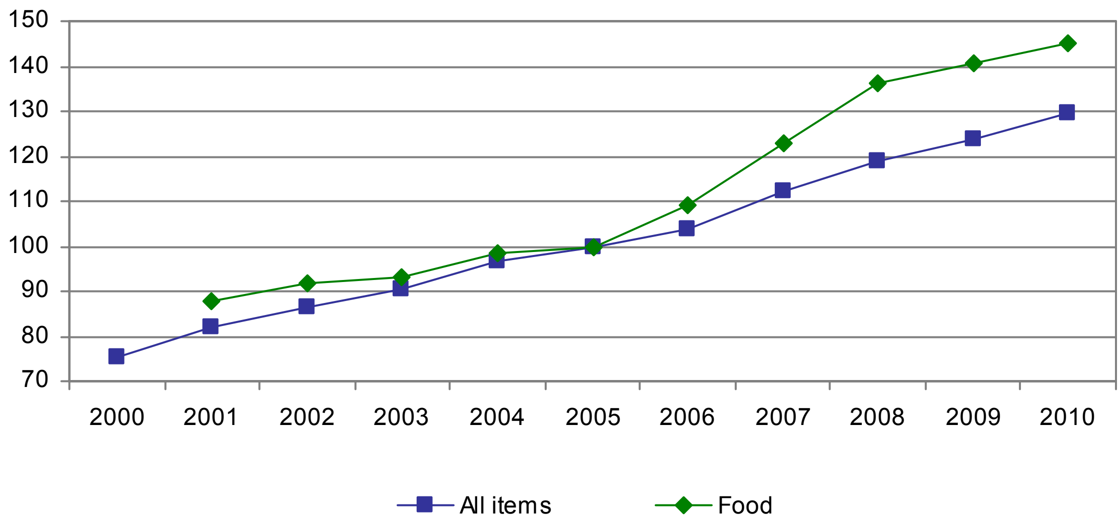
4.5. AGRICULTURE: ECONOMIC ACCOUNTS

Evolution of agricultural input and output prices



Source: Eurostat. Updated: March 2011.

Evolution of harmonized indexes of consumer prices



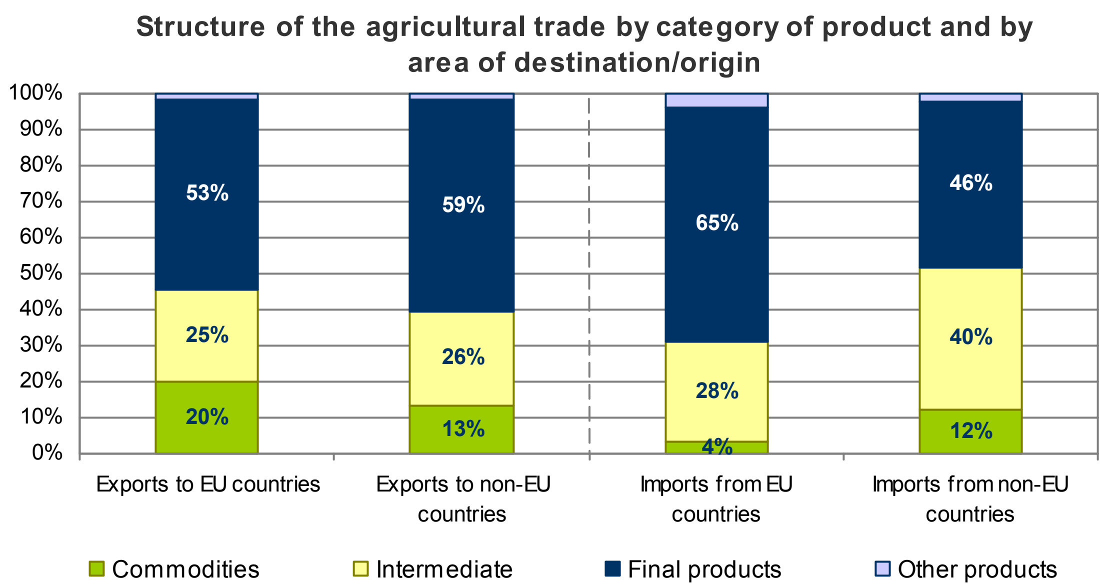
Source: Eurostat. Updated: March 2011.

5.1. AGRICULTURAL TRADE

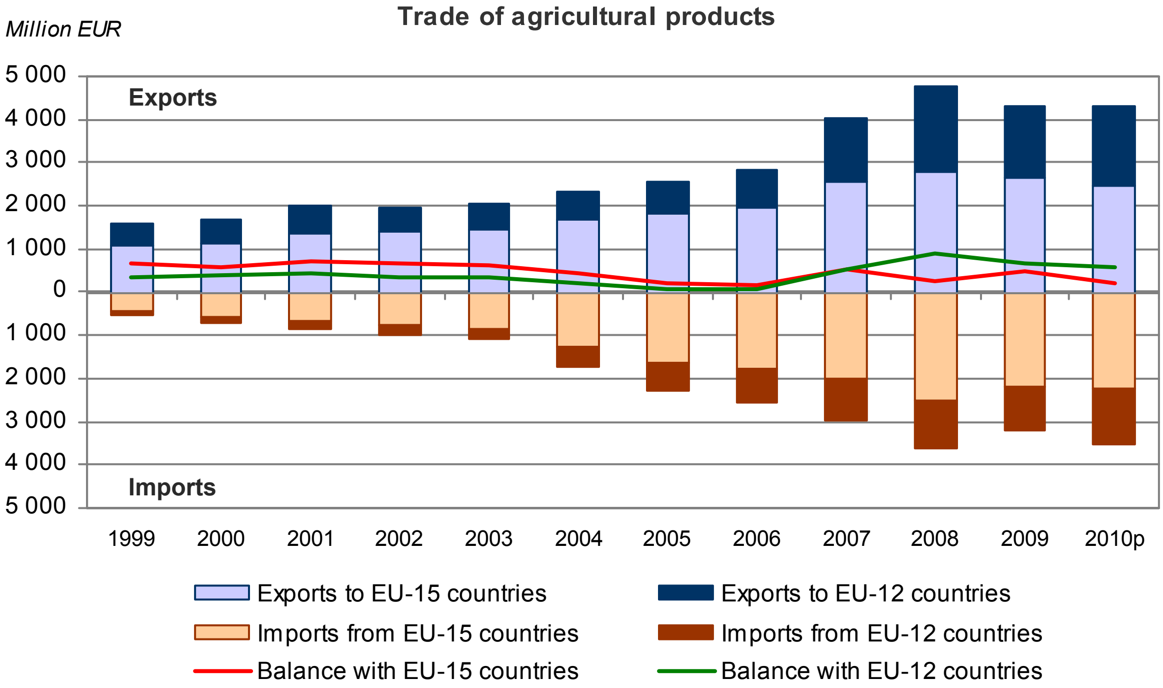
Agricultural trade in 2010

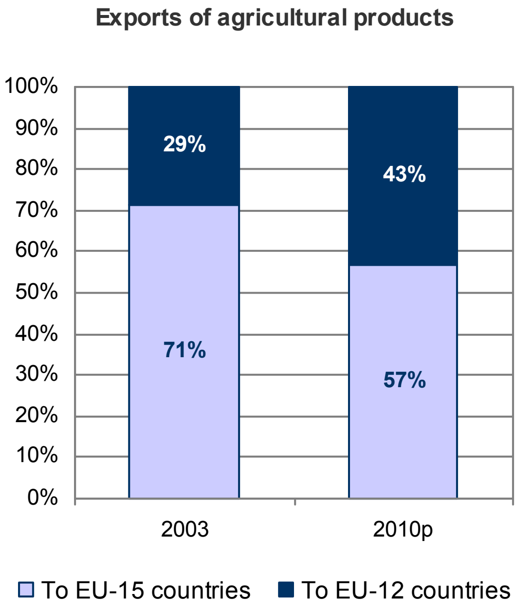
By category of product	Total trade	Trade with EU countries		Trade with non-EU countries	
	Million EUR	Million EUR	% change 2010/2009	Million EUR	% change 2010/2009
Exports					
Commodities	1 007.9	868.4	-3.2%	139.5	31.9%
Intermediate	1 347.3	1 078.0	10.7%	269.2	51.0%
Final products	2 898.0	2 280.8	-4.6%	617.2	22.8%
Other products	81.9	66.0	5.6%	15.9	4.9%
Total agricultural products	**5 335.1**	**4 293.2**	**-0.7%**	**1 041.9**	**29.9%**
as % of total exports	7.9%	8.4%	-	6.3%	-
Imports					
Commodities	148.8	113.3	0.5%	35.5	6.0%
Intermediate	990.2	874.9	18.8%	115.3	25.0%
Final products	2 203.1	2 069.7	-6.6%	133.4	16.8%
Other products	132.9	126.0	1.8%	6.9	-2.3%
Total agricultural products	**3 475.0**	**3 183.8**	**-0.2%**	**291.1**	**17.9%**
as % of total imports	5.5%	7.7%	-	1.4%	-
Balance					
Commodities	859.1	755.1	-	104.0	-
Intermediate	357.0	203.1	-	153.9	-
Final products	694.9	211.1	-	483.8	-
Other products	-51.0	-60.0	-	9.0	-
Total agricultural products	**1 860.1**	**1 109.4**	**-**	**750.7**	**-**

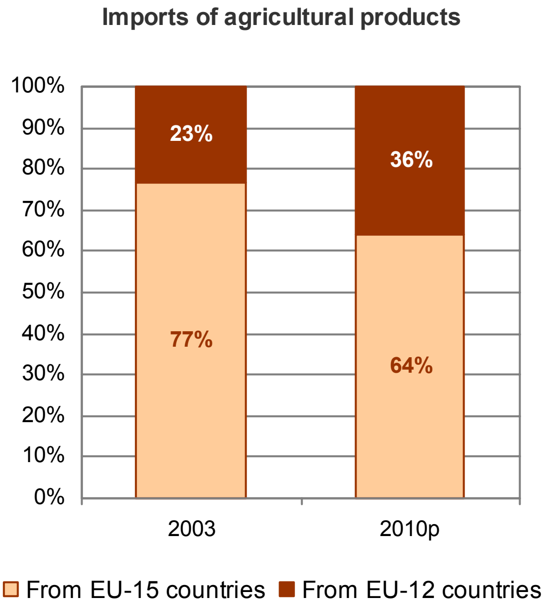
Note: Other products = products that do not bear a direct linkage to agriculture, e.g. waters, flavours…
Source: DG Agriculture and Rural Development, based on Comext data. Updated: March 2011.



Evolution of agricultural trade with other EU countries







Source: DG Agriculture and Rural Development, based on Comext data. Updated: March 2011.

Structure of agricultural holdings (*)

Holdings		2003		2007	
		Total	%	Total	%
By UAA	< 2 ha	627 830	81.2	512 710	81.9
	2-5 ha	65 460	8.5	47 490	7.6
	5-10 ha	33 540	4.3	24 380	3.9
	10-20 ha	21 620	2.8	17 210	2.7
	20-30 ha	7 470	1.0	6 240	1.0
	30-50 ha	6 750	0.9	6 140	1.0
	50-100 ha	5 240	0.7	5 660	0.9
	> 100 ha	5 480	0.7	6 490	1.0
By ESU	< 1	612 370	79.2	485 490	77.5
	1-2	68 500	8.9	52 980	8.5
	2-4	43 480	5.6	35 510	5.7
	4-8	24 590	3.2	23 330	3.7
	8-16	12 660	1.6	13 560	2.2
	16-40	7 190	0.9	9 550	1.5
	40-100	2 820	0.4	3 670	0.6
	100-250	850	0.1	1 160	0.2
	> 250	920	0.1	1 080	0.2
By LSU	0	201 070	26.0	191 570	30.6
	0-5	533 650	69.0	402 280	64.2
	5-10	22 040	2.8	17 050	2.7
	10-15	6 000	0.8	5 480	0.9
	15-20	2 660	0.3	2 310	0.4
	20-50	4 440	0.6	4 470	0.7
	50-100	1 460	0.2	1 380	0.2
	100-500	1 350	0.2	1 110	0.2
	> 500	710	0.1	660	0.1
By age of holder	< 35 years	45 630	5.9	47 580	7.6
	35-44 years	108 890	14.1	91 570	14.6
	45-54 years	204 980	26.5	145 340	23.2
	55-64 years	184 480	23.9	169 810	27.1
	> 64 years	229 390	29.7	172 020	27.5
Total		**773 390**	**100.0**	**626 320**	**100.0**
UAA in 1 000 ha		4 352		4 229	
UAA per holding		5.6		6.8	

Source: Eurostat, Farm Structure Survey. Updated: June 2009.

(*) UAA = Utilized agricultural area.

ESU = European size unit. For each activity on a farm, a standard gross margin (SGM) is estimated, based on the area (or the number of heads) and a regional coefficient. The sum of all margins, for all activities of a given farm, is its economic size, expressed in ESU (1 ESU = 1 200 Euro of SGM).

LSU = Livestock units. A LSU is equivalent to a dairy cow. The number of animals (heads) is converted into LSU using a set of coefficients reflecting the feed requirements of the different animal categories.

Structure of farm labour force (*)

Holdings of less than 1 ESU - 2007				
Family labour force			**Non family labour force**	
persons:		882 460		
of which, % women:		49.8		
AWUs:		191 290	AWUs:	3 370
Holders	**Spouses of the holders**	**Other family members**	**Regular non family labour force**	**Non regular labour force**
persons: 483 790	persons: 284 800	persons: 113 870	persons: 3 520	
of which, % women: 26.0	of which, % women: 92.8	of which, % women: 43.5	of which, % women: 21.3	
AWUs: 1123 820	AWUs: 52 480	AWUs: 14 990	AWUs: 2 140	AWUs: 1 230

Holdings of more than 1 ESU - 2007				
Family labour force			**Non family labour force**	
persons:		289 060		
of which, % women:		45.5		
AWUs:		120 950	AWUs:	87 820
Holders	**Spouses of the holders**	**Other family members**	**Regular non family labour force**	**Non regular labour force**
persons: 134 880	persons: 98 830	persons: 55 350	persons: 85 770	
of which, % women: 13.8	of which, % women: 92.8	of which, % women: 38.1	of which, % women: 22.6	
AWUs: 71 590	AWUs: 34 570	AWUs: 14 790	AWUs: 75 310	AWUs: 12 510

Total farm labour force (persons)	1 260 810
Total farm labour force (AWUs)	403 430

Source: Eurostat, Farm Structure Survey. Updated: June 2009.

(*) AWUs = Annual work units. An AWU is equivalent to a worker employed on a full time basis for one year.

New Hungary Rural Development Plan

Country profile:

Hungary is divided into 7 Regions, 6 of which are Convergence Objective.
Rural areas cover 87% of the territory and are inhabited by 45% of the population.

In 2006, approximately 62.5 % of Hungary's territory was under agricultural cultivation (5.8 million ha); fragmented and polarised farm structure with an average 2.3 ha holding size: 93.4 %, are below 10 hectares accounting for approximately 25 % of the land use.

Forests cover 1.85 million hectares, covering 19.1 % of the country's territory; 58 % owned by the state, 41 % are in private ownership and 1 % is owned by communities.

Approximately 5 % of the total workforce is employed in agriculture; unfavourable age structure: 62.2 % of the agricultural manpower in the age group of "40 years and older" (2005).

14% of the UAA (utilised agricultural area) is classified as less favoured.

Chosen strategy:

The overall objectives were chosen in accordance with the Community Strategic Guidelines (CSG) and the National Strategy Plan and are:

- contributing to the competitiveness of agriculture, food production and forestry,
- sustainable development and the protection of natural values and biodiversity,
- strengthen entrepreneurship and provide access to services throughout rural areas.

Budget over and share of EU funding

Axis	Public contribution		
	Total public	**EAFRD Contribution rate %**	**EAFRD amount**
Axis 1	2,366,378,274	71,77%	1,698,357,613
Axis 2	1,626,706,126	76,86%	1,250,219,555
Axis 3	690,690,802	71,77%	495,711,102
LEADER	272,355,669	76,86	209,321,387
Technical Assistance	202,978,313	75,00%	152,233,735
Total	5,159,109,184	73,77%	3,805,843,392

Overall aim of RD programme in country

The programme aims at contributing to the competitiveness of agriculture, food production and forestry (axis 1), respecting the principles of sustainable development and the protection of natural values and biodiversity (axis 2), and to strengthening entrepreneurship and providing access to services throughout rural areas (axis 3). The Leader approach serves the realisation of the objectives of all axes of the RDP.

Axis 1 budget allocation and main priorities:

EAFRD: € 1.698.357.613 (45 % of programme total)

Total public funding: € 2.366.378.274

The objectives of Axis I are realised through the following main actions:

1) farm and production restructuring

2) support for investments in primary and secondary production and infrastructure

3) support for age restructuring

4) training and information activities, including the use of advisory services.

Axis 2 budget allocation and main priorities:

EAFRD: € 1.250.219.555 (33 % of programme total)

Total public funding: € 1.626.706.126

The objectives of Axis II are realised through the following main actions:

1) support for agri-environment, forest-environment and Natura 2000 territories

2) support for LFAs and

3) support for forestry.

Axis 3 budget allocation and main priorities:

EAFRD: € 495.711.102 (13 % of programme total)

Total public funding: € 690.690.802

The objectives of Axis III are realised through the following main actions:

1) enterprise development

2) support for improving basic services

3) preserving natural and cultural heritage

4) local capacity building.

Support for diversification, micro-businesses and tourism represents the major component of axis III (58 %), closely linked with job creation, followed by measures for the quality of life (31 %) - a significant proportion of funding (10 %) is earmarked for training and capacity building given the envisaged delivery mechanisms.

Leader budget allocation:

EAFRD: € 209.321.387 (6 % of programme total)

Total public funding: € 272.355.668

272.3 million EUR of which EAFRD contributes with 209.3 million EUR

Hungary: Operational Programme "European Fisheries Fund for Fisheries 2007-2013"

The total eligible public expenditure of the Operational Programme for the Hungarian fisheries amounts to € 46,840,816, with EU assistance through the European Fisheries Fund (EFF) amounting to € 34,850,860.

€ 34,291,357 of the EFF assistance is allocating to the convergence objective regions of the Republic of Hungary: the North-Great Plain Region, North Hungary Region, South-Great Plain Region, South-Transdanubia Region, West-Transdanubia region and Central Transdanubian Region.

€ 559,503 of EFF assistance is going to be allocated to the non-convergence regions: Central Hungary Region - Budapest and Pest County.

The purpose and aim of the EU investment

During the previous programming period 2004–2006, Hungary received € 4.39 million under the Financial Instrument for Fisheries Guidance. As a result, 44 projects had been supported by the end of 2007.

The new EU programme for 2007–2013 aims to build on the success of the previous programme and consolidate the preconditions for a sustainable and competitive fisheries and aquaculture sector that respects the environment and meets the demands of consumers and the food industry.

Priority axes

Priority 1: Adaptation of the EU fishing fleet - Not applicable

Priority 2: Aquaculture, inland fishing, processing and marketing of fishery and aquaculture products

The objectives of this axis are to modernise and construct aquaculture production installations, improve working conditions and maintain jobs; and increase productivity and effectiveness in fish processing, primarily through the enhancement and modernisation of processing facilities.

Priority 3: Measures of common interest

The objectives of this axis are to enhance natural aquatic habitats and to reduce the overpopulation of invasive fish species; to develop technical skills; to encourage partnership between researchers and operators in the fisheries sector; and to promote fisheries and aquaculture products on the Hungarian market.

Priority 4: Sustainable development of fisheries areas - Not applicable

Priority 5: Technical assistance

Support is provided under this axis so as to ensure that the management, control and monitoring systems of the operational programme function efficiently and that the programme and aid are implemented in an appropriate manner.

Financing plan by priority axis for the period 2007 – 2013 (in EUR)

Convergence objective regions				
Priority axes	**Total Public a=(b+c)**	**EFF Contribution (b)**	**National Contribution (c)**	**EFF co-financing rate (d)=(b)/(a)*100**
Priority axis 1	0	0	0	0.00 %
Priority axis 2	31,605,897	23,704,422	7,901,475	75.00 %
Priority axis 3	11,792,523	8,844,392	2,498,131	75.00 %
Priority axis 4	0	0	0	0.00 %
Priority axis 5	2,323,390	1,742,543	580,847	75.00 %
Total	**45,721,810**	**34,291,357**	**11,430,453**	**75.00 %**
Non-convergence objective regions				
Priority axes	**Total Public a=(b+c)**	**EFF Contribution (b)**	**National Contribution (c)**	**EFF co-financing rate (d)=(b)/(a)*100**
Priority axis 1	0	0	0	0
Priority axis 2	919,006	459,503	459,503	50.00
Priority axis 3	200,000	100,000	100,000	50.00
Priority axis 4	0	0	0	0
Priority axis 5	0	0	0	0
Total	**1,119,006**	**559,503**	**559,503**	**50.00**

20 June 2011

BUDAPEST METRO LINE 4 – SECTION I

Project background

The Metro Line 4 in Budapest is the biggest single Hungarian project in the 2007-13 periods with a total project cost of more than EUR 1.4 billion, out of which the Community contribution (Cohesion Fund) is EUR 729 million. The project consists of a new metro line in Budapest between the two major railways stations Kelenföld and Keleti (length: 7.34 km). It was approved by the Commission in September 2009 considering its contribution to the development of sustainable transport in Budapest, especially if the complementary measures specified in the Commission approval decision (one is the introduction of a congestion charge) are implemented.

The project receives extremely high media attention in Hungary; it is often strongly criticised for its high construction costs and significant delays of implementation.

The Commission's decision excluded from eligible costs the expenditure related to some contracts not compliant with public procurement law, following the results of the review of the public procurement procedures conducted by the Managing Authority for the Transport Operational Programme.

In September 2010 the Commission has interrupted the payments of the Transport Operational Programmes on the basis of the outcomes of the system audit report submitted by the National Audit Authority. The report included suspicions of irregularities in relation to 53 procurement items related to the Metro 4 project. Resulting from the ex-post evaluation of procurements in relation to the above mentioned project, the Managing Authority defined a financial correction amounting to 276°800°EUR.

Project description

The project consists of the construction of the fourth underground line of Budapest. The project is the first section of the new metro line M4, starting at Kelenföld railway station running under the centres of inner Buda (11th district) and downtown Pest (5th - 9th districts) and ending at Keleti railway station. The alignment chosen is determined by the following stops: Kelenföldi station – Tétényi street – Bocskai street – Móricz Zs. Circus – Szent Gellért sq. – Fővám sq – Kálvin sq – Rákóczi sq – Népszínház street – Keleti station. The project facilities include the pair of tunnels, ten underground stations, the rolling stock and the systems.

The project is the first phase of the overall metro line 4 development. Phase I can be implemented independently from phase II. The second phase of the project is the extension of metro line 4 from Keleti railway station to Bosnyák square.

The main beneficiaries of the project will be the current users of the public transport system (including rail and distance coach network) switching to the new metro line (more than 300.000 passengers/day), those current car users who will switch to the use of public transport upon completion of the project and tourists coming to visit the capital of Hungary. The total number of actual users of the enhanced quality transport connection is estimated at 360.000 people by the end of 2012.

A summary of the elements of the projects is provided below:

- Length of the tracks: 7.34 km
- Stations: 10 (with 2 turning boxes at terminals)
- Length of tunnels: 2 x 5.69 km
- Length of stations: 85 to 125 m

- Depth of stations: 14.5 m to 31.0 m
- Rolling stock: 15 train sets (4 cars, total length 79.8 m)
- Passenger capacity: 807 per train
- Depots: 1 depot at Kelenföld Station (71.622 m²)
- Stopping time at stations: 20-30 seconds
- Minimum train succession: 90 seconds
- Maximum speed: 80 km/h

The main goals of the project

Increase the competitiveness of the public transport in order to increase but at least maintain the current modal split of public transport compared to car transport;

- Increase capacity to respond to push and pull factors in favour of public transport
- Improve inter-modality linking of the networks most specifically with the distance coach network (Volán) and rail (MÁV);
- Increase attractiveness of public transport through improving the image of public transport in order to attract current car users;
- Increase safety and reliability of the traffic system;
- Improve access to public transport for people with reduced mobility;
- Reduce emissions and negative environmental impacts as well as enhance the sustainability of operation of the public transport system;
- Revitalize living areas, improve access from living areas to economic centres and refurbish surface in order to promote environmental friendly means of transport;
- Support tourism through offering a direct link between two important railway stations and provide improved access to touristic sites of the city;
- Implement the project as integral part of a sustainable public transport development strategy for Budapest where the interconnection with sustainable modes of transport and the improvement of their service level in parallel with reducing surface parking facilities and level of service for car users play key role.

Measures related to this project

In order to achieve the environmental objectives of this project, as required under Article 2 (b) of Council Regulation (EC) No 1084/2006 of 11 July 2006, this project should be realised as part of the Budapest Transport System Development Plan.

In particular, in line with the measures of the Budapest Transport System Development Plan, a congestion charge for acceding the city centre will be introduced in the inner part of the capital by the end of the current programming period (measure 3/4 adopted by the Decree 62/2009. of the Assembly of the Municipality 29th January 2009).

Key project indicators

Indicator	Description (unit)	Baseline value	Indicative Target value in 2013

result	Savings in travel time in connection with the improved sections (passenger*hour/year)	0	8 600 000
impact	Reduction of GHGs emission - CO_2, N_20, CH_4 ($ktCO_2$ eqv/y)	0	-76.80
	Reduction in flying dust (PM10) in Budapest (t/y)	0	-21.45

Total discounted value of travel time savings in the period 2012-2036 is approximately 964 600 000 EURO.

Current situation

According to the initial project time plan submitted by Hungary, the operational phase should start on 31/12/2011. The Commission Decision specifies that the expected number of users of the new infrastructure is 360.000 by the end of 2012. These dates are not realistic anymore. The project is suffering significant delays.

Even if with a delay of about two years, the civil works for the construction of tunnels and stations have almost been completed and the installation of the technological equipment has already started.

On the contrary, the procurement of the rolling stock and the train control systems is blocked. The contract signed by Alstom (the rolling stock provider) and BKV (the Budapest public transport company) has been cancelled by the latter. BKV has argued that the breaking system of Alstom trains was not compliant with the technical requirements specified in the tender. The case has been brought to court by Alstom. Since the train control system is strictly connected to the rolling stock, the contract with Siemens, selected provider of the traffic control system, has been blocked as well.

The Hungarian Authorities has confirmed that there is a risk that the project could not be completed by the end of the current programming period if the procurement of the rolling stock is not finalized in the next few months. According to the technical directorate of the Metro 4, the infrastructure could be ready for the trial phase (not the operational phase) by June 2013 only if the rolling stock is provided by the end of October 2011. But this scenario is not realistic because the rolling stock supply is still blocked.

Negotiations between BKV and Alstom are undergoing in order to solve the dispute and proceed with the supply of the rolling stock. Up to date information will be provided before the mission. The Commission is closely monitoring this project which has a high relevance in the context of the Transport Operational Programme 2007-13.

ROUGH TRANSLATION!

ÁLLAMI
SZÁMVEVŐSZÉK

SUMMARY

of the Audit on the Development Project Metro Line 4 (1023)

In accordance with its annual audit plan, the State Audit Office of Hungary (SAO) completed the audit of the development project of Metro Line 4 covering the period from 2002 to 30 June 2010.

In the course of the audit the SAO primarily evaluated whether the construction of the first section of Metro Line 4, between *Kelenföld Railway Station* and *Keleti Railway Station* would be completed following the preparatory phase by deadline, within the planned limit of expenditures in accordance with the contracts; and whether the planned financing resources would ensure the implementation of the investment. The audit did not cover the examination of public procurement procedures related to the investments and the payments transferred through the Hungarian State Treasury from regularity aspects. The construction of the first section of Metro Line 4 is in progress, thus the audit cannot provide an answer to questions concerning the final costs and the utilisation of the development project.

According to the plans, the investment will contribute to the development of public transportation in the capital city of Budapest by the rapid and high standard transport of more than 400 thousand passengers daily. At the same time, the positive effects will prevail only with some delay. The construction of the P+R (park and ride) facilities of less capacity than originally planned (300 parking spaces instead of 1,500) will limit the possibilities of passengers arriving by car from the conurbation to use the metro.

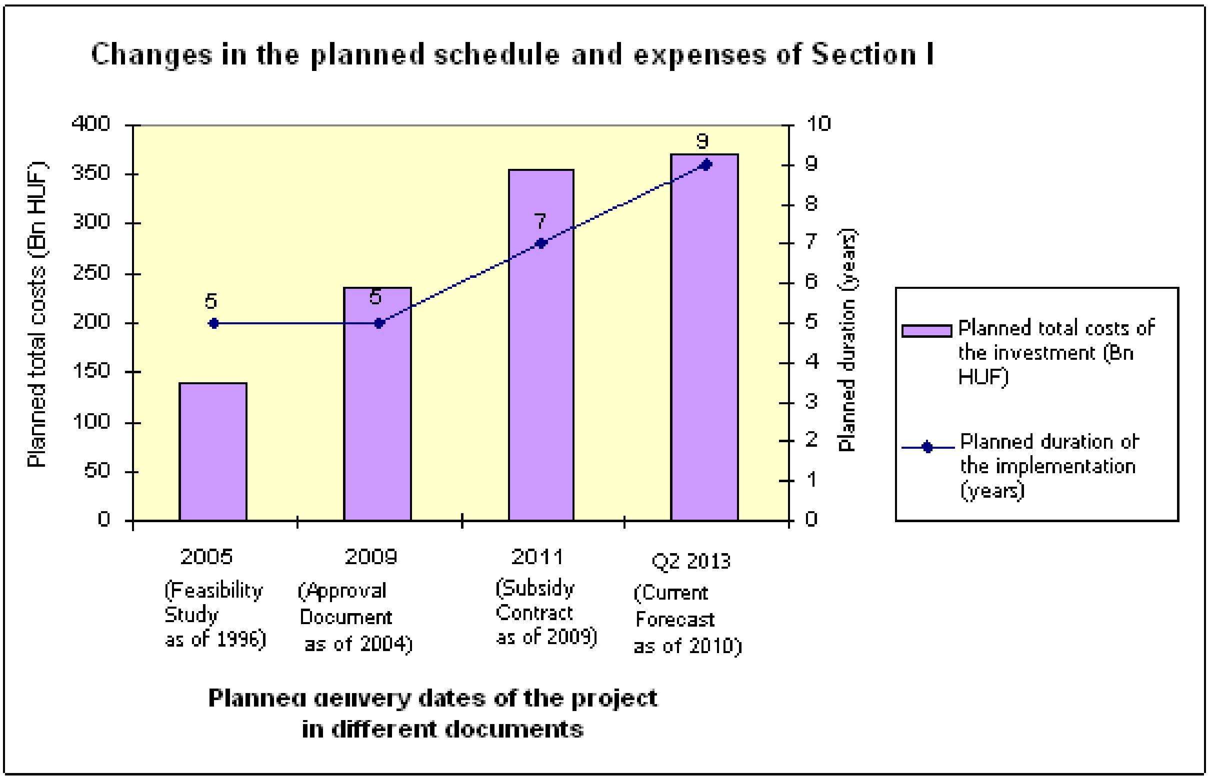
During the implementation period of the project, the sources of financing were ensured. The launching of the project was made possible by the National Assembly by passing the bill on the state support of the first section of Metro Line 4 (metro act), thus by providing the financial resources. The amount of state subsidy for the construction of the first section of Metro Line 4 was a total of HUF 153.9 billion without VAT and at 2002 prices. By the metro act, the Civil Code was also amended, which specifies that the State should fulfil its liabilities assumed under contract even if there is no cover for the project in the central budget. By concluding the financing agreement, state funds were available from 2004. In order to fulfil the financing obligations, the Capital City and the State concluded a credit agreement in 2005 with the European Investment Bank (EIB).

The Hungarian State withdrew the total amount of the credit limit available for the construction of the first section of the investment by March 2006 (EUR 472 million equalling HUF 119.5 billion), which was not proportional to the technical preparedness of the investment. The Municipality of Budapest utilised EIB credit amounting to EUR 58.5 million (HUF 15 billion) for the project, which was about 47% of the approved credit limit of EUR 125 million. The Hungarian State ensures the repayment of the EIB credit of the Municipality of Budapest by undertaking guarantee.

From the end of 2008, the sources of financing have basically changed. Based on the September 2009 decision of the European Commission, subsidies amounting to EUR 728.53 million can be utilised from the Cohesion Fund for the financing of the first section (HUF 180.8 billion according to the amended Subsidy Contract), which is 76.6% (HUF 236 billion) of the accountable expenditures. The EU subsidies are less than the original application by EUR 175 million (HUF 43.6 billion) as the EU does not support 11 contracts due to the irregularities in public procurement procedures.

According to an international comparative study ordered by the DBR Metro Project Directorate, the implementation costs of constructing 1 kilometre of the first section of Metro Line 4 amount to EUR 214 million, and based on the above, the Project Metro Line 4 is the second most expensive in comparison to 10 other European metro projects. This is also influenced by the fact that the first section is constructed with short distance between stops, the costs of the architectural solutions of constructing single-room stations exceed the average costs, and the capacity of the vehicle station meets the vehicle demand of the second section as well.

Besides the supervision of the Capital City, the investment is managed by the DBR Metro Project Directorate of the Budapest Transport Company. The Capital City accepted the approval document of the investment in September 2004. According to this document, the deadline for completing the first section of Metro Line 4 was the end of 2009, and the current costs of the project were determined in an amount of HUF 236.5 billion. The project is not going to be completed by the set deadline. According to the last schedule, the metro should begin its operation in the second half of 2013. According to the current predictions, the current costs of the project are expected to amount to HUF 370 billion.



In August 2010, the Capital City planned to amend the approval document of the project, which included the deadline of 31 December 2009 for the completion of the investment, but this deadline was not met. The Capital City set this deadline without taking into account the current status of the technical preparations, which means that the building permits and the building sites necessary for the implementation were not entirely available by 2006 when the works contracts were concluded. As a consequence, the construction of the tunnel at the *Kelenföld* starting point began with a delay of 6 months compared to the original plans due to the fault of the investor. As a result of the delay in the metro construction works, the duration of traffic diversions and closure of roads in the areas affected by the construction of stations and the related investments exceeds the originally planned durations. All the above presented and present traffic management problems in the Capital City for a longer period, and this involves additional social costs.

The HUF 133.5 billion increase (56.4 %) in the costs compared to the current costs of 2004 fixed in the approval document of the first section of the investment was caused by the following factors: The local governmental developments and reconstructions supported also by the EU have been embedded in the investment costs in the amount of HUF 39.5 billion (e.g. the reconstruction of *Fővám Square*, *Baross Square*, etc.). Following the architectural tendering procedure launched by the Capital City and DBR Metro Project Directorate, the structure of the metro stations was modified from the originally planned multi-level structure to single-room stations. As a consequence, the costs of building the external structure and internal installations of the stations increased by HUF 44.8 billion. The project costs contain reserves amounting to HUF 31.4 billion as a cover for cost overruns. Ensuring inter-modality at the *Kelenföld Railway Station* resulted in a cost impact amounting to HUF 9.6 billion. The effect of the change in exchange rates resulted in the increase of the costs by HUF 6.4 billion. An additional growth was the consequence of the contract prices exceeding the preliminarily estimated engineer prices.

Within the framework of the technical preparations, time, value and cost analyses were not performed; the available professional risk analyses were not comprehensive and were not utilised.

At the time of the audit, it was impossible to determine exactly the expected total costs of the project and the date of completion as both were uncertain. Apart from the possible delay in the construction works of the metro, the fact that the official procedure of issuing type licences necessary for purchasing the metro cars has not been completed, also imposes temporal risks. In respect to investment costs, it represents uncertainty whether the available reserves offer an adequate cover for the extra costs due to the claims submitted so far by the contractors as well as to the changes issued by the investor and recommended by the contractors. On the one hand, the reason for this is that 40% of the claims submitted so far (close to 400 claims) do not contain prices, or are missing data. On the other hand, the determination of the final value of the claims supported also by figures could be made in three steps: the investor and the contractor agree, in the absence of such an agreement, an arbitration committee consisting of three experts decide, or if the parties do not accept this decision, the arbitration court makes the decision.

According to the contract strategy for the project (contract type and accounting method), the investment will be implemented by concluding 20 independent contracts, by applying the *'Plant and Design-Build'* FIDIC Standard Conditions of Contract, without general designer and general contractor. According to the contracts, if the costs of the claims approved and the changes ordered exceed the endorsed final amount stipulated by the contract, the contractor is obliged to cover the difference from other resources.

In the course of constructing the running tunnel, which is the leading technology of the project, the set cost and time targets have not been met. The construction of the tunnel was interdependent on the construction of stations, and it affected all the other construction phases. It also influenced the completion of the first section of Metro Line 4. The delay amounted to more than 126 weeks out of which 44 weeks arose due to the fault of the contractor – according to the 18 August 2010 opinion of the arbitration committee. By its delays, *Bamco*

Consortium exhausted the maximum amount of its obligation to pay indemnity (10% of the contractual price), which approximately amounts to EUR 20 million (HUF 5.6 billion) that has not been settled yet. The management of constructing the running tunnel was characterised by *'crisis management'*, without mutually approved scheduling and detailed budget, burdened by cooperation difficulties among DBR Metro Project Directorate, the Engineer (the organisation appointed for the engineering supervision of the construction), the firm constructing the running tunnel and the firms constructing the stations, in the absence of an integrated project schedule regarding the handover of the construction work sites.

The technological and economic preparation for constructing the stations was not adequate since the authorisation procedures and the preparation of the tender plans for the structural engineering of the stations were carried out simultaneously. The works contracts were signed without having final building permits. These permits were available for the individual stations by the 3rd to the 8th month following the conclusion of the contracts.

The greatest distance between two stations (1,438 metres) is between *Tétényi Road* and *Bocskai Road*, while the shortest route (399 metres) is between *St. Gellért Square* and *Fővám Square*, the average distance between stations is 744 metres. (In case of Metro Line 2 the shortest distance between stations is 598 metres, the longest is 1,775 metres, while the average distance between stations is 1,001 metres). The vehicles reach the planned final speed of 80 kilometres per hour at four inter-station sections out of the nine. In case of two sections of these, the vehicles can maintain this speed on a distance shorter than 200 metres. On five inter-station sections, due to the short distance between stations, the vehicles lag behind the aforementioned speed on the whole section. The acceleration interval – without periods of constant speed – is followed immediately by slowing down.

The Budapest Transport Company concluded contracts for the establishment of control and safety systems and power supply as well as for the procurement of metro trains in 2006, and it concluded a contract for the construction of tracks on the surface (in the depot) in 2008, which activities represent the final phase of the investment process. All the delays concerning the previous phases of the project accumulated and affected the period of performance of these three contracts. Consequently, claims for indemnity and overtime costs arose. According to the contract, the deadline for the establishment of the control and safety systems and the power supply was 25 April 2010. However, the contractor could not get to the construction work sites until the end of May 2010, due to the delays in the tunnel boring and the construction of the stations. Thus, the installation of equipment could not be started, although the produced equipment is continuously being delivered. The contractor initiated the payment of indemnity in an amount of EUR 37.2 million (HUF 10.4 billion) on account of overtime costs. The Engineer accepted EUR 8 million, which the contractor contests.

The procurement of metro trains takes place within the framework of a single agreement, but with individual contracts for Metro Lines 2 and 4. The single agreement represented risk from the aspect of placing the trains of Metro Line 4 in service. The authority responsible for issuing the respective type licences handled the administrative authorisation procedure for the metro trains of the two metro lines in a consolidated way, and suspended the administrative authorisation procedure of the metro trains of Metro Line 4 until the issuance of the final type licence of the metro trains of Metro Line 2. On 11 June 2010, the licensing authority terminated the suspension for Metro Line 4 and decided on continuing the procedure. The contract concluded for the procurement of the metro trains, contrary to the usual legal interpretation, expanded the concept of *Force majeure* to the obtaining of the type licences of the metro trains. In our view, the refusal of the authority to issue the type licences of the metro trains is a risk factor that has to be taken into account when concluding the contract, thus it cannot be regarded as a *Force majeure* event.

The payments for expert and advisory activities utilised by DBR Metro Project Directorate for the preparation and implementation of the project reached the amount of HUF 20.8 billion by 30 April 2010 that represents 10% of the total amount paid for the project so far. This amount also contains HUF 7.2 billion paid for Eurometro Ltd. responsible for providing project management and engineering services. The documents prepared by the experts revealed a number of problems and deficiencies in respect to the contract system, the amendment of the contracts as well as the management and control of the project, but these documents have only been partly utilised. The activities of DBR Metro Project Directorate have been supported by Eurometro Ltd. from 1998 as project management adviser, also performing duties of the FIDIC engineer. Eurometro Ltd. undertook the advisory and engineering tasks related to the implementation of the first section until 31 March 2011 for the amount of HUF 2.9 billion and EUR 3.5 million, respectively. By the amendment of the financial schedule, the total amount allocated for the first section was paid by 31 March 2010.

The financing agreement and its amendment laid down the rights of the State to control, but limited these rights, basically, to the public procurement decisions and the financing plan by determining the range of decisions the investors have to submit to the State. This limited control position is not adequate for the comprehensive state control of the investment project.

According to the EIB credit agreement concluded by the Capital City, as well as the investment contract concluded between the Capital City and the Budapest Transport Company, the power of control of the Capital City and the Budapest Transport Company appointed by the former (regarding payments and commitments) should have been exercised via an independent control engineer, however, no commission conract was concluded to perform this task. Thus the performance of independent technical control and the independent control of the activities of the Engineer are not ensured.

According to the relevant government decision, the total costs of constructing the first section and the second section between *Keleti Railway Station* and *Bosnyák Square* was HUF 264.5 billion at 2002 prices without VAT. According to the statement of DBR, the planned costs of Metro Line 4 (first and second sections together) amount to HUF 537.0 billion at current prices.

Based on the findings of the audit, among others, the SAO recommended the Government to initiate the amendment of the financing agreement in order to promote the strengthening of the technological-economic and financial control positions of the State. In addition, the SAO recommended the Government to initiate the supplementation of the contract with the following: the Capital City bears liability for paying back state subsidies if it privatises the Budapest Transport Company or if any facilities of the investment project constructed from state subsidies would be alienated by the company.

The SAO recommended the Mayor of Budapest to take measures to have the Budapest Transport Company review the conditions of the works contracts (indemnity deadlines, date of access to the work sites and overtime costs) and ensure the harmonisation thereof. The Mayor should commission an Independent Control Engineer without delay, and eliminate the contradictions among the approval document, the investment programme and the concluded contracts.

In the course of auditing the Metro Line 4 investment project, several irregularities revealed by the auditors makes it necessary to clarify issues of criminal responsibility. Thus, the Legal Department of the State Audit Office of Hungary made charges against unknown perpetrators in relation to several acts because of the well-founded suspicion of misappropriation. The pecuniary losses of the Hungarian State, respectively the Municipality of Budapest caused by misappropriation arose from public procurement procedures conducted irregularly, payments being not in proportion with the implementation, as well as a practice of concluding contracts irresponsibly, causing obvious and foreseeable damages. The State Audit Office of Hungary submitted the charges to the Prosecution Service of Budapest.

EUROPEAN COMMISSION
DIRECTORATE-GENERAL
REGIONAL POLICY
Bulgaria, Cyprus, Greece, Hungary, Romania, IPA/ISPA accession negotiations
Hungary

Budapest Central Municipal Wastewater Treatment Works and Collector Systems project (CCI 2004HU16CPE001)

1. PROJECT BACKGROUND

The Budapest Central Municipal Wastewater Treatment Works and Collector Systems project is the biggest ongoing Cohesion Fund project in the environment sector in Hungary. The total cost is EUR 428,7 millions of which EUR 278,7 millions will be covered by the Cohesion Fund grant.

Prior to the construction of the plant, the wastewater generated in central Budapest was led directly in the Danube without treatment. Only one third of the total amount of wastewater of the capital was treated: 10 % biologically, and 24% by elimination of nutrients. 15 % of the wastewater was treated only mechanically, and 51 % of the total volume of wastewater was led in the Danube without any treatment.

The project aims to collect the wastewater and to channel it to the wastewater treatment plant, to avoid untreated wastewater entering the Danube, thereby reducing pollution and strain on the ecology of the river. The overall project is consistent with a new wastewater collection and treatment system of Budapest. The new wastewater treatment plant, located at the northern end of Csepel Island, will provide treatment of 350 000 m^3/day, affecting a total of 600 000 inhabitants.

2. PROJECT DESCRIPTION

In its initial scope, the project was designed to cover:

- the construction of a wastewater treatment plant with a maximum capacity of 350 000 m^3/day on Csepel Island in Budapest,
- the construction of the Buda main collector,
- the upgrading and extension of three main pumping stations,
- the construction of two river crossings under the Danube river (both the eastern and western watercourses of the River Danube)
- the construction of a sludge composting plant of a capacity of 100 000 t/year (this was later removed from the scope)

The operation of the plant will allow to:

- meet Urban Wastewater Directive 91/291/EC
- improve prevention and mitigation of water contamination
- ensure sustainable water management (protection of drinking water wells)

3. FIRST MODIFICATION

Due to savings resulting from the lesser value of a number of contracts after signature compared to the forecasted value, the total eligible costs of EUR 468,7 million and the Cohesion Fund grant of EUR 304,6 were revised in 2006 by Commission decision C(2006)1569.

Consequently the total eligible costs were reduced to EUR 428,7 million and the Cohesion Fund grant to EUR 278,7 million, with no change in the physical object.

4. FINANCIAL CORRECTION

DG REGIO audited the project "Budapest Central Municipal Wastewater Treatment Works and Collector Systems" in November 2007.

The main audit finding concerned the works contract concluded for the design, construction and limited operation of the Wastewater Treatment Plant. This contract was signed by the Municipality of Budapest (beneficiary of the project) and a consortium led by DEGREMONT SA for EUR 249,157,447 on 30 December 2005. The contract was awarded by the beneficiary by negotiated procedure with prior publication of a contract notice under Article 30 (1) (b) of the Directive 18/2004/EC, which provides that "*contracting authorities may award their public contracts by negotiated procedure, after publication of a contract notice, in the following cases: … (b) <u>in exceptional cases, when the nature of the works</u>, supplies, or services or the risks attaching thereto <u>do not permit prior overall pricing</u>*".

The audit established that the use of a negotiated procedure was not justified, as at least one prior overall pricing was available for the works. This pricing was provided by the designer who prepared estimates for the construction works before the tendering procedure. This estimation was also included in the formal application for assistance from the Cohesion Fund and the final contract value deviated only by 4% from the estimated amount. Therefore, it was concluded that a sufficient and accurate prior overall pricing was possible and the beneficiary should have awarded the contract by open procedure. Given the significance of the audit finding a financial correction of 25% of the contract value was proposed to the Member State. As the co-financing rate approved for the project was 65%, the financial correction in respect of Cohesion Fund co-financing amounted to (EUR 249,157,447 * 65% * 25% =) EUR 40,488,085.

The Member State, in their reply of June 2008, contested the audit finding arguing, inter alia, that due to the size and complexity of the works the contract was unique and that the nature of works did not allow for overall pricing. Also, the scope of the works contract included limited operation, which had not been envisaged during the application for assistance from the Cohesion Fund. Therefore, this was not reflected in the preliminary price estimate provided by the designer.

DG REGIO, after analysing the Member State reply, sent its final position letter in October 2008. The arguments of the Hungarian authorities were not accepted. In addition to the abovementioned public procurement infringement, this letter pointed out that the beneficiary had also breached the Commission Decision approving the Cohesion Fund assistance, which clearly stated that the service provider for the operation of the plant in the initial limited period was to be selected via an open tendering procedure. Consequently, the financial correction proposed in the audit report was maintained. The final position letter was also the first step in the procedure under Article H of Annex II to Regulation (EC) No. 1164/1994 under which the Commission may suspend payments and cancel all or part of the assistance granted to the project in case the national authorities do not agree to apply the financial correction proposed.

The Member State informed the Commission in February 2009, by a letter from the Minister for National Development and Economy, that the Hungarian authorities accepted the financial correction proposed by the Commission and that it would be implemented. DG REGIO closed the audit by official letter sent to the Member State in March 2009. In this letter the Commission requested the Hungarian authorities to apply the financial correction to the expenditure related to the irregular contract. Hungary had the possibility of replacing this expenditure with other eligible expenditure. The amount of the financial correction of ca. EUR 40.5 million had to be deducted from the next statements of expenditure to be submitted to the Commission.

5. SECOND MODIFICATION

A second modifying decision was adopted in 2009 (C(2009)4607) in order widening of the scope of the project by adding new project elements in line with the original objectives, using the resources freed by the combined effect of savings, changes of original concept and financial correction..

The modification included:

- the upgrading of the wastewater treatment plant to the most stringent treatment level (tertiary treatment), resulting from the designation of the Danube water as sensitive. Due to the accession of Romania and Bulgaria the Black Sea was designated by the Urban Waste Water Treatment Directive 91/271/EEC as sensitive. This implies that Hungary, lying on the river basin catchment area of the Black Sea, should comply with limit values of tertiary treatment by the end of 2015. (The requirements concerning the level of treatment have changed three years after the date of approval of the original decision).

- the modification of the sludge line. The construction of the composting facility at the Cséry site was cancelled due to design flaws and protest from the local population. Alternative solutions have to be put in place for the transport and treatment of sludge.

- the construction of relief collectors and sewers enlarging the population served by the project.

Moreover, this modifying decision added specific conditions on the payment of the final balance (see point 7.2) requiring guarantees on the compliance of sludge transportation, the compliance with competition rules, on environmental effects, and the protection of the world heritage (in particular regarding the hiding wall constructed for the main collector under the Margit Bridge).

6. THIRD MODIFICATION

The last modifying decision (adopted the 10/08/2010) aimed to extend the eligibility date from 31/12/2011 to 31/12/2012 (impossible to include in the previous decision because it required a modification of Commission's guidelines on Cohesion Fund closure) and adds a fifth specific condition on the final payment: the provision of evidence that tertiary treatment is implemented.

7. CURRENT SITUATION

7.1. Financial balance

The total public contribution incurred up to the cut-off date of the last interim payment is EUR 294,7 million, i.e. 68.75% of the total eligible expenditure foreseen in the decision.

The Cohesion Fund contribution has been paid up to 80% of the sum foreseen in the financial plan of the last modifying decision: EUR 222.9 million out of 278.6 million.

7.2. Conditions on the final payment

The last commission decision subjects the final payment to the project to specific conditions, three of which are currently at risk:

7.2.1. Embankment wall

The reconstruction work carried out on the embankment wall covering the Buda main collector by the Margit Bridge has received criticism for its poor aesthetic quality. The site is protected by UNESCO as part of the world heritage.

7.2.2. Tertiary treatment

There is a risk that tertiary level treatment will not be attained within the eligibility period of the project.

7.2.3. Sludge transportation

As the construction of the sludge composting plant foreseen in the original project design was flawed and cancelled, the treatment of the sludge has to be ensured by alternative means. The sludge is currently managed through a service contract pending a more sustainable solution. There is currently no plan for a long-term solution to the issue – a study will be conducted to identify one.

Given its complexity this project has been analysed and followed in depth by the European Commission prior to its approval, before and after each modification and during its implementation. It has been the object of discussion and meetings at all levels.

After the last modification these works have been the object of special monitoring by the European Commission services: letter sent by EC to Hungarian Authorities on 28/08/2010, developing and clarifying the closure conditions, project visits, reporting in annual meetings and Monitoring Committees. A letter of DG REGIO requiring a specific final works plan till the finalisation of the project will be sent in the next days.

DR. KOVÁCS TAMÁS IVÁN

EXPERIENCE:

Ministry of National Development	**Budapest**
- Deputy State Secretary for European Union and International Relations	2010-
European Commission, European Anti-fraud Office (OLAF)	**Brussels, Belgium**
- International Relations Officer, Inter-institutional and External Relations Unit	2007-2010
Ministry of Foreign Affairs	**Budapest**
- Executive Civil Officer, Diplomat, International Law Department	2006-2007
Prime Minister's Office/Hungarian Consulate (USA/New England)	**Boston, MA, USA**
- Executive Civil Officer, Head of Consular Office	2002-2006
Ministry of Youth and Sports	**Budapest**
- Head of Cabinet, Head of Department, Executive Civil Officer	2000-2002
ELTE Budapest Faculty of Law and Political Sciences, Constitutional Law Department	**Budapest**
- Associate Professor of Constitutional Law (part-time)	1998-2002
Hogan & Hartson L.L.P.	**Washington, D.C., USA**
Nagy & Pintér Law Firm	**Budapest**
- Attorney-at-law, Member of the New York Bar and the Budapest Bar Associations	1996-2000

Other experience:

- Internships: Constitutional Court; New York State Senate; National Assembly; Atrium Hyatt Budapest

EDUCATION:

The Fletcher School of Law & Diplomacy, Tufts University	**Medford, MA, USA**
- Master of Arts in Law & Diplomacy (M.A.L.D.), JESSUP Moot Court Coach	2002-2004

- Fields of Study: International Security Studies, International Law and Organisations
- Scholarships: Fulbright Scholarship, Academy of Achievement, Sasakawa Young Leader, Bradley/ISSP

University of Michigan Law School	**Ann Arbor, MI, USA**
- Master of Laws (LL.M.) diploma	1995-1996
ELTE Budapest Faculty of Law and Political Sciences	**Budapest**
- Political Science – *„excellent”* qualifications	1992-1999
- Juris Doctor – *„summa cum laude”* qualifications	1991-1997
▪ Scholarship of the Republic, Bibó István College, Invisible College	1993-1996
▪ President of Student Government, Member of Faculty and University Councils	1991-1994

PERSONAL:

Family: married with two sons
Languages: Hungarian (native); English (fluent); French (advanced); Russian (basic)
Professional memberships: Budapest Bar Association, New York State Bar Association, American Bar Association, American Society of International Law.

Búsi Lajos Deputy Under-Secretary responsible for rural development

Born in Mezőtúr on 6 October 1965. Married, his wife is an accountant, they have two children. He finished high school in 1984 at Teleki Blanka grammar school in Mezőtúr. Graduated in 1987 at Jászberény Training College. In 1987-1994 teacher of geography and physical education. Graduated from geography at Juhász Gyula Teachers' Training College. In 1995-1997 student at Budapest Business School from international marketing, in 1998 graduated Budapest University of Technology and Economics as high level estate vendor and appraiser. He joined Fidesz in 1991. In 1996-2003 President of the Szolnok County branch of Fidesz. In 1996-1999 President of Jász-Nagykun-Szolnok County Student Sport Council. In 1990-1995 member of the Mezőtúr town council. Elected Jász-Nagykun-Szolnok County Council Vice-President in 1994, President from 1998. As President of the country council he also led the county spatial development council and the defense council. In 2000-2002 President of Northern Great Plain Development Council, until 2002 member of National Spatial Development Council. In 1994 MP candidate at the parliamental election. Finished in first place in 1998 in the Mezőtúr district (Jász-Nagykun-Szolnok No. 6.). Got his mandate from the county list t the 2002 elections; member of the Parliamental Foreign Affairs Committee. Between 2002 and 2006 MP (county list mandate), Local Government Committee member in 2002-2003, member of the Spatial Development Committee in 2003-2006. From 2006 on Vice-President of Jász-Nagykun-Szolnok County Council. Married and has two children.

László Domokos

Personal Information

Place of birth	Békéscsaba
Date of birth	26 February 1965

Education

1991	Institute for Postgraduate Studies, Budapest University of Economic Sciences *Specialized Economist*
1988	Faculty of Business and Economics, Janus Pannonius University, Pécs *Economist*

Work experience

2010-	State Audit Office of Hungary *President*
1998-2010	Office of the Hungarian National Assembly *Member of Parliament*
1998-2002 and 2006-2010	Local Government of Békés County *Chairman*
1995-1998	Budgetary institutions and companies *Economic Advisor*
1990-1994	Local Government of Town Békéscsaba with County Status *Vice-Mayor*
1988-1990	Univerzál Trading Company of Békés County *Head of Section*

Memberships

2011	*Member of the Presidency* – Hungarian Economic Association
2011	*Chairman* – Public Association of the Hungarian Financial and Economic Auditors
2011	*Member* – Fiscal Council
	Positions taken up in the National Assembly
2010	*Member* – Committee on Audit and Budget
2006-2010	*Vice-Chairman* – Committee on Budget, Finance and Audit
2006-2010	*Chairman* – Subcommittee on monitoring the implementation and social-economic impacts of acts which fall under the scope of authority of the Committee on Budget, Finance and Audit (Subcommittee on Monitoring)
2006-2009	*Vice-Chairman* – Committee on Nominations of Vice-Presidents of the State Audit Office of Hungary
2002-2006	*Vice-Chairman* – Committee on Budget and Finance
2002-2006	*Chairman* – Subcommittee on European Integration
2001-2002	*Vice-Chairman* – Committee on Budget and Finance
2001-2002	*Vice-Chairman* – Subcommittee on European Integration
2001-2002	*Chairman* – Subcommittee on Preparing the Budget Bill of 1998 and 1999 of the National Radio and Television Commission
2001	*Chairman* – Subcommittee on Olympics
1999-2001	*Member* – Economic Committee

1999-2000	*Chairman* – Fact-Finding Subcommittee on the Trade Practice of the National Bank of Hungary
1998-2002	*Deputy Faction Leader* – Parliamentary faction of FIDESZ (Alliance of Young Democrats)
1998-2002	*Head of Economic Affairs* – Economic cabinet of the parliamentary faction of FIDESZ
1998-1999	*Member* – Committee on Local Government and Internal Security
1998-1999	*Member* – Subcommittee on monitoring the implementation and social-economic impacts of acts which fall under the scope of authority of the Committee on Local Government and Internal Security (Subcommittee on Monitoring)
1998-1999	*Member* – Committee on Employment and Labour
1998-1999	*Chairman* – Subcommittee on European Integration
	Other memberships
1998-2008	*Member* – Social Council of Tessedik Sámuel College
2002-2006	*Chairman* – Committee on Economy and Environmental Management of the Local Government of Békés County

DECORATIONS

2010	Bicentennial silver medal for the work done to the benefit of water management associations
2010	Memorial honour for the work done in the field of national defence
2002	'For Szarvas' Award
2002	Freeman of the Tessedik Sámuel College
	Honourable mention of the work done for the Békéscsaba-Arad-Békéscsaba Marathon
	Memorial Plaque of the Hungarian Confederation of Reserve Officers

FOREIGN LANGUAGES

English

LÁSZLÓ NYIKOS

Date of Birth: 1943, Kassa Email: nyikos.laszlo@parlament.hu

EDUCATION

2001	**Honorary Professor** in the field of Business Administration (Budapest University of Economic and Public Administration; nowadays: Unversity CORVINUS)
1978	candidate of economic sciences **(PhD)**
1971	doctor for K. Marx University of Economic Sciences, Budapest
1967	**Diploma** economics (K. Marx University of Economic Sciences, Budapest)
1962	**Secondary School** (Széchenyi István Gimnázium, Sopron)

PROFESSIONAL WORK HISTORY

2010	**MP**
2007 – 2010	Managing director of the Ltd. Hungaricus
2005 – 2010	President of supervisory body of the state-owned company Hollóháza-Porcelain
2003 – 2010	Teaching in PhD-training (University Pécs)
2004 – 2006	Senior research fellow (University CORVINUS)
2002 – 2006	Associate professor (University Sopron)
2002 – 2004	Senior advisor at the State Audit Office
1990 – 2002	Vice-president of the Hungarian State Audit Office
1988 – 1989	Leader of department for economic policy at the Hungarian Trades Union Council
1988	Scholarship at F. Ebert Stiftung in Bonn and Düsseldorf
1984 – 1988	Deputy of the director of research institute for the hungarian trade unions
1979 – 1984	Deputy of the director general of DG for financial control in the Ministry of Finance
1973 – 1979	Chief Financial Officer (GANZ Measuring Instrument Works, Budapest)
1968 – 1973	Manager of department for planning and statistics (GANZ Measuring Instrument Works, Budapest)
1967 – 1968	Trainee (GANZ Measuring Instrument Works, Budapest)

LANGUAGE SKILLS

German (advanced)
English (advanced)
Russian (intermediate)

- **Subject: Delegation of the Budgetary Control Committee (EP) to Hungary**
- **Date: 20 July - 22 July 2011**
- **Place: Budapest**

Committee on Budgetary Control (CONT) European Parliament	Date: 20-22/07/2011 Delegation to Hungary

Background: Rural Development and Direct Payments in Hungary

CONTEXTUAL INFORMATION

Hungary has a surface of 93,030 km2 and a population of 10,077,000 inhabitants. The average population density in 2006 was 108.5 persons per km2.

The significance of the agricultural sector in Hungary is decreasing in the national economy. The last available data (2005) show a contribution of the sector to the GDP of 3.7 %, to employment 5 % and to exports (including food industry) 7.2 %.

In 2006, approximately 62.5 % of Hungary's territory was under agricultural cultivation, the majority of which is arable land.

As a result of the privatisation process a fragmented and polarised farm structure has developed. The average holding size is 2.3 ha. 83% of the holdings are now in private ownership.

The age structure of the farming population is unfavourable with 62.2 % of the agricultural labour force being 40 years and older. A further obstacle to economic restructuring is the low level of education and professional knowledge.

The forestry sector also plays an important role in Hungary covering 19.1 % of the country's territory. Most forests are still state owned (58%).

Certain technology and infrastructure is outdated, especially in terms of machinery, accessibility, logistics, water management systems and IT. Competitiveness of farmers is hindered by an insufficient level of vertical integration in the food chain.

The following main degradation processes associated with agriculture are significant in Hungary: soil erosion by wind and water, soil salinisation and unbalance in water quantity and quality. Hungary is regularly hit by serious floods and excess surface waters as a result of the geographical location of the country in the Carpathian basin. Nitrate problems are caused mainly by liquid manure and waste water discharges of large livestock farms (approximately 320.000 farmers). An important 4.3 million ha is considered as nitrate-sensitive area. (Total agricultural area is 5,8 millions ha).

In Hungary rural areas cover 87% of the territory and are inhabited by 45% of the population.

Many rural areas suffer from the 'traditional' disadvantages such as lower employment and educational levels as well as poor logistics and infrastructure.

Nevertheless the Hungarian rural areas are also characterised by a very rich cultural and natural heritage.

RURAL DEVELOPMENT IN HUNGARY

1. PROGRAMMING PERIOD 2007-2013

Hungary has 1 National Strategy Plan and 1 Rural Development Programme. The main focus of the programme lies with axis 1 'Improving the competitiveness of the agricultural and forestry sector' which takes up almost half of the EAFRD budget for the programming period. Within axis 1, priority is put on the measure Investments in agricultural holdings. The main action of axis 2 'Improving the environment and the countryside' is to reduce the environmental load of agricultural origin, to improve in general the environmental conditions and to promote environmentally friendly farming practises. The biggest share of resources is earmarked for the measures agri-environment, afforestation, Natura 2000 and forest-environment. Axis 3 'Quality of life in rural areas and diversification of the rural economy' is focused on creating alternative income for people in rural areas through support for the development of entrepreneurship and job creation. The Leader approach is strongly present in the implementation of axis 3.

The general demarcation with Regional Funds is based on the size of the settlement and population density. The New Hungarian Rural development Programme (NHRDP) targets settlements having less than 10.000 inhabitants with a population density not exceeding 120 persons/km2 or. These are considered as rural areas for the implementation of the rural development policy, excluding the settlements of the Budapest agglomeration, but including the outskirt areas of non-rural settlements having more than 2% of total population living in outskirt territories. It covers 95% of the country's settlements, 87% of the territory and 45 % of the population.

2. Financial description

Total public expenditure for 2007-2013 is 5 265 813 362 euros. EAFRD contribution is 3 860 091 392 euros.

Financial plan summary

	Average EAFRD rate (2)	EAFRD Contribution
Axis		
Axis I.	71.11%	1,698,357,613
Axis II.	76.84%	1,304,467,555
Axis III.	71.65%	495,711,102
Axis IV.	76.62%	209,321,387
Technical Assistance	73.95%	152,233,735
Total	73.43%	3,860,091,392

In the framework of the European Economic Recovery Package and Health Check reforms Hungary has received an additional allocation of 54 248 000 EUR. Hungary used the additional amount for the restructuring of the dairy sector via the animal welfare measure.

The NHRDP financial execution rate is in the EU average. 35% of the total budget 2007-2013 has been paid to Hungary until the 30th April 2011.

HUNGARY Axis/Measure	**Total EAFRD Contribution**	**% Total EAFRD paid at Q1 2011 / Total EAFRD Contribution**
111. Vocational training and information actions	64.495.702,00	**26,92%**
112. Setting up of young farmers	68.400.980,00	**84,63%**
113. Early retirement	7.823.531,00	**1,82%**
114. Use of advisory services	16.092.528,00	**30,12%**
121. Modernisation of agricultural holdings	1.175.174.595,00	**43,60%**
122. Improvement of the economic value of forests	19.289.090,00	**39,13%**
123. Adding value to agricultural and forestry products	208.772.775,00	**27,76%**
125. Infrastructure related to the development and adaptation ...	78.181.007,00	**11,08%**
131. Meeting standards based on Community legislation	657.773,00	**90,33%**
141. Semi-subsistence farming	7.817.988,00	**5,02%**
142. Producer groups	51.651.644,00	**44,92%**
Total Axis 1 : Improving the competitiveness of the agricultural and forestry sector	**1.698.357.613,00**	**40,68%**
212. Payments to farmers in areas with handicaps, other than ...	25.658.332,00	**125,06%**
213. Natura 2000 payments and payments linked to Directive ...	30.851.593,00	**29,42%**
214. Agri-environment payments	873.903.468,00	**42,04%**
215. Animal welfare payments	54.248.000,00	**0,00%**
216. Non-productive investments	8.626.514,00	**2,48%**
221. First afforestation of agricultural land	197.534.690,00	**31,81%**
222. First establishment of agroforestry systems on ...	2.161.875,00	**0,62%**
223. First afforestation of non-agricultural land	1.500.263,00	**0,00%**
225. Forest-environment payments	67.100.289,00	**0,42%**
226. Restoring forestry potential and introducing prevention ...	8.251.449,00	**6,68%**
227. Non-productive investments	34.631.082,00	**1,96%**
Total Axis 2 : Improving the environment and the countryside	**1.304.467.555,00**	**36,27%**
311. Diversification into non-agricultural activities	20.175.441,00	**0,00%**
312. Business creation and development	97.883.078,00	**12,62%**
313. Encouragement of tourism activities	100.546.592,00	**6,55%**
321. Basic services for the economy and rural population	97.555.945,00	**25,62%**
322. Village renewal and development	80.833.742,00	**20,11%**
323. Conservation and upgrading of the rural heritage	67.585.647,00	**9,66%**
331. Training and information	0,00	**0,00%**
341. Skills acquisition, animation and implementation of ...	31.130.657,00	**76,78%**

Total Axis 3 : The quality of life in rural areas and diversification of the rural economy	**495.711.102,00**	**18,28%**
411. Implementing local development strategies. Competitiveness	39.247.760,00	**0,49%**
412. Implementing local development strategies. Environment/land	15.699.104,00	**0,41%**
413. Implementing local development strategies. Quality of life	102.044.176,00	**1,47%**
421. Implementing cooperation projects	20.932.140,00	**1,25%**
431. Running the local action group, acquiring skills and ...	31.398.207,00	**18,16%**
Total Axis 4 : Leader	**209.321.387,00**	**3,69%**
511. Technical Assistance	152.233.735,00	**61,56%**
Total Axis 5 : Technical Assistance	**152.233.735,00**	**61,56%**
Total	**3.860.091.392,00**	**35,13%**

According to the Mid Term Evaluation of the NHRDP a very high level of the budget for the whole programming period is already committed. For Axis 1, it would even reach 100%.

3. Management and Monitoring of the NHRDP

On the basis of the shared management principle, the implementation of the rural development programme is the responsibility of the Managing Authority (MA), which in the case of the NHRDP is the Ministry of Rural Development.

The Agricultural and Rural Development Agency (MVH) is responsible for the paying agency activities.

In accordance with Article 82(2) of Council Regulation (EC) No 1698/2005, as from 2008, each year, before the 30^{th} June, the MA has to submit an Annual Progress Report (APR), including monitoring tables, to the Commission on the implementation of the Programme the previous year. The Commission has just received the APR 2010.

In 2010, Member States had to submit two main reports: (1) the bi-annual strategic monitoring report providing a summary of the progress made in implementing its National Strategy Plan; (2) the Mid Term Evaluation which examines the progress of the programme in relation to its goals and contributes to the improvement of the quality of the programme. Hungary has submitted both reports in time. The Mid-term evaluation is published on the website of the Ministry of Rural Development and on EUROPA.

Each year an annual meeting is scheduled between the Commission and the Managing Authority to discuss the results of the previous year.

4. PROGRAMMING PERIOD 2004-2006

Hungary has been implementing two rural development programmes for the period 2004-2006, covering the whole country:

1. The **Agriculture and Rural Development Operational Programme** (ARDOP), one of the five programmes of the Community Support Framework for

Hungary with a contribution by the EAGGF Guidance Section of EUR 312,8 million and by the FIFG of EUR 4.39 million. The main focus of the programme was the modernisation of agricultural production and processing of agricultural products aiming at contributing to the structural change in the sectors after Accession to the EU and therefore to competitiveness. The closure is underway.

2. The **Rural Development Plan** (RDP) co-financed by the EAGGF Guarantee Section with a contribution of EUR 602,30 million concentrated mainly on environmental objectives and the sustainable use of natural resources through agri-environmental payments and afforestation of agricultural land as well as to meet compulsory EU standards in the livestock sector. The RDP was closed in 2009.

DIRECT PAYMENTS IN HUNGARY

5. DIRECT PAYMENTS

Hungary has been paying Direct Payments through the Single Area Payment Scheme (SAPS). This is a simplified area payment scheme that can be implemented by New Member States on a transitional basis; at the latest by the end of 2013 Hungary will have to switch to the Single Payment Scheme (SPS) implemented in EU-15. Direct payments for Hungary are subject to a phasing-in process (as for other New Member States): direct payments per hectare are increasing each year to reach their full level in 2013 (in 2011 the applicable level is 80%).

Due to the phasing-in, Hungary is allowed to complement the direct payments to the fully phased-in level with national funds through the Complementary National Direct Payments (CNDPs).

Besides the above payments Hungary decided to implement the Separate sugar payment (Art.126 of Regulation (EC) No 73/2009), the Separate F&V payment (tomatoes and other fruits) (Art.127 of Regulation (EC) No 73/2009) and the Transitional soft fruit payment (Art.128 of Regulation (EC) No 73/2009).

Hungary also decided to support farmers through specific support measures in the dairy sector (Art. 68(1)(b) of Regulation (EC) No 73/2009) and also supports tobacco and fresh fruit and vegetables growing areas subject to restructuring and development programmes (Art. 68(1)(c) of Regulation (EC) No 73/2009)

6. FINANCIAL CEILINGS

The following budgetary ceilings have been fixed for Hungary for 2010 (financial year 2011):

Measure	Ceiling (thousands EUR)
SAPS	831 578
Separate sugar payment	41 010
Separate F&V payment	4 756
Specific support	77 290

National Development Agency
Economical Development Operative Program

Goals of Economical Development Operative Program

The *Economic Development Operational Program* (EDOP) is an initiative to promote the sustainable growth of the Hungarian economy, and was created to complete the economy development priority of the New Hungary Development Plan (the National Strategic Reference Framework). Its overall objectives are to achieve long term growth of the Hungarian economy by improving the quality of physical and human capital, as well as of total factor productivity. To support all this there is a special emphasis put on research and development and innovation capacity and cooperation, complex development of corporations and development of business environment besides facilitating the access of small and medium size enterprises' to financial resources.

The Economic Development Operational Program directly supports three of the ten micro-economic objectives of the Revised Lisbon Strategy (Integrated Guidelines) of the European Union (namely Research & Development, innovation, small and medium-sized enterprises), and indirectly supports four others (information society, production base, sustainable use of resources and business environment), as well as a guideline on employment (investment in human capital).

The *development of SMEs* is not just an important part of the Lisbon strategy but also a priority for EDOP, which is supported by the fact that 31% of EDOP resources are exclusively allocated for the development of SMEs. In line with program objectives, SMEs account for 98% of successful applications and 79% of assistance amount.

Through EDOP, significant support has been given to SME sector and several measures have been taken to counterbalance the effects of the economical crisis. While in 2007 and 2008 a bit more than 3.500 SMEs received refundable and non-refundable support, by the end of 2010 this number accounted was 11.800 companies. Also, while in 2007 and 2008, HUF 100 billion (~EUR 357 million) approved projects reached the phase of signing the assistance contract, until the end of 2010, there were all together HUF 278 billion (~EUR 1.000 million) worth projects approved of which HUF 150 billion has been paid out. (~EUR 536 million) (with JEREMIE HUF 200 billion (~EUR 714 million)

Taking into account the peculiarities of Hungarian market and also to counterbalance the negative effects of the crisis, furthermore (in accordance with the regulations of the European Commission) responding to Hungarian market failures has the Operative Program set its call in the year of 2011.

The most important of these peculiarities is the fact that most of the Hungarian companies are in need of capital, which is one of the main reasons why these companies are not able to compete with their western competitors. The reason of the absence of capital lies in the political and economical background of the country. Capitalism has been only introduced in 1990 therefore the western model of capital aggregation could not occur before these two decades. Therefore, the set up of EDOP's calls and procedures are formulated in a way that provide resources for companies.

EDOP provides resources in the form of refundable and non-refundable support. In accordance with the priorities set in the Europe 2020 strategy, numerous program and procedure offer EDOP's resources in a combined way. According to plans, more and more emphasis will be put on combined products, thereby guaranteeing the possibility of realization of enterprises' projects and business ideas.

Combined Products

Combined products are available with diverse forms depending on the size of the project.

In case of the Combined Micro-loan product a company may receive HUF 1-4 million grant (~EUR 3.500 – EUR 14.000) parallel to the HUF 1-8 million loan (~EUR 3.500 – EUR 28.500). The company has to have 10% own sources.

According to the procedure of the Combined Loan with Guarantee the company has to have 25% of own sources. Above the own resources, commercial or developmental banks provide loans from their own sources for the 75% for the time of realization of the project. The loan is guaranteed through the New Széchenyi Counter-Guarantee program. After realization of the project, the loan is decreased with the amount of grant. The calls for Research and Development and Innovation for Competitiveness, Complex development of enterprises and improvement of modern business environment are included in this procedure.

Important element in case of combined products is that they offer a one stop-shop opportunities where the contracted financial services providers and banks are the contact points for projects and projects are evaluated based on market need.

JEREMIE - Joint European Resources for Micro to Medium Enterprises

Jeremie is the new instrument launched in the 2007-13 programming period, the implementation of which has been affected by several factors. Given this, the initial idea had to be corrected several times on the basis of effective market demand, as well as resolutions requested from the European Commission.

Hungary has been the first to launch the Jeremie program, so there have not been any good practices and the regulatory framework has not been clear either. The economic crisis which hit the financial sector has largely influenced the program, due to which the creditworthiness and risk of the SME sector deteriorated more in comparison with large enterprises, while financial intermediaries have been forced to strongly limit the risks undertaken, so sources of finance for the SME sector have significantly been narrowed.

In the previous year we performed a realignment of schemes connected to Jeremie: we reorganized existing products based on the experience of intermediaries, we launched a new combined credit product and a further combined scheme is being launched, as a result of which Jeremie outstanding loan has doubled. About EUR 200 million has reached final beneficiaries (loan, guarantee and venture capital, including Central Hungary Operative Program (CHOP)).

In February 2011 we launched the micro loan program *New Széchenyi Loan*, which integrated two schemes announced in 2007 and we also carried out certain conceptual modifications for better marketability of the product. The most important modification has been the introduction of loss-sharing, where the fund management organization undertakes to finance the realized loss of the given intermediary loan portfolio up to maximum 9% based on Jeremie resources.

In order to launch the new programs the budget of the *SME Credit Program* originally announced to alleviate the impacts of the economic crisis, has been reduced.

The *working capital program* has been terminated by the Managing Authority as of 31st December 2010. During the economic crisis SMEs did not mainly request sources of finance for development, but short-term credit in order to ensure their day-to-day operation and liquidity, however limiting the scope of eligible activities has made the use of Jeremie funds very difficult.

The *counter-guarantee program* has been available since March. The aim of the scheme is to provide counter-guarantee (up to maximum 85%) for credit contracts of guarantee institutions (up to maximum 80%) chosen as intermediaries within the scope of the program. Credit interest rate has been maximized: up to 250 basis points for HUF credit and up to 350 basis points for credit in foreign currency. The guarantee fee levied by the guarantee institutions is a maximum of 1.7% per year which is favorable than current market fees. Credit institutions provide credit from own resources, ensuring significant leverage within the scope of the program, which is investigated by the Operational Program at Jeremie level.

Based on the experience gained in 2010 the *portfolio guarantee* product will be modified and the budget available will be reduced because of launching new products.

In the currently available *venture capital program* eight funds have been granted HUF 31.5 billion (~EUR 112,5 million) from the Jeremie program amounting to about HUF 45 billion (~EUR 160 million) (EDOP and CHOP) along with funds of private investors. The credit granted shows the progress under the planned numbers laid down in business plans. In the third quarter of 2011 we plan to announce the new venture capital program which will target innovative early-stage SMEs with more emphasis.

Research & Development and Innovation

In the first quarter of 2011 calls for applications of priority relating to Research & Development and Innovation have been restructured in line with the objectives of New Széchenyi Plan. As a result 5 calls for applications were announced in the first half of 2011 with a total budget of HUF 120 billion (~EUR 430 million).

In case of the special – so called – automatic call for applications of R&D innovative enterprises can obtain non refundable assistance, if they meet all the supporting criteria. Opportunity for purchase of means of production plays a greater role than before in case of other new calls for applications, furthermore - unlike in previous schemes - there are also an opportunity to set up standardized production of the developed products and its launching to the market. In case of further R&D schemes applications of consortia can be also handed in, so universities and/or public financed research institutes can take part as consortium members, hereby strengthening the cooperation among non profit and entrepreneurial actors, in addition costs of basic research have been also become eligible.

It is very important to highlight that nowadays there is no other public financial source in Hungary to subsidize basic research, furthermore launching consortia's application opportunity is expected to involve new beneficiaries to the subsidy system.

Extreme-light Infrastructure – ELI-HU Project in Hungary

In January 2011 the Hungarian Government confirmed that Hungary will implement the ELI-HU Project which is a part of the pan-European research infrastructure on the Strategy Forum on Research Infrastructures (ESFRI) roadmap. The project will be realized as a distributed infrastructure on three Central-East European locations (Czech Republic, Romania and Hungary) using Structural Funds. Hungarian Government has decided to finance the ELI-HU Project's budget of HUF 65 billion (~EUR 232 million) from the Research & Development and Innovation Priority of EDOP.

Until now calls for applications have been announced concerning the preparing phase of the project. According to our future plans National Development Agency is going to submit the modification request of the Operational Program to the European Commission, call for applications concerning the major project can be only afterwards prepared and announced.
A recent government resolution fixed the deadline of submitting the major project documentation for Government approval at 15 January 2012. The initiation of Commission approval will be possible following the above Government approval. Taking into account the progress of project its entire implementation is not expected until end of programming period 2007-2013 and like a bridge it will connect the next programming period to the previous one.

In case entire budget dedicated to ELI-Project can not be committed and total amount of sources will not be requested by applicants in the framework of the calls for applications already announced, publishing new calls for applications and rearrangement of sources among granting schemes are expected. According to recent expectations EDOP Managing Authority intends to announce two further calls for applications related to R&D and Innovation during 2011.

FINANCIAL INSTRUMENTS: JEREMIE (Joint European Resources for Micro to Medium Enterprises) Program

ÚJ SZÉCHENYI TERV

A repayable EU assistance programme to alleviate market gaps

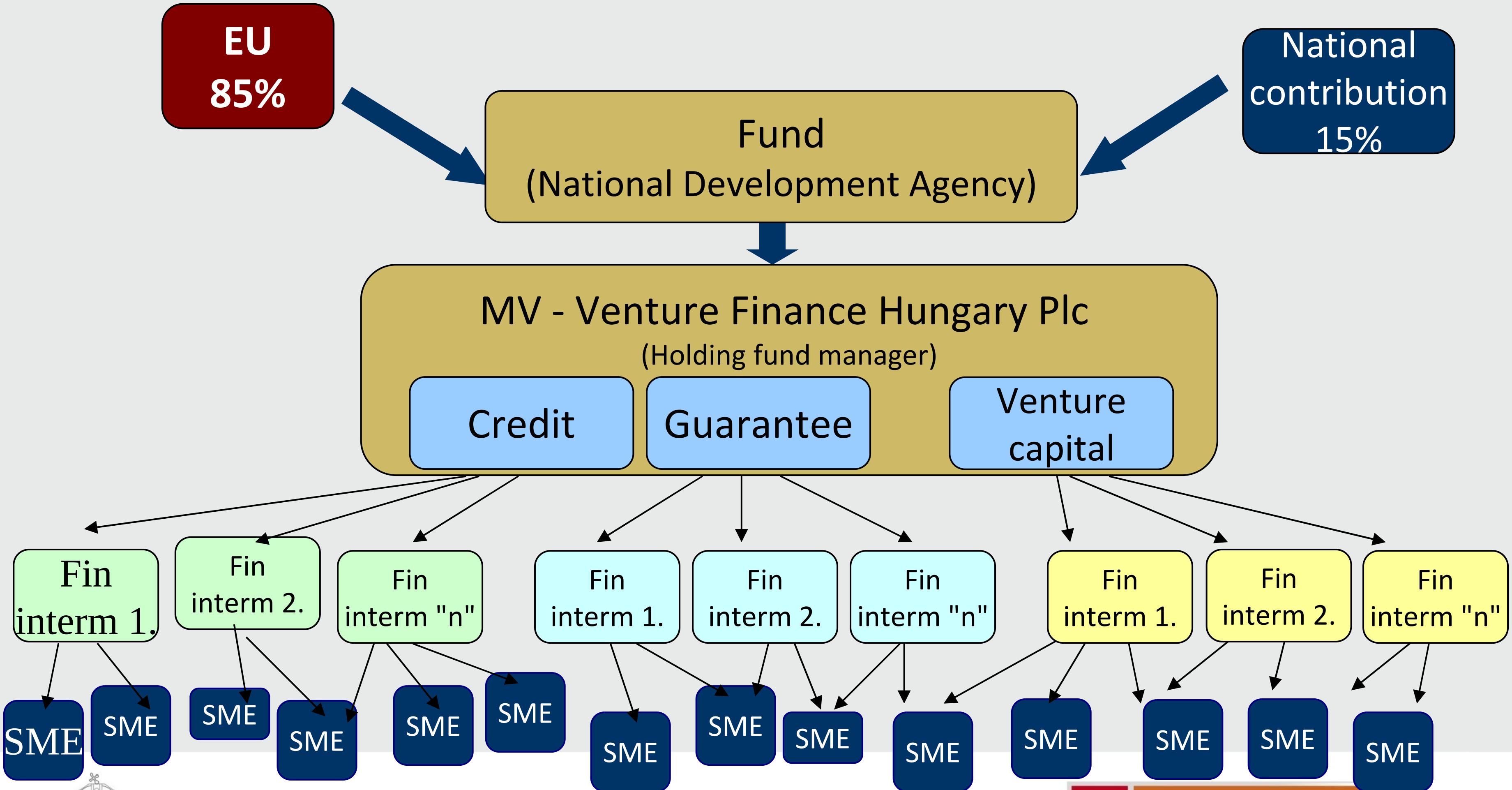
1. Refinanced credit programmes (New Széchenyi Combined Micro-Credit, New Széchenyi SME Credit)
2. Credit guarantee and counter-guarantee programmes
3. Venture Capital

- Available resources: ~HUF 200 billion
- Available for:

  a) Independent financing

  b) Own contribution for non-repayable Schemes
- Allocation through intermediaries
- Fund-type operation (recycling and redistributable resources)

The programme in Hungary



Nemzeti Fejlesztési Ügynökség

MAGYAR VÁLLALKOZÁSFINANSZÍROZÁSI ZRT.

EDOP Priority 4 Programme status
(up to 20 May, 2011)

ÚJ SZÉCHENYI TERV

Financial Programme	Number of intermediary contracts	Contracts (SMEs)	
		pcs	HUF billion
Credit programmes	**119**	**2 757**	**27.9**
- New Széchenyi Credit (previously Micro-Credit and Small Credit)	60	2 475	16.0
- New Széchenyi Combined Micro-Credit	22	3	-
- SME Credit	18	189	7.4
- Working capital (closed programme)	19	90	4.5
Guarantee Programmes	**39**	**177**	**4.1**
- Portfolio Guarantee Programme	38	177	4.1
- New Széchenyi Counter Guarantee Programme	1	-	-
Venture Capital Programme	**7**	**21**	**5.4**
Total	**165**	**2 955**	**37.4**

Nemzeti Fejlesztési Ügynökség

MAGYAR VÁLLALKOZÁSFINANSZÍROZÁSI ZRT.

MAGYARORSZÁG MEGÚJUL

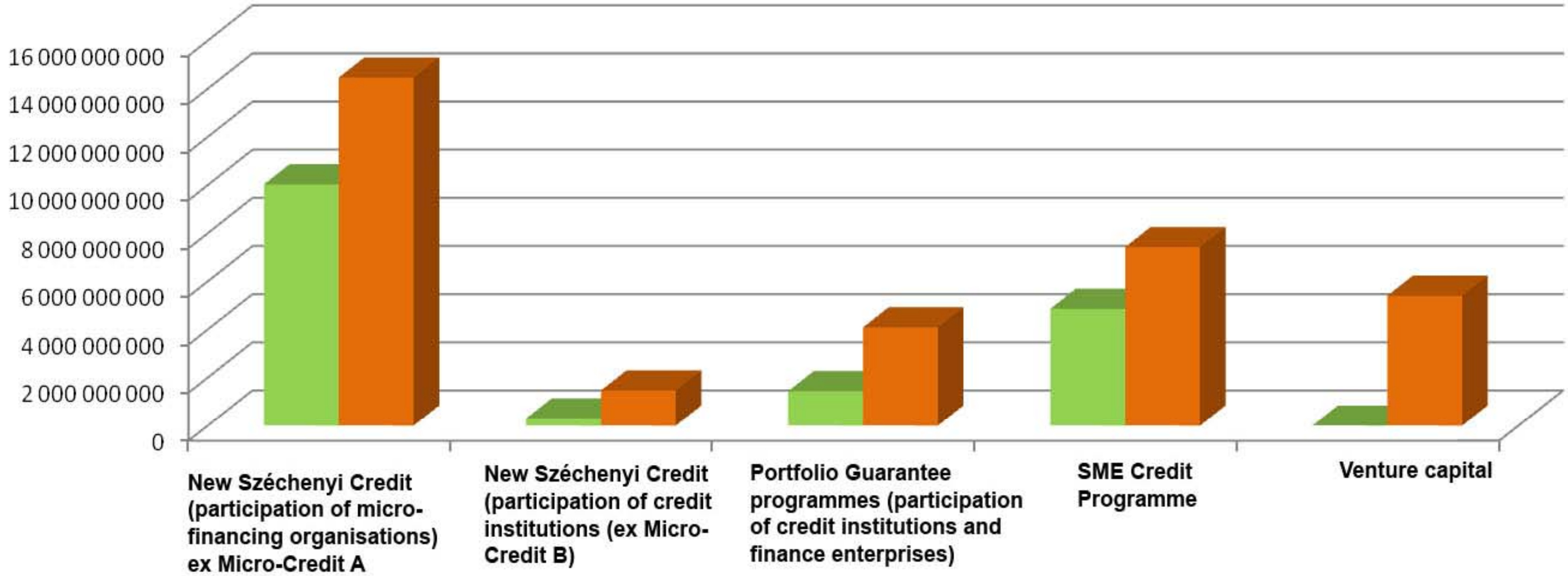
A projekt az Európai Unió támogatásával, az Európai Regionális Fejlesztési Alap társfinanszírozásával valósul meg.

EDOP 4 Programme status

ÚJ SZÉCHENYI TERV

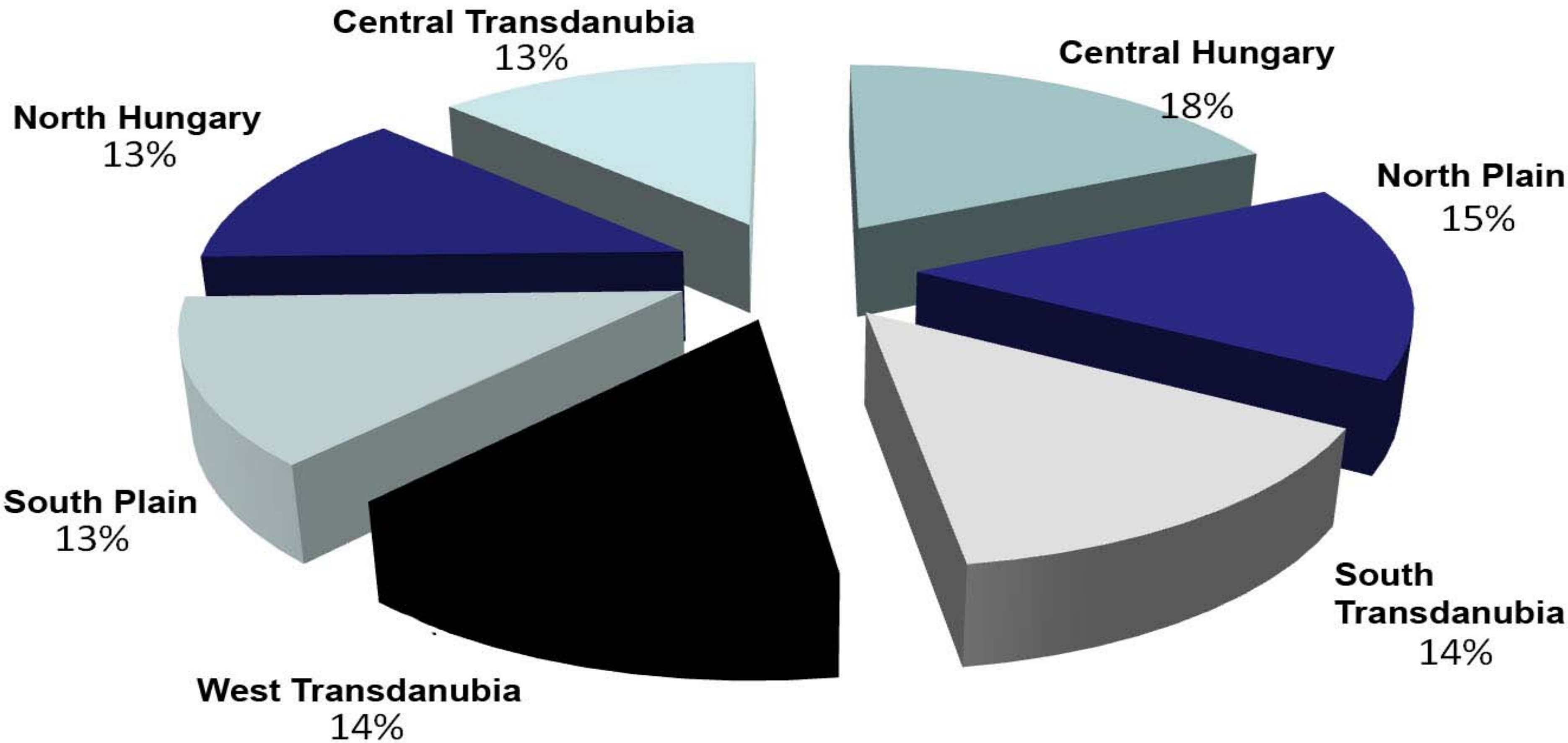
Financial product	20 May, 2010		20 May, 2011	
	number	allocated amount (outstanding)	number	allocated amount (outstanding)
New Széchenyi Credit (with participation of micro-financing institutions)	1 716	10 054 569 475	2 306	14 475 964 270
New Széchenyi Credit (with participation of credit institutions)	62	323 604 930	169	1 549 630 940
Portfolio guarantee	100	1 435 392 579	177	4 088 899 189
SME credit	129	5 206 981 900	189	7 424 654 868
Venture Capital	-	-	21	5 403 297 421
Total	**2 007**	**17 020 548 884**	**2 862**	**32 942 446 688**

Progress by products



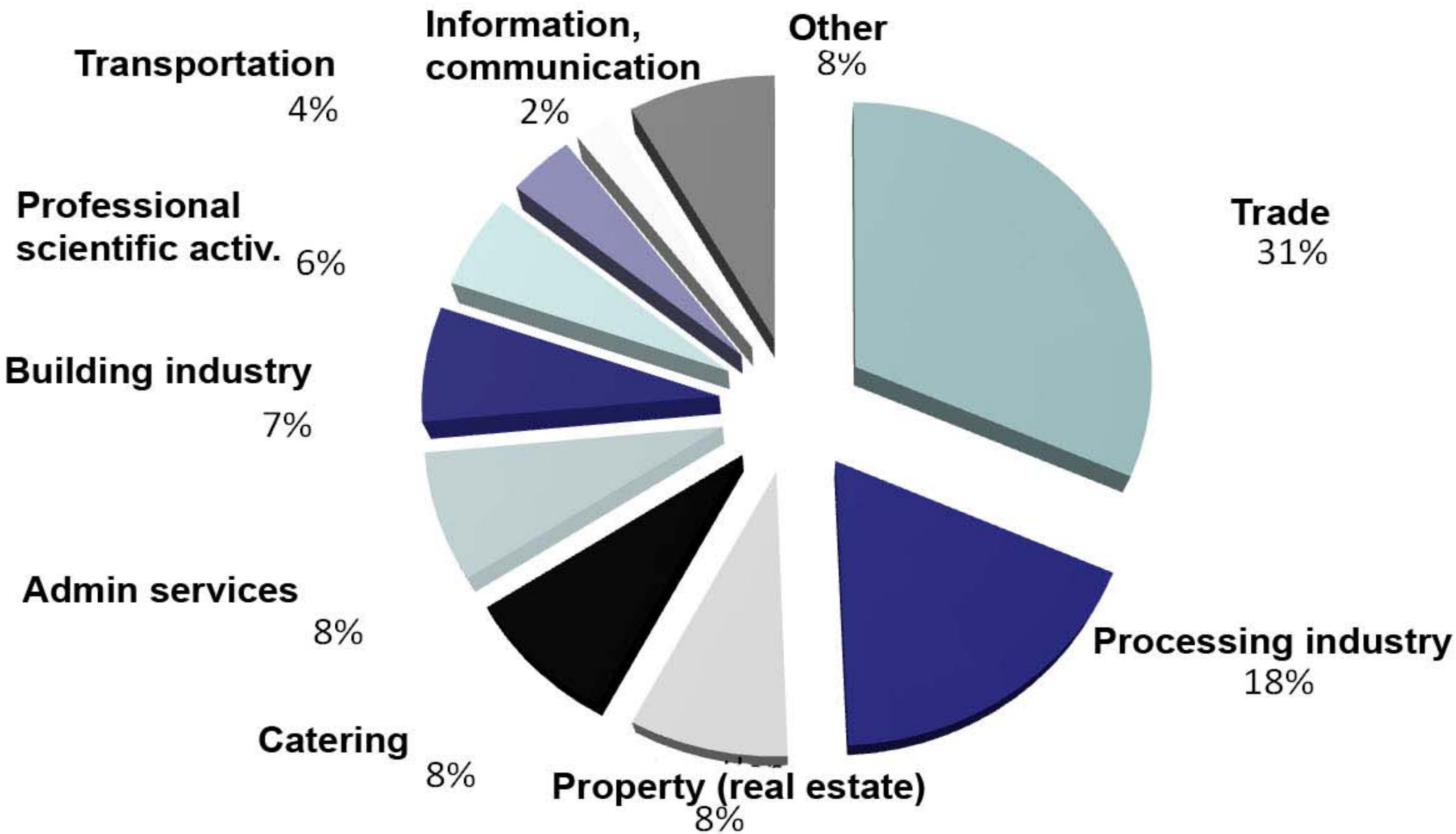
- 20 May, 2010 - allocated amount
- 20 May, 2011 - allocated amount

Regional break-down of portfolio



Sectoral break-down of portfolio

ÚJ SZÉCHENYI TERV



Progress of 2011

ÚJ SZÉCHENYI TERV

active programmes

Jeremie programmes	Jeremie utilisation 20 May, 2011
New Széchenyi Credit	14 378 300 272
New Széchenyi Combined Micro-Credit	9 750 897
SME credit	3 712 327 434
Portfolio guarantee	3 120 221 303
Venture Capital	3 616 012 249
Total	**24 836 612 155**

closed programmes

Jeremie programmes	Jeremie utilisation Before programme close
Guarantee for micro-financing organisations (within the credit programme)	662 267 520
Working Capital Programme	1 859 014 544
Total	**2 521 282 064**

Nemzeti Fejlesztési Ügynökség

MAGYAR VÁLLALKOZÁSFINANSZÍROZÁSI ZRT.

MAGYARORSZÁG MEGÚJUL

A projekt az Európai Unió támogatásával, az Európai Regionális Fejlesztési Alap társfinanszírozásával valósul meg.

New combined micro-credit

Number of cases received by intermediaries
(on 20 May, 2011)

EDOP cases in total:	**258 pcs**	**HUF 911 310 042**
All positive decision EDOP case:	**150 pcs**	**HUF 556 325 132**
All EDOP case under evaluation:	**102 pcs**	**HUF 430 109 760**

200 credit cases a week in average
Average credit size: HUF 3.5 million

Contract ref.	Title	Contract Price	Eligible in application form (MEUR)	Irregularity (based on COCOF 07/0037/03-EN of 29/11/2007)
P17 (bsz 29/06)	Project management services	18,0	16,3	**Non-compliance with advertising procedures.** The contract was awarded without complying with the advertising requirements laid down in the EC Public Procurement Directives The contract was signed with Eurometro without an open tendering procedure. The justification provided was that Eurometro was the only company able to carry out the works because of special conditions (copyright, know-how documented in its previous contract). The reason for selecting this type of procedure is problematic as in reality the procurement was not technically bound to any documentation under copyright, the contents of which, taken individually, is in the public domain.
Co-04/A	Tétényi	13,5	7,2	**Non-compliance with advertising procedures.** The contract was awarded without complying with the advertising requirements laid down in the EC Public Procurement Directives, The choice of a negotiated procedure without public notice is not justified on technical grounds. The signed contract was subsequently amended to change the payment currency in order to manage currency risk, thereby potentially putting the bidder at an advantage.

Co-04/B	Bocskai	32,2	18,6	**Non-compliance with advertising procedures.** The contract was awarded without complying with the advertising requirements laid down in the EC Public Procurement Directives. The choice of a negotiated procedure without public notice is not justified on technical grounds. The signed contract was subsequently amended to change the payment currency in order to manage currency risk, thereby potentially putting the bidder at an advantage.
Co-04/C	Móricz station structure	28,6	22,1	**Non-compliance with advertising procedures.** The contract was awarded without complying with the advertising requirements laid down in the EC Public Procurement Directives, The choice of a negotiated procedure without public notice is not justified on technical grounds. The signed contract was subsequently amended to change the payment currency in order to manage currency risk, thereby potentially putting the bidder at an advantage.
K2C	Design of surface investments - Rákóczi	4,0	4,0	**Attribution of contracts without competition in the absence of extreme urgency brought about by unforeseeable events or the absence of an unforeseen circumstance for complementary works.** The main contract was awarded in accordance with the EC Public Procurement Directives, but was followed by a supplementary contract awarded without complying with the provisions of the Public Procurement Directives related to negotiated procedures without publication for reasons of extreme urgency brought about by unforeseeable events or

				for attribution of complementary supplies, works and services.
Co-03	Kelenföldi station structure	54,4	49,0	**Negotiation during the award procedure.** The contract was awarded by open or restricted procedure but the contracting authorities negotiated with the bidders during the award procedure. The discussions were not solely intended to clarify or supplement the content of their bids or specify the obligations of the contracting authorities.
Co-00B	Baross tér 2nd line and Keleti station 2nd exit	4,8	1,8	**Non-compliance with advertising procedures.** The contract was awarded without complying with the advertising requirements laid down in the EC Public Procurement Directives. The individual works should have been assessed together. The successful tenderer was a firm which also took part in other calls. The procedure should have been conducted together with the other construction calls launched in 2005 (e.g. Co-05, Co-06) in line with Community thresholds. The award of the contract did not comply with EU directives regarding publicity measures, and did not ensure a level of publicity which would have given access to the contract to economic actors in other Member States.
Co-05/A	Fővám square structure	39,4	35,4	**Insufficient or discriminatory definition of the subject-matter of the contract.** The description in the tender documents or tender notice was discriminatory or insufficient for bidders to determine the subject-matter of the contract or for the contracting authorities to award the contract.

				1) In the beginning of the procedure the caller did not permit bids relating to parts of the tender, but opened this possibility during the bidding phase. The selection criteria were defined in relation to the entire procurement. The caller announced several winners. This kind of modification of the rules of procedure impedes equal treatment and competition. 2.) The caller disqualified a bid because of the lack of references without requesting the applicant to send additional documents.
Co-05/B	Kálvin square station structure	34,97	31,0	**Insufficient or discriminatory definition of the subject-matter of the contract.** The description in the tender documents or tender notice was discriminatory or insufficient for bidders to determine the subject-matter of the contract or for the contracting authorities to award the contract. 1) In the beginning of the procedure the caller did not permit bids relating to parts of the tender, but opened this possibility during the bidding phase. The selection criteria were defined in relation to the entire procurement. The caller announced several winners. This kind of modification of the rules of procedure impedes equal treatment and competition. 2.) The caller disqualified a bid because of the lack of references without requesting the applicant to send additional documents.
Co-06/A	Rákóczi square structure	25,6	22,6	**Insufficient or discriminatory definition of the subject-matter of the contract.** The description in the tender documents or tender notice

				was discriminatory or insufficient for bidders to determine the subject-matter of the contract or for the contracting authorities to award the contract. In the beginning of the procedure the caller did not permit bids relating to parts of the tender, but opened this possibility during the bidding phase. The selection criteria were defined in relation to the entire procurement. The caller announced several winners. This kind of modification of the rules of procedure impedes equal treatment and competition.
Co-06/B	Népszínház street structure	24,3	21,4	**Insufficient or discriminatory definition of the subject-matter of the contract.** The description in the tender documents or tender notice was discriminatory or insufficient for bidders to determine the subject-matter of the contract or for the contracting authorities to award the contract. In the beginning of the procedure the caller did not permit bids relating to parts of the tender, but opened this possibility during the bidding phase. The selection criteria were defined in relation to the entire procurement. The caller announced several winners. This kind of modification of the rules of procedure impedes equal treatment and competition.
	Total	279,77	229,4	