Case Study

Topic 01: ESIF Architecture

Hungary

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List of abbreviations

AA	Audit Authority
CA	Certification Authority
CF	Cohesion Fund
COPPER	Public Administration and Services Operational Programme
DGAEF	Directorate-General for the Audit of European Funds
EARDF	European Agriculture and Development Fund
EC	European Commission
ECA	European Court of Auditors
EFOP	Human Resources Development Operational Programme
EMFF	European Maritime and Fisheries Fund
EMIR	Unified Monitoring Information System
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
EUR	Euro
GDP	Gross Domestic Product
GINOP	Economic Development and Innovation Operational Programme
HST	Hungarian State Treasury
HUF	Hungarian Forint
IB	Intermediate Body
IKOP	Integrated Transport Operational Programme
IS	Implementation Structure
KEHOP	Environmental and Energy Efficiency Operational Programme
MA	Managing Authority
MAHOP	Hungarian Fish Management Operational Programme
MF	Ministry of Finance
MIT	Ministry of Innovation and Technology
NCA	National Coordinating Authority
NDA	National Development Agency
NDC	National Development Committee
NDP	National Development Plan
NGO	Non-Governmental Organization
OLAF	European Anti-Fraud Office
OP	Operational Programme
PA	Paying Authority
PAMC	Partnership Agreement Monitoring Committee
PMO	Prime Minister's Office
R&D	Research and Development
RDA	Regional Development Agency
ROP	Regional Operational Programme
SME	Small and medium-sized enterprise
SZPO	Széchenyi Programme Office
TOP	Territorial and Settlement Operational Programme
VEKOP	Competitive Central Hungary Operational Programme
VP	Rural Development Programme
V4	Visegrad Four

Hungary
Implementation structure

The Hungarian ESIF implementation model is, in comparison to other sample countries, the most similar to the Czech system. Five managing authorities incorporated into the structures of individual ministries manage nine operational programmes. The Hungarian State Treasury is the designated intermediate body, though only for three specific operational programmes. Still, the Office of the Prime Minister plays a strong role, possessing controlling powers while housing one of the Managing Authorities. The concentrated nature of the system is rooted in the experience from previous programming periods, when a high number of Intermediate Bodies (up to 22) was deemed ineffective. In this context, the Hungarian implementation structure has gone through many substantial reforms over a relatively short period of time, most recent of which was carried out in spring 2018. Fluidity is therefore a characteristic feature of the Hungarian system.

Positive aspects	Negative aspects
► Uniform legislative framework across individual funds	► Relatively large number and frequency of changes to the implementation architecture
► High interoperability of the IT system with other public administration registers and systems	► High administrative burden
► Up to 100% pre-financing for public sector beneficiaries and non-governmental non-profit organizations	► Comparatively weak position of regional authorities
	► Occasionally unclear division of competencies, overlaps

Key aspects of the implementation structure

1

High frequency of changes
There were many substantial reforms of the implementation structure. The high degree of volatility not only imposes further administrative burden on the beneficiaries, it also appears to have dire implications for the implementation structure's workforce.

2

IT system
The new united IT system (FAIR) is hailed for a high degree of interconnectivity with other public administration systems. Its continuous development is guided by the principle "one data only one time." At the same time, though, FAIR falls behind in user-friendliness.

3

SMEs and the red tape
Small and medium-sized enterprises, as recipients, are burdened with excessive administrative tasks. Their representatives argue that the way funds are implemented does not reflect the nature and needs of the private sector.

4

Standardization of processes
The transfer of intermediate bodies to the Managing Authorities and their incorporation under individual ministries brought greater synergy between the various processes of the implementation structure. Thus, ESIF administration has become less fragmented.

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1.   Basic characteristics of the ESIF system

| Number of operational programs (OP/ROP)	Number of territorial units (NUTS1/NUTS2/NUTS3)
9 (7/2)	3/7/20

Total planned allocation (by programming period and fund)

Total allocation (mil. EUR)

▲

07-13: 23 176

- ■ ERDF
- ■ CF
- ■ ESF
- ■ EAFRD
- ■ EMFF

07-13: 14,8% · 50,8% · 34,1%

14-20: 13,8% · 43,2% · 18,7% · 24,2%
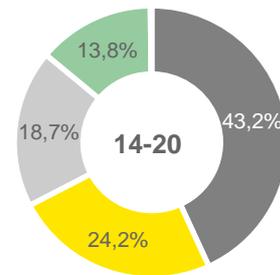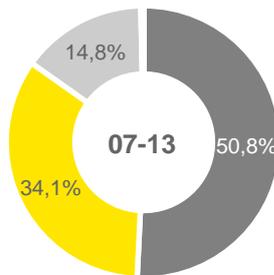
Overview of the operational programmes[1]

Scheme no. 1: Overview of the OPs

	Abbreviation	Allocation in €	Absorption*	Managing authority
Economic Development and Innovation Programme - ERDF/ESF/YEI	GINO	8 813 195 514	26	Ministry of Finance
Environmental and Energy Efficiency - ERDF/CF	KEHOP	3 784 832 361	11	Ministry of Innovation and Technology
Human Resources Development - ESF/ERDF	EFOP	3 069 636 241	5%	Ministry of Human Capacities
Hungary - National Rural Development EAFRD	VP	4 176 963 451	21	Ministry of Agriculture
Integrated Transport - ERDF/CF	IKOP	3 919 774 388	32	Ministry of Innovation and Technology
Maritime and Fisheries - EMFF	MAHOP	51 826 896	0%	Ministry of Agriculture
Public Administration and Civil Service Development - ESF/ERDF/CF	COPPER	935 138 140	27	Prime Minister´s Office
Competitive Central-Hungary - ERDF/ESF	VEKOP	927 406 878	10	Ministry of Innovation and Technology
Territorial and Settlement Development - ERDF/ESF	TOP	3 970 875 055	2%	Ministry of Finance

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[1] Source: Summary of the Partnership Agreement for Hungary, 2014-2020, cohesiondata.europa.eu. Absorption is understood as the percentage of total allocated funds already reported to the EK. The absorption covers period until 31/12/2017

2. Simplified scheme of the implementation structure

Scheme 2: Simplified scheme of the implementation structure[2]

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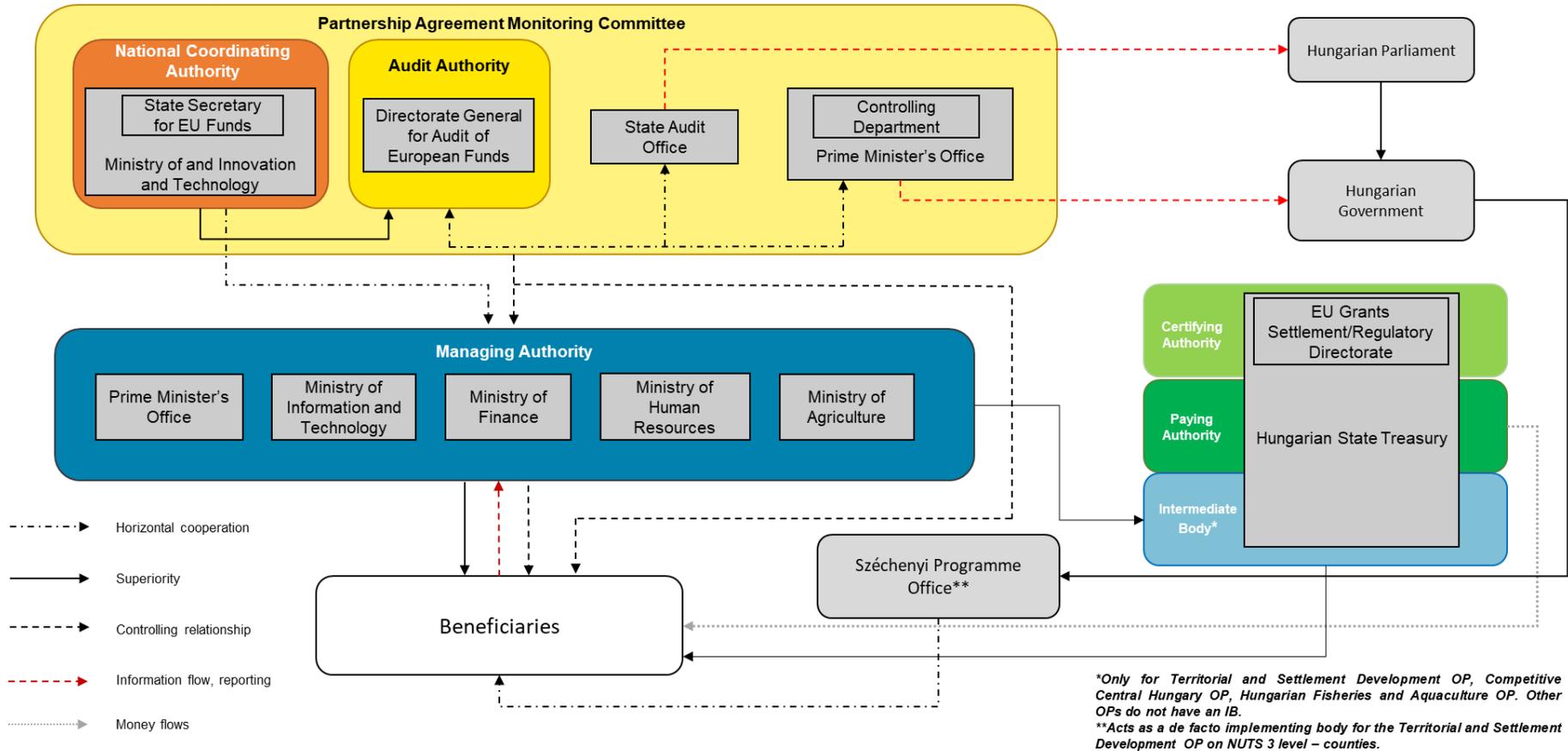
[2] The scheme presented below illustrates the implementation structure from the last reform in April 2018 onwards. A simplified scheme describing the changes to the implementation structure over time can be found on page 13.

3. Answers to the evaluation questions

3.1. Description of the implementation structure

3.1.1. Key players and their position in the system

The functions of the **National Coordinating Authority** (NCA) are carried out by the recently-established Ministry of Innovation and Technology, specifically the Secretariat of European Union Development. The NCA fulfils purely supportive functions in its relation with the Managing Authorities, which are fully responsible for the implementation of the Operational Programmes. It´s responsibilities include:

► Issuing common programme and project rules, templates, guidelines, and other relevant materials;
► Operating the common IT system;
► Coordinating the implementation planning process;
► Coordinating the preparation of description of management and control systems;
► Reviewing calls for proposals and publishing them on the website;
► Coordinating partnership and communication activities, representing Hungary in EC working groups;
► Coordinating tasks related to external audits and to anti-fraud activities
► Checking the regularity of public procurement procedures;
► Monitoring the progress of programme implementation;
► Coordinating the preparation of the annual implementation reports;
► Handling complaints and appeals against MA decisions on irregularities;
► Providing secretariat for the Partnership Agreement Monitoring Committee.

There are five **Managing Authorities** (MAs) which are incorporated into the respective line ministries[3] and the Prime Minister's Office (PMO). Their competencies are:

► Preparing the annual development framework and calls for proposals;
► Developing the controlling and management system of the programmes;
► Recommending the appointment of an Intermediary Body and monitoring its activities;
► Monitoring the progress of relevant Operational Ps and supported projects;
► Contributing to the preparation of the evaluation report and the preparation of a unified communication strategy;
► Contributing to partnership negotiation processes and to the information and communication tasks;
► Responsibility for the implementation and verification of anti-fraud policy;
► Preparing the annual and executive summaries.

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[3] I.e. Ministry of Finance, Ministry of Agriculture, Ministry of Innovation and Technology, and the Ministry of Human Capacities.

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i	National development plan

The National Development Plan (NDP) is the umbrella strategy for developmental processes in Hungary, Once drafted by the PMO's National Development Council, it then has to be approved by the government. Based on this strategic document, the NCA subsequently issues guidelines for the Managing Authorities to develop their own control and management methodologies within the boundaries of the NDP. The NCA also issues certain recommendations which, however, are not binding.

Within the framework of the NDP, the MAs cooperate closely with the national funding schemes under the Territorial OP. The heads of the individual ESIF institutions and other interested governmental bodies hold regular meetings.

The managing authorities use a mixed system of in-house and external **project assessment**. This corps was established so as to prevent a potential conflict of interest arising from contracting private assessors. The corps is composed of experienced civil servants, was formed in order to prevent the potential conflict of interest which the private assessors were considered to be at risk of. The assessors are trained and remunerated by the government.

"The Managing Authorities had not had the capacity to take on the workload of project appraisals, hence it was decided in the past that these activities be outsourced to private consulting companies. After some time, Project Assessors corps was introduced to return the control over project appraisals to the public administration. Nonetheless, this project faces severe setbacks from the very beginning. The individual project assessors retain their full-time positions which substantially constraints their capacity. Henceforth, they cannot be used for assessment of a larger project, such as research and development. On top of that, there is an overlap of competencies. While the assessors are managed by the PMO, it is the Managing Authorities responsible for appraising a project."

Hungarian Expert on Public and Cohesion Policies

Control, audit, and monitoring competencies are overseen by members of the **Partnership Agreement Monitoring Committee** (PAMC), namely MIT, DGAEF, State Audit Office, and the PMO's Controlling Department are party. The principal function of this body is to "ensure harmonized implementation and coordination of programs funded by ESI funds." In effect, this Committee is a forum for the various controlling and auditing bodies to coordinate their competencies and the tasks stemming from them. The role of the PAMC is discussed more in-depth in section 3.6.3.

The **Audit Authority** (AA), specifically the Directorate General for Audit of European Funds (DGAEF), is an independent body responsible for auditing the other institutions of the implementation structure as well as the beneficiaries. The AA has reporting duties towards the European Commission (EC) and prepares its own annual performance reports, conclusions, and recommendations on operations, system, and financial matters. For further information, refer to section 1.6.

Since 2015, there is but one **Intermediate Body** (IB) - the Hungarian State Treasury (HST). The central budget agency is an independent body with executive functions in the matters of the national finances. Its 19 county offices fulfil the tasks of an IB exclusively to projects under three OPs – Territorial and Settlement, Maritime and Fisheries, Integrated Transport. .

The HST also houses the **Certifying Authority** (CA), which is the recipient of the financial flows from the European Commission, and the **Paying Authority** (PA), which appropriates the funds to the beneficiaries. The CA's main tasks are verification of statements of expenses, implementing financial corrections, and settling repayments with the European Commission. In addition, the CA can "carry out a fact-finding investigation and fact-finding visit to organizations involved in financial management.

3.1.2. Non-Governmental Organizations (NGOs)

NGO applicants usually fall under the Human Resources OP. Although there are no calls for proposals specifically tailored for NGOs, civil society in general can be present at PAMC meetings. Moreover, all public sector, including NGOs are exempt from the co-financing obligation – they can receive a 100% subsidy.

3.2. Audit and control architecture

3.2.1. Key institutions involved in audit and control

The Auditing Authority (DGAEF) explicitly states that it is independent from the MAs, the Hungarian State Treasury (IB), the Certifying Authority (CA), and the beneficiaries. At the same time, the DGAEF maintains a cooperative relationship with the implementation framework and relevant institutions, though on a strictly independent and objective basis. These bodies share best practices with one another during technical consultations between the heads of certain organizations and experts taking part in carrying out day-to-day tasks. The frequency of these encounters increases when the need for planning and preparing audit activities, making comments on findings in draft audit reports and preparing and implementing the reporting tasks arises. The aim of this cooperation is to observe the deadlines prescribed for the institutional system in the framework regulation, and to promote a uniform, single-channel communication.

In addition, the DGAEF experts occasionally participate as presenters in personnel trainings of the other bodies having controlling and/or auditing function, notably the managing authorities. Furthermore, senior DGAEF officials attend the Annual Coordination Meetings organized by the European Commission, as well as the Homologue Group Meetings.

The AA complies with the principle of proportionality regulated in 2018/1046/EU and according to 1303/2013/EU Article 148.

i	Audit & Control

Managing Authorities (MA):
- Coordinating the control and audit tasks related to the implementation of OPs
- Preparation of relevant audit trails.

National Coordinating Authority (NCA):
- Oversight and coordination of the activities of external audit organisations

Partnership Agreement Monitoring Committee (PAMC):
- DGAEF, MIT, PMO, SAO
- Coordination of audit and control tasks among members
- Sharing findings

Domestic actors:

DGAEF (AA)
- Random sample of audits
- Audits of accounts, operations, and system audits
- Project audits

PMO's Controlling Department
- Outside of the implementation structure
- Coordination in terms of audit methodology, data provision, meetings, and on-site audits
- Risk and feasibility assessment
- Irregularities prevention
- Reports to the government

State Audit Office (SAO)
- outside of the IS
- supreme audit office, reports directly to the Hungarian Parliament
- mapping corruption risks with the state administration
- system audits and audit of operations

International actors:
- European Court of Auditors
- European Commission
- OLAF
- Controlling institutions of other supporting countries (where applicable)

The State Audit Office and the Controlling Department of the Prime Minister's Office conduct their controlling activities independently and in parallel with the ones conducted by the institutions within the management and control system. They rely on their own procedures and methodologies. The State Audit Office reports to the parliament, while the Controlling Department of the Prime Minister's Office reports directly to the government. They can conduct both system audits and audit of operations, but they conduct a very limited number of audits in practice.

The AA also maintains an active partner relationship with the audit authorities of other states to acquire best practices. Subsequently, the AA adapts its processes so as to make them more effective. DGAEF maintains a connection with the European Commission as stated in the relevant legislation 1303/2013/EU Article 127-128.

3.2.2. Coordination of audits and controls

Members of all bodies disposing of auditing and control competencies sit on a Partnership Agreement Monitoring Committee (PAMC). Concerning best-practice sharing, there are several trainings, conferences, and workshops where know-how and experience are shared. In any case, this opinion of a stakeholder outside of the implementation structure is not entirely without merit, illustrating the beneficiaries' perception of the system.

As noted previously, the PAMC is the forum designated for coordination of the activities carried out by the aforementioned audit and controlling bodies. The AA shares the audit plan with the Minister of Innovation and Technology. If necessary, the plan is also consulted with the rest of PAMC members. The PMO's Controlling Department has regular operations auditing functions. They are also responsible for coordinating audits conducted externally, especially by the EC or ECA. In this regard, overlaps could potentially arise should the SAO decide to audit the operational side of a project selection process. In such a case, an overlap of the PMO's and the SAO's competencies would occur.

In addition, each controlling authority provides its reports to the relevant stakeholders, based on the applicable legislation. SAO and PMO's Controlling Department share their findings with the AA. It is the AA's responsibility to keep track of the measures taken and corrections made on the basis of the findings of the final audit results by either national or EU audit organs. Therefore, the AA continuously processes and follows up on the reports of the other audit and controlling bodies, particularly when auditing annual accounts.

Upon concluding its inquiry, the AA formulates its proposals and recommendations concerning the bodies audited. These are not legally binding; however, it is the MA's decision that binds the beneficiaries. Notwithstanding their advisory nature, the MAs have to take AA's recommendations into account. Otherwise, the recommendations not accounted for in MA's decisions are reported to the Commission or taken into consideration during the preparation of annual opinions on the OPs.

> *"Once there is a disagreement over a particular finding/decision, it is the responsibility of the corresponding MA to make a final decision. But the AA is obliged to report its view to the EC. The disputes appear only rarely in practice; the MAs and CA usually implement the AA's recommendations."*

Representative
Directorate General for the Audit of European Funds (AA)

3.2.3.   Irregularities-handling procedure

There is no difference in the definition of 'irregularity' in the domestic and European legal corpora - the Hungarian system adopted the EC's definition. Irregularities are collected for each OP and each funding cycle separately. When an irregularity is suspected, the MIT launches an inquiry procedure in the IT system. Once this has been initiated, the beneficiaries have the opportunity to submit their remarks. Based on this input, the MA decides on the case. When judging the case, the MA can take findings of other controlling institutions into account; nonetheless, these are merely advisory in nature. When the beneficiary receives the decision, it can decide to take the case to court. If it doesn't, the complaint is considered closed and the recovery process begins.

MAs are responsible for enforcing their own decisions and, where applicable, seeking remedy. For this process, the MAs can make use of various tools for fund recovery, depending on the type of the beneficiary and the type of the collateral. In case the MA and CA standpoint differs from that of the AA, the non-compliance is reported to the EC and taken into consideration during the evaluation of the system. When the concerned bodies of the implementation structure are in accordance with one another, the procedure is as outlined in the table below.

i	Irregularity enforcement

The MAs dispose the following means of enforcement, ordered from less to most severe:

1. Request the beneficiary to **return** the misused funds;
2. **Deduct** the corresponding amount from the next payment;
3. Request the beneficiary's bank to **charge** its client at the benefit of the MA or to **freeze** assets
4. **Collateral** (in case of insufficient disposable funds);
5. Request the tax authorities to recover the corresponding amount as **tax overdue** (most employed for companies);
6. Request the tax authorities to **revoke** the beneficiary's trading licence.

Albeit there is no difference in how the EU and Hungarian legislative frameworks define an irregularity; the Hungarian decree quotes European legislation. At the same time, however, irregularity-handling with respect to ESIF and national funding is not completely similar. Under ESIF, the standards are higher (i.e. the rules are stricter, especially with respect to public procurement). The rule of the thumb is that whenever there is any portion of EU money involved, ESIF rules will prevail over the funds recovery process.

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3.3. Changes of the implementation structure

3.3.1. High frequency of changes

The dominant feature of the Hungarian implementation structure is the high frequency of substantial changes. Key aspects of the system have been significantly altered on many occasions in the past, not excluding changes during an ongoing programming period.

> *"The frequent changes of implementation structure are hurting the system."*

Officer

Implementation structure

> *"The constant reshaping of the implementation structure is difficult for the beneficiaries to follow."*

Hungarian Expert on Public and Cohesion Policy

In the first period (2004-2006) there were 22 IBs, whilst the MAs were incorporated into the respective line ministries. With the introduction of ROPs in the following cycle, the implementation structure had to be changed substantially. Such a high number was deemed inefficient and the number of IBs subsequently reduced to 12 for the 2007-2013 programming period. The MAs, excluding the maritime and fisheries and rural development OPs, were clustered into the government-established National Development Agency (NDA) for that programming period. However, this setup was perceived as having a major setback - the management of the OPs (hence, the money) was detached from the decision-making processes of the line ministries. Thus, the managing authorities returned to the line ministries for the current programming period.

Nevertheless, these changes came at a cost. As a result of a struggle for an institutional reform as well as delays in the provision of guidelines and the Partnership Agreement from the EU's side, the first calls for proposals under the current programming period (2014-2020) were not issued until late 2016. During this two-year 'transition' period, some major changes occurred. First of all, the NCA was incorporated into the Prime minister´s office (PMO). Later in 2015, the regional-level IBs[4] were merged with the MAs that were transferred back into the line ministries. Only three OPs (territorial, rural development, and fisheries) retained an IB - the State Treasury.

> *"The beneficiaries were dissatisfied with this change. They prefer closer contact with the IBs. This merger did just the opposite – took the OPs from the regions and put them in the hands of the centralized ministries."*

Hungarian Expert on Public and Cohesion Policy

According to several employees of the Ministry of Innovation and Technology (MIT), the 2015 changes were a big hit personnel-wise. While the Monitoring and Evaluation department reported a fluctuation rate of about 10% (Integrated Transport OP staff remained intact, we were told); when the IBs merged with the MAs, only about 70% of the combined workforce continued in their (or similar) positions. The rest were either laid off or quit voluntarily.

Employee-wise, the transition was not a particularly coordinated exercise. This, and the fact that IB employees were paid more than the remuneration scheme the new system initially planned for, were the leading causes for the exodus. At the end of the day, the implementation structure lost a significant number of skilled and experienced personnel. This experience could serve as a precaution should any reforms be carried out in the future.

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[4] The NUTS 2 structure – Regional Development Agencies and Regional Development Councils

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> *"For the most part, the former staff of RDAs are still working in the same region, but now as employees of a wide range of organisations in the field of regional development. Finding employment was relatively smooth but the professionals still have strong emotions and nostalgia towards their activities at the RDAs. They consider the RDAs more efficient, coordinated and more professional compared to their current employment and institutional framework."*

Józsa, Viktória. (2018). Quo vadis regionalism? The subsistence of a conceptual and value system through the professionals. *Space and Society*, 32(3). p. 96-112. doi: 10.17649 / TET.32.3.3064.

Perceptive of the gravity of the situation, the government introduced a contingency-based benefit scheme for the remuneration of MA staff. The employees are paid a 6-month premium which is calculated out from the number of payment claims sent to the Commission. This strategy is said to have prevented further personnel outflows, whence MIT employees reported that their salary levels are now comparable to those of the private sector. Additionally, this policy was aimed at boosting absorption rates.

> *"Termination of the Regional Development Agencies was rather surprising. Objectively, they were doing a good job, especially in comparison to other V4 countries."*

Officer

Implementation structure

The summary of changes since the previous programming period and also during the current one is presented in the following table. Only the changes in the key roles are illustrated for simplification.

i	Changes to the implementation structure over time			
	2007-2014	**2014-2015**	**2015-3/2018**	**4/2018 - today**
National Coordination Authority	National Development Agency	Prime Minister's Office	Prime Minister's Office	Ministry of Innovation and Technology
Managing Authorities	National Development Agency	Line Ministries	Line Ministries	Line Ministries
Auditing Authority	Government Control Office	Directorate General for the Audit of European Funds	Directorate General for the Audit of European Funds	Directorate General for the Audit of European Funds
Intermediate Body	Independent agencies	Regional Development Agencies	Hungarian State Treasury (only 3)	Hungarian State Treasury (only 3)
Paying and Certifying Authorities	Ministry of Finance	Hungarian State Treasury	Hungarian State Treasury	Hungarian State Treasury

3.3.2. Creation of the Ministry of Innovation and Technology

Following the parliamentary elections in early 2018, the most recent restructuring of the implementation structure was carried out in May. Ministry for National Development was transformed into the newly-established MIT. Thereafter, the National Coordinating Authority (NCA) was moved from the Prime Minister's Office (PMO) into this ministry. ESIF aside, MIT's scope entails economic development, environmental development, and R&D.

i	Political decisions

Neither of the aforementioned changes were based on an evaluation report and/or a deep-dive study. In general, political motives prevail over deciding on the reforms of the ESIF implementation structure.

Specifically, the decision to shift the NCA to the MIT **reflects the government's special focus on innovation and technology**. On 1 June, 2018, the government announced its "plans to increase spending on research, development and innovation to 1.8% of GDP by 2020."[5]

This reform, however, appears to be rather cosmetic in nature. The NCA retained the same roles, functions, and competencies and the regulatory framework was not significantly altered either. Structure-wise, the authority remains more or less the same. The NCA even resides in the very same offices as before.

With respect to the May 2018 changes, there have been no evaluation of their impact on the implementation structure. Our respondents unilaterally agreed that it is too soon to judge the effectivity of the reforms.

3.3.3. Changes foreseen for the 2021+ cycle

With regards to the upcoming planning period 2021+, our respondents uniformly agree that it is too early to foresee any changes, be it of the implementation structure, strategic priorities, or funds allocated. Still, the Commission proposed an allocation cut of about 24% (which would leave Hungary with even less money than in the 2007-2013 period), though negotiations are still ongoing. What can be said for certain, nonetheless, is that funds will be cut for the Human Resources OP – a priority revision coming from both Budapest and Brussels.

3.4. Pros and cons of the implementation structure

3.4.1. High absorption rates[6]

The tie-up of the bonus structure to absorption rates is a product of a deliberate government strategy. Given that the current programming period started with a two-year delay, emphasis was laid on utilizing the European funds as fast and intensely as possible. In the eyes of MIT officials, the country reached high absorption rate levels as a result.

However, by 2016, Hungary absorbed 94% of the funds allocated to it for the 2007-2013 programming period. To put this number into perspective, it is significantly below that of the Czech Republic which is on par with the EU-wide rate of 97%. As of 16 October, 2018, Hungary has already received 22% of the funds allocated for the 2014-2020 programming period. This absorption rate corresponds to EU28 average. Meanwhile, the Czech Republic falls 1% short of this level. In any case, objectively speaking, the Hungarian absorption rate is rather mediocre than high.

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[5] Source: http://abouthungary.hu/news-in-brief/hungary-to-increase-spending-on-research-development-and-innovation/

[6] All data taken from https://cohesiondata.ec.europa.eu/

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> **ℹ**   Warning from the EC

In relation to the absorption-contingent employee incentives, the European Commission has warned against prioritizing short-term ('easy-absorption') projects at the expense of those with a possibly greater overall benefit of a more long-term nature.

3.4.2. Allocation of funds

Under the 2007-2013 cycle, Hungary had access to a total of €22.5 billion from ESI Funds. Improving the institutional capacity of Hungarian public administration was mandated as a priority by the European Commission. Thus, the Human Resources OP was relatively robust. In the current programming period, the allocated amount reached €25 billion. An emphasis is laid on economic development which is believed to be brought about by substantial investments in innovation and technology. Alongside the Human Resources OP, this came at the expense of the Infrastructure OP as well. In addition, Hungary also decided to more than triple the use of financial instruments in the current period. In effect, financial intermediaries are much more involved in the process if implementing the National Development Plan.

3.4.3. Separation of the CA from the MAs

As a positive feature is perceived the separation of the Certifying Authority (CA) from the MAs. Currently, the CA resides within the Hungarian State Treasury (HST) while the MAs are incorporated into the respective line ministries.

> *"The separation of the roles of the CA and MAs has proven to be beneficial and it should be kept even after 2021+, although it will be no longer mandatory. The existing CA is very supportive with respect to controlling activities. The value of the CA's independency is perceived as higher than the value of potential administrative simplification and savings [in case of a] merger with MAs."*

Officer

Directorate General for the Audit of European Funds (AA)

3.4.4. Up to 100% advance payments

Public beneficiaries, including NGOs, are not obliged to possess resources of their own at the beginning of their project. Hungary offers up to 100% advance payment disposable for 12 months. On 14 September 2018, a new government regulation came into effect which halved the maximum advance payment for private beneficiaries from 50% to 25%. This brings even more severe monetary pressure on the SMEs. This does not concern public beneficiaries.

> *"There are cases of universities receiving a 90% subsidy only three days after the signing of the Grant Agreement (GA). Bonuses of the employees are intertwined with ESIF funding so the beneficiaries are compelled to sign the agreement as soon as possible. Actually, there was a period during which the beneficiaries were almost forced to apply for pre-financing and the funds allocated almost instantly. This is not the case anymore, however."*

Representative of a consulting company

3.4.5. Red tape

On the contrary, private beneficiaries have to cope with quite a burdensome bureaucracy. In most of the calls regarding small and medium enterprises (SMEs), strict rules apply. For example, for projects funded from GINOP and KEHOP, all bids for each budget item must be provided already in the project application phase. The same applies to any beneficiary involved in an EU procurement process.

Moreover, private beneficiaries have to attach three offers from independent bidders for every single budget item. The requirement that budget items be well-justified comes from the EC. Nonetheless, this concrete policy originates from the Hungarian government itself, as execution of the requirement is at the discretion of the Member States.

> *"Private sector is especially dissatisfied because the MAs act in a very bureaucratic way, disregarding the business culture of the private enterprises. In general, there is a problem that the culture of the MAs does not correspond to that of the beneficiaries. In short, the MAs are detached from business reality."*

Expert on Public and Cohesion Policies

3.5. Legislative framework

Simplification was a priority from the very beginning of the preparations for 2014-2020. The goal was to ease access to funding by means of elimination of administrative redundancies which would in turn increase flexibility of the system. Conditions related to the provision of own resources and contract modification. The access to advance payment was initially also significantly simplified, although the rules were again toughened in the autumn of 2018. In some aspects, in particular when EC audit findings prompted the Hungarian authorities to tighten up the rules, the national regulations are indeed more rigid than the EU legislation.

Our respondents, namely representatives of the beneficiaries, reported a rather unclear overlap in the responsibilities of the MIT and PMO. Quite the opposite view is held by government officials who denied these claims, saying that the legislative framework clearly stipulates the competencies of all the institutions of the implementation structure. The frequent systemic changes together with the (at the time when this study was being conducted) still dated and inaccurate information on the ESIF informational website. In any case, the MAs retain their independence in adopting decisions vis-à-vis the beneficiaries.

i	ESIF-related legal norms

In conformity with EC Regulation 1303/2013/EU, ESIF implementation is governed by the following **Government Decrees**:
- ► No. 210/2010(VI.30)
- ► No. 272/2014(XI.5)
- ► No. 94/2018(VI.22)

These legal documents indicate that "coordination of the planning process of the annual development budget, the preparation of the proposal to the Government concerning the annual development budget, based on the opinion of the MA and the sectoral representative, is within the scope of the authority of the Minister responsible for the use of European Union funds," hence the Minister of Innovation and Technology.

Nonetheless, concurrent or overlapping competencies can be found with control and audit operations, especially between the Auditing Authority (DGAEF) and the PMO's Control Department. Although the functions and competencies of the DGAEF and the PMO have very similar functions, the latter executes its powers much less frequently. Meanwhile, there is also a certain degree of overlap between the work of the MAs and the AA:

> *"Overlaps exist given that the AA (as a second level control body) audits/controls the work of the MAs (as first level control bodies). Nevertheless, overlaps between MAs don't occur."*

Officer

Directorate General for the Audit of European Funds (AA)

3.6. Strategic management of ESIF

3.6.1. Progress evaluation

By nature of its responsibility for the country's holistic development strategy, the PMO monitors the overall performance of the entire implementation structure. The NCA then monitors the OP implementation progress. Monitoring the progress of the beneficiaries and the individual projects is carried out by the MAs.

Ex-post evaluations of the 2004-2006 programming period have been conducted by a private consultancy company. Similarly, the majority of evaluations of the previous funding cycle were commissioned by Hétfa Research Institute and Revita Foundations, with the Budapest Institute of Policy Analysis participated in some of the studies.

3.6.2. Cooperation between various financial sources

The NCA is responsible for coordinating all of ESI Funds. All individual funds (ERDF, ESF, CF, EAFRD, EMFF) have a common legislative framework, thus share a single implementation structure. Nevertheless, EAFRD and EMFF have guidelines and methodologies of their own. The priorities around which the Operational Programmes are designed are outlined in the Partnership Agreement. Set up as the PMO's working group, the National Development Council (as mentioned on page 7, NDC) is responsible for drafting, coordinating, and ensuring the government's National Development Plan - a holistic development strategy considering all means of financing. Furthermore, the NDC also makes sure that the MAs act in accordance with the National Development Plan.

Still, ensuring complementarity does not appear to be the government's priority:

> *"Complementarity between individual OPs is neither strong nor efficient. Promises made notwithstanding, to this day, calls for proposals do not allow the beneficiaries to apply for funding from various sources On a similar note, assuring complementarity between ESI Funds and other financial instruments (e.g. national funding, bank loans, IMF, WB, etc.) is not among the government's top priorities."*

A consultancy company executive

3.6.3. Relationship between the OPs and the Partnership Agreement

The body responsible for maintaining coherence between the OPs and the Partnership Agreement (PA) is the Ministry of Innovation and Technology (MIT). Preparation of the PA and the OPs occurs in a parallel, each document influencing the content and structure of the other. The ultimate goals which are set out in the PA are mirrored in the thematic and specific objectives as well as performance indicators of the individual OPs. In essence, the OPs are structured in a way to fulfil objectives outlined in the Partnership Agreement. Once this process finishes and the OPs have been set up, the PA becomes somewhat disregarded. This is not to say, that its content becomes disregarded. Rather, the implementation structure and the beneficiaries are guided by the specific OPs into which the provisions of the PA had been projected

Coordination and synergies between individual OPs and their compliance with the PA is ensured by Partnership Agreement Monitoring Committee (PAMC). The reform, whereby MAs were incorporated into the respective line ministries, aims to foster greater coherence of the individual OPs with the Partnership Agreement. This approach is in conformity with the national strategic framework (development policy).

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3.6.4. Implementation structure-strategic beneficiaries relationship

Coordination between the implementation structure and the beneficiaries generally happens through the MAs. If deemed necessary, the MAs have the legal means to set up an Intermediate Body for a specific project. This depends predominantly on the specific OP and the nature of the beneficiary. In comparison to the 2007-2013 cycle, the institutions supporting the 2014-2020 period were much better prepared to provide subject-matter expertise to help beneficiaries at the various stages of relevant processes. This includes the support and preparation of the applicants so that they can work efficiently with the funds.

With respect to strategic beneficiaries, the MAs treat them very much in the same way as they do other beneficiaries. The only exception is that if a project exceeds a HUF 3 million threshold (roughly €930,000), it has to be approved by the Hungarian government. Nonetheless, the complexity of the strategic projects usually leads to these ventures getting approved with little to no competition.

3.6.5. Mismatch of time frames

Mismatch of time frames generally concerns large infrastructure projects. The EC does usually allow these ventures to be funded from two different programming periods. In this respect, MAs work closely with the beneficiaries to monitor the timeline of their projects. In case of a delay, the MIT can, if the setback is not excessive and the project not a major one, deal with this situation itself. If, on the other hand, the mismatch concerns a large, strategic project, the MIT reports the situation to the EC. The Commission then advises the MIT on what measures to take. If there is a two-year excess of the deadline then any change has to be approved by the government. This does happen from time to time, but a three-year delay is exceptional. In any case, the MIT cooperate closely with both the beneficiaries and the EC when this happens.

> *i* Local employment offices
>
> An example of a cross-programming-period project is the funding of the local employment offices This is a project that has been financed since the first programme. During this period, Hungary did receive several inquiries from the EC regarding this project. These concerns would always be addressed on a case-by-case basis and according to priority needs. Sometimes Hungary defended its ways, sometimes processes had to be modified.

3.7. Monitoring & IT

Until 2015, Hungary has been using the so-called EMIR software. Although it was highly regarded by both members of the implementation structure, applicants, and beneficiaries, its configuration could no longer keep pace with the ever-increasing technological demands of all of its users. For the sake of modernization, EMIR system was in 2014 purchased by the government. Subsequently, the PMO decided to scrap the old software and develop a brand new platform, while retaining the platform's name. **Új Világ Nonprofit Szolgáltató Ltd**[7], a non-profit wholly owned by the PMO, was established. It is tasked with developing the software. Additionally, the company also provides maintenance and testing of the system, as well as conducts trainings for the systems' users.

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[7] The same organisation is also working on the development of Policy Database and Information System (FAIR)) and the Support Monitoring Information System (OTR).

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Currently, there are many systems used for the administration, control, and monitoring of ESIF projects in Hungary. Most relevant to our case study are the following three: FAIR, EMIR, and to a much lesser extent also IACS. While all of these are owned and operated by the MIT, software development is under indirect control of the PMO (by means of the government owning the above-mentioned non-profit). This institutional setup thus exposes the management of the IT system to possible vulnerabilities in terms of conflicting competencies.

3.7.1. FAIR – The internal monitoring system

For the current programming period, Hungary uses a centralized fund management system called **Development Policy Management System (FAIR)**. The system encompasses an internal management and monitoring system which is used by different levels of the institutional system including MAs, IBs and Certifying Authority. These organisations arrange for all administrative tasks in the same system. The Audit Authority and the National Coordinating Authority do not process data in the system but they have a read-only access.

FAIR is not directly accessible for further external stakeholders. Nonetheless, it automatically synchronizes its data with a unified e-cohesion portal for applicants and beneficiaries and can also establish data connections with several national databases. Moreover, FAIR:

- ► Compares data with the information systems of the State Treasury in order check for double financing;
- ► Retrieves organisational and economic data from different national registries (e.g. company registry, budgetary organisation registry, civil database, financial balance of companies). These data connections enable MAs and IBs to access valid national databases so that project owners do not need to submit the data themselves. This feature contributes to the reduction of the administrative burden.
- ► Receives monitoring data from external monitoring systems via a statistical interface. This feature enables the unified monitoring of different European and even national funds.

3.7.2. Project management software

Hungary uses two distinct IT systems for the administration and monitoring of its OPs. The Single Monitoring Implementation System – **EMIR** (sometimes also referred to as UMIS) facilitates scrutiny over projects funded from ERDF, ESF, or CF. Projects applying for EARDF or EMFF funding are then processed via the Integrated Administration and Control System (IACS). These systems serve the purpose to deliver "real-time data from each level of the implementation system, and serve as electronic communication channels between the European Commission and Hungary."[8] Additionally, they are also used for the interaction of the managing authorities with the beneficiaries.

Given that EMIR covers the vast majority of projects, this case study focuses primarily on this particular software. The system was developed in a way to decrease the administrative burden. The developers aim to achieve this by increasing the interoperability among various public registers – company, land, etc. There is a '**one data only one time'** principle - stakeholders enter their data only once and all the public agencies can (under certain conditions mandated by law) access it. Applicants are motivated to provide good, reliable data (for the process of which they receive thorough assistance by the program itself). The system does not allow to continue the process unless all the required documentation and information provide. Nonetheless, there is still insufficient legislation for data quality control (this control is exercised by the PMO).

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[8] Government of Hungary. 2011. *Implementation Operational Programme (Technical Assistance).* CCI no: 2007HU161PO010. p. 49.

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i	EMIR's functions

EMIR can:
- ► Automatically fill in parts of the datasheets with information available in the interconnected databases;
- ► Make calculations and built-in controls to support accurate data capture order;
- ► Track the current status of projects.
- ► Electronic notification of beneficiaries through automatic messages generated by the system.

Similarly, the IACS supports the basic processes of agricultural, rural development and fisheries resources

3.7.3. References on the IT systems

The new system offers more functions to its users. Some features were even tailor-made for the MAs and the AA. For example, irregularities handling, funds withdrawal and recovery, and ownership structure background checks can be performed through the system. The users can also request changes be made. Additionally, smart technology features are gradually being incorporated into the platform as well. On the flipside of the coin, government officials admit that the current system is less user-friendly than the previous one. This view is supported by one of our respondents:

> *"The new system imposes even greater administrative-level burden for daily operations. It still cannot calculate VAT, so the beneficiaries have to do it themselves. It is definitely neither more user-friendly, nor more transparent than the previous system was."*

Consulting company executive

Lastly, the broad public can find all the information on the **Széchenyi 2020** website which is dedicated almost exclusively to ESI Funds. There, any applicant will find out under which category they fall and how they should apply accordingly. The webpage also features a customer service line. It ought to be pointed out, however, that the website occasionally offers dated or otherwise inaccurate information.

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4.   Project activity review

Total number of institutions approached

► 27

Total number of persons approached

► 65

Total number of interviews conducted (by institution)

► Implementation structure: 2
► Academic Staff: 1
► Consultancy companies: 1.
► Beneficiaries: x.
► Local EY Office: 1.

List of studies, analyses, evaluations, and other relevant materials used

► Józsa, Viktória. (2018). "Quo vadis regionalism? The subsistence of a conceptual and value system through the professionals." *Space and Society*, 32(3)
► Partnership Agreement
► Operational Programmes