1. Basic Information

1.1. Desiree Number: HU0105-01

Twinning Numbers: 
HU/2001/SPP/01
HU/2001/SPP/02
HU/2001/SPP/03

1.2. Title: Completing preparations for Management of EU Structural and Cohesion Funds

1.3. Sector:

1.4. Location: Hungary

2. Objectives

2.1. Overall Objective

• Strengthening institutional structures in order to achieve, upon accession, sound and efficient management of EU Structural and Cohesion Funds

2.2. Project Purpose

• Institutional preparations for the programming and management of Structural and Cohesion Funds are to be completed.

In particular, the project will aim at achieving complete conformity with EU requirements in the setting up of the administrative bodies to which the Hungarian Government has entrusted responsibilities in relation to management, payment and financial control for the future implementation of the Structural and Cohesion funds. The project will provide assistance in four areas:

1. Assist in the finalisation of the National Development Plan and the preparations of the Operational Programmes and Programming Complement;
2. Develop the capacity at the bodies identified as future managing authorities (MA) for the Community Support Framework and the Operational Programmes and at the Implementing Agencies for the Cohesion Fund;
3. Completion of harmonisation tasks related to payment, public internal financial control and audit of EU funded programmes;
4. Consolidate the institutions of NUTS II Regions in order to establish proper partnership at regional level and to develop an adequate project pipeline.

2.3. Accession Partnership and NPAA Priority

• Accession Partnership (AP) 1999, short term priorities:

"Reinforcement of administrative and judicial capacity, including management and control of European Union Funds: - Phare, ISPA and SAPARD - ... adopt the legal, budgetary and administrative framework ... to programme and manage ISPA and SAPARD, including ... European Union compatible public procurement rules for projects co-financed with
Community Funds. Improve capacity to programme, implement and monitor Phare assistance projects, strengthen internal and external financial control; set up a comprehensive information technology system, separate clearly between internal audit and technical monitoring functions; further strengthen functional independence for national internal controllers/auditors at both central and decentralised levels and 'ex-ante' financial control.

- **Accession Partnership, medium term priority:**
  
  "strengthen anti-fraud and public financial control functions through the provision of adequate staff, training and equipment".

- **National Programme on the Adoption of the Acquis (NPAA), 2000**
  
  - **Chapter III - 1.2.4. Public Procurement:** 
    
    "...the Government to adopt, by way of derogation from the provisions of the Act [on Public Procurement] and taking into account the requirements connected to the realisation of the Community support programmes, a decree on the detailed and specific rules of Community support programmes (pre-accession assistance)"

  - **Chapter III - 5.1. Regional Policy and Cohesion**
    
    "strengthen the administrative capacity in order to ensure the smooth implementation of the cohesion policy of the Community. [...] the reinforcement of the planning, implementing, monitoring and financial control mechanisms complying with the EU requirements, is a priority of the institution building [...] strengthening the existing administrative capacities, improvement of the co-ordination [...] within ministries; establishment of adequate planning, programming, implementing and monitoring procedures; and improvement of financial planning and control mechanisms. [...] assisting the preparation of the regional institution system."

  - as well as the provisions of **Chapter III - 9.1. Financial Control**
    
    "build up financial control systems capable of meeting certain special requirements even before accession as a condition of using pre-accession funds, in addition to the general criteria of a financial control system, such as transparency, audit trail, efficiency, reliable prevention of irregularities."

2.4. **Contribution to National Development Plan**

The programme will have a substantial positive effect on the finalisation of the NDP as well as the strengthening the institutions responsible for the future implementation of the Community Support Framework at both the central and regional levels.

3. **Description**

3.1. **Background and Justification**

The **financial perspective** of the European Union for the period between 2000 and 2006 envisages a major increase in Community Funding for the countries of Central and Eastern Europe. Apart from doubling the amount of pre-accession assistance and introducing two new financial instruments (ISPA and SAPARD) the EU has also earmarked substantial funds within the EU's structural and cohesion funds for development programmes to be implemented in new member states joining from Central and Eastern Europe after 2002.

Upon accession - after an appropriate transition period - gross transfers to Hungary are expected to rise at fast pace. This represents a huge administrative task for the Hungarian authorities, not only at the level of the central ministries in future responsible for the overall co-ordination of EU programmes, but also for the NUTS II regions expected to benefit from Objective 1 type structural
programmes. The main objective here is not mere spending, but efficiently utilising Community Assistance for the attainment of national policy objectives.

Considerable work has been done in Hungary in the past year in order to build up capacity and reflect on the administrative structures need for an efficient implementation of the Structural Funds. Of particular importance has been the work done in the context of the implementation of the Phare programme and its Economic and Social Cohesion component. In this context a Preliminary National Development Plan has been finalised and considerable expertise has been created in the relevant ministries.

However the approaching of the Accession date calls for a more sustained effort and further assistance specifically targeted to those bodies that will, upon accession, be in charge of fulfilling programming, managing, monitoring, payment and financial control tasks in relation to the Structural Funds;

Annex 5 provides a description of the Ministries and Agencies involved in Structural Funds with indications of their tasks.

On that basis assistance should target as a matter of priority the designated Managing Authorities for the Structural Funds assistance and the Implementing Agencies for the Cohesion Fund. In particular Assistance will cover:

- Assistance in the finalisation of the National Development Plan;
- Assistance in the establishment of the Managing Authorities for the Community Support Framework and the Operational Programmes and of the future Implementing Agencies for the Cohesion Fund.
- Assistance to the institutions of NUTS II Regions so as to establish genuine regional partnership structures and develop a proper project pipeline. The preparation of integrated programmes and a pipeline of projects ready for funding right upon accession are essential for ensuring a rapid absorption of increasing levels of community assistance. It is expected that the support that this project will provide in this area will be effectively co-ordinated with ongoing activities and in particular the Regional Preparatory Programme (funded under Phare 2000). The need for further assistance at the regional level will be reviewed in the context of the programming exercise for Phare 2002.
- Assistance to the institutions that will assume the function of Paying Authorities and will be in charge of internal financial control and audit functions in relation to EU-funded programmes. .
- Finally, a limited number of legislative tasks will have to be solved, above all in the areas of public procurement, the operation of state support schemes and certain budgetary procedures - as in other sectors, in line with the NPAA, by the end of 2002 at the latest.

It is expected that the experience gained and the expertise created under the Phare programme will be fully utilised in the institution building process. Equally close liaison with the implementation of the Phare Economic and Social Cohesion projects needs to be maintained so as to exploit synergies and the institution building aspects of the Phare project implementation.

3.2. Linked Activities

1. Between 1992 and 1999 Hungary has received around € 120 million for integrated regional programmes, both under the national and CBC programming frameworks. Apart from implementing concrete investments into economic and social cohesion, all of these measures had an explicit institution building character, and were geared towards gaining practical experience in implementing community-supported development initiatives at the level of both the central and regional authorities.
2. The first Phare programme to directly support the preparations for the structural funds was SPP (HU 9808). It was designed to assist the Hungarian Government to establish the legal, administrative and budgetary instruments as well as the operational structures necessary to implement future EU Structural programmes and, in particular, those relating to Objective 1 type interventions. SPP's second main objective was to prepare the same Hungarian authorities to implement, by 2000, ISPA, SAPARD and PHARE Economic and Social Cohesion Programmes.

3. In 2000, SPP was followed by a Regional Preparatory Programme (RPP) preparing Hungary's NUTS II regions for the same tasks related to the future operations of the EU's structural and cohesion funds.

4. As referred to above, Phare has assisted the development of the National Audit Office (external audit) and the Government Control Office (centralised internal audit) audit functions, mainly through HU9803 and HU 9808. Both of these programmes were fully contracted, and are expected to be finalised by October 2001.

5. The present project will make use of the outputs of a TA contract running under HU 9810, covering an institutional audit of all Phare and ISPA Implementing Agencies with reference to Council Regulation 1266/1999. The audit is to be finalised by March 2001, and will result in detailed institution building plans for all agencies. The present project will be able to assist in the implementation of these plans, and consolidate the results achieved under the SPP and RPP programmes.

6. The preparations for the implementation of Structural Funds and the Cohesion Fund are to a great extent supported by the Commission through the SPP programme. However in close cooperation with the SPP programme a complementary horizontal analysis will be executed on the way the structures and administration works on the central and regional level (HU9918). The analysis will concentrate on decision making, implementing and monitoring structures for regional policy and socio-economic cohesion. It will assess the capability on the basis of the existing legislative framework and administrative realities to implement efficiently Structural Funds upon accession. Based on the analysis the expert will aim to signal existing and potential problems and will outline solutions to the signalled problems where possible which should be reflected in the implementation of the present programme.

Together, the above programmes have financed the activities of 13 long-term pre-accession advisers, and a number of medium-term and short-term experts. All Phare 1998 programmes have been contracted successfully. The RPP programme is in an advanced stage of preparation, with the technical covenant for the twinning operation to be finalised in early 2001. All of this will provide a solid basis for Phare 2001, providing assistance even more directly targeted towards the future Managing Authorities for Structural Funds, and the implementing Agencies for the Cohesion Fund programmes.
3.3. Results

The results of the programme are:

- National Development Plan finalised.
- Draft Operational Programmes and Programme Complements prepared,
- Monitoring committees for the CSF and the Operational Programmes established and ready to be operational
- The institutions of NUTS II Regions further consolidated so as to ensure proper partnership at the programming level and adequate project pipeline development. Sufficient quantity of high quality, mature project proposals to absorb EU-funding under first wave of Structural Funds programmes.

3.4. Activities

3.4.1 Finalisation of programming and development of the capacity of the bodies identified as future managing authority (MA) and Monitoring Committee for the CSF and each of the Operational Programmes

The elaboration of the National Development Plan started at the beginning of 2001. During this process the SPP twinning and non-twinning team assisted the Ministry of Economic Affairs and the different line ministries in the preparation process. The SPP project finish at the beginning of November 2001.

The Government of Hungary plans to finalise the National Development Plan in March 2002. It is expected that the Plan will need further revision and adaptation before and after being presented to the Commission. In addition the Operational Programmes and the relevant Programming Complements will have to be drafted.

Under this component assistance will also be provided to staff of the future Managing Authorities. On the basis of the existing provisional information it is envisaged that the following Managing Authorities will have to be established for the implementation of the Structural Funds in Hungary:

- The Managing Authority for the Community Support Framework;
- The Managing Authority for the Economic Development Operational Programme;
- The Managing Authority for the Human Resource Development Operational Programme;
- The Managing Authority for the Infrastructure Development Operational Programme;
- The Managing Authority for the Operational Programme for Regional Development;
- The Managing Authority for the Operational Programme for Agriculture and Rural Development;
The current project will provide assistance to all the above bodies except the future managing Authority for the Agricultural and Rural development programme.

This component will be implemented through 1 twinning Covenant (3M€) with 5 Pre-Accession Advisers and 1 service tender covering assistance to the project pipeline development. The project leader will be Pre-accession advisor working at the managing authority for the CSF.

3.4.1.1 CSF managing authority and monitoring committee

The PAA will assist in the establishment of the Managing Authority for the CSF. The following activities will be undertaken:

- Setting up of the CSF Managing Authority
- Definition of its responsibilities and determination of the modalities of its relationship with the Managing Authorities for each Operational Programme
- Establishing a coherent and efficient framework for inter-ministerial co-ordination for implementation of the CSF
- Establishing the structures and procedures for proper monitoring of the CSF and ensuring coherence and compatibility with the monitoring structures of the Ops, in line with Council Regulation 1260/99.
- Training of the staff of the CSF Managing Authority

The assignment of the PAA will last 18 months. The necessary medium and short-term expertise and the training needs will be defined within the framework of the twinning covenant. The PAA will have the following profile:

- sound theoretical and practical experience related to the planning and co-ordination of structural funds instruments at the national level
- experience of negotiation at national and EU levels
- at least 5 years working experience at a national or regional (co-ordinating) agency (CSF Managing Authority or equivalent)
- good practical experience of monitoring activities including good knowledge of IT monitoring tools
- experience of CSF or SPD management from drawing up to negotiation with the Commission
- good knowledge of objective 1 programme
- leadership experience
- excellent inter-personal and communication skills
- initiative and co-operative attitude
- fluency in English

The PAA attached to the future CSF Managing Authority will also act as team leader for the entire project and ensure proper co-ordination among the different Pre-Accession Advisers operating under activity 3.4.1.

3.4.1.2 Finalisation of programming and assistance to the Managing Authorities for the Operational Programmes
This component will assist in the finalisation of the programming framework and the establishment of the Managing Authorities for the following Operational Programmes:

- Economic Development;
- Infrastructure Development;
- Human Resource Development;
- Regional Development.

4 PAAS will be recruited and attached to the following future managing authorities:

1. Managing Authority responsible for the Economic Development Operational Programme;
2. Managing Authority of the Infrastructure Development Operational Programme;
4. Managing Authority of the Operational Programme for Regional Development;

PAAs will be responsible for providing advice on the following areas, as well as keeping permanent contact with the national authorities, and supervising project implementation in their specific area of activity, including the work of short and medium-term experts:

(a) Assist in the preparation of the draft operational programmes and programme complements in their relevant field
(b) Assist in setting up the Managing authority for their relevant operational programme
(c) Transfer of knowledge in the practical operation of MA responsible for managing operational programmes
(d) Establishing the capacity of the designated MA to deliver the tasks defined in Council Regulation 1260/99
(e) Assisting the ministry concerned in preparing the legislative and institutional framework required for the implementation of SF assistance in line with Council Regulation 1260/99
(f) Training in project appraisal, public procurement, and financial, administrative, and legal procedures
(g) Exchange of experts with relevant administrations in EU member state (stages for ca. 2 to 4 experts (medium level managers) for up to 6 months from each administration targeted)
(h) Assistance in introducing quality assurance in administrative and financial operations (e.g. Total Quality Management, ISO certificates), as well as the supervision of the tendering and contracting process.
(i) Technical assistance for the establishment of a pipeline of programming documents and projects with a view to absorb the first wave of Structural and Cohesion Funds assistance after accession. This task should be performed in close co-operation with the Technical Assistance team recruited as per para 3.4.1.3 below.
(j) Assistance in setting up an efficient partnership system ensuring the active involvement of all partners in all stages of programming.
(k) Assistance in the preparation of initiatives aimed at ensuring proper publicity to potential final beneficiaries and the general public.
(l) Ensuring appropriate co-ordination between the different ministries, bodies or actors at programme level.
(m) Establishment of the structures and procedures for proper monitoring of Structural Funds assistance in line with Council Regulation 1260/99.
In addition to the above mentioned tasks, common to all the PAAs, each PAA will have the following responsibilities in relation to their sector of activity:

**Economic Development Operational Programme**

The assignment of the PAA will last 18 months. During this period the PAA will provide help and advice to the NDP Task Force and the NDP Drafting Team of the Ministry of Economy in support to their role of revising and finalising the National development programme following the issuance of the first Draft in Spring 2002. He will also assist in enhancing the internal coherence of the contents of all Operational Programmes and their overall coherence with the national and community priorities.

To implement this activity the PAA will work in close co-ordination with the Ministry Responsible for Regional Development and pay particular attention to enhancing interministerial co-ordination.

**Infrastructure Development Operational Programme**

The assignment of the PAA will last 12 months. The PAA will pay particular attention to establishing good co-operation and co-ordination with the PAAs assisting the staff of the Implementing Agencies for ISPA mentioned in para 3.4.2 below.

**Human Resources Development Operational Programme**

The assignment of the PAA will last 12 months.

**Operational Programme for Regional Development**

The assignment of the PAA will last 18 months. The PAA will be working in the Managing Authority for the Programme at Central level. During this period the PAA will also devote a relevant part of its activities to:

- Assist in defining the responsibilities of the MA, the NARD and the regional bodies and partners involved in the preparation and implementation of the OP.
- Ensure proper co-ordination between the managing authority and the other line ministries involved in the preparation of the Operational Programme;
- Assist in the development of the structures and capacity for the implementation and monitoring of the Programme.
- Ensure proper partnership with the NUTS level II regions at the programming level and adequate project pipeline development.

It is extremely important that the PAA ensures proper co-ordination with the ongoing Regional Preparatory Programme both at drafting and implementation stage. This co-ordination will ensure that overlapping is avoided, complementarity between regional and central level improved and the impact of Phare assistance maximised.

**Profile of the PAAs**

- sound theoretical and practical experience related to EU funding and community policy;
- excellent knowledge and minimum 3 years involvement in the relevant sector (regional policy, economic development, infrastructures, human resources)
- at least 3 years working experience and practical involvement in a managing authority;
- good practical experience of monitoring activities including good knowledge of IT monitoring tools
• good knowledge of financial flows
• good knowledge of the planning process and the issues related to preparing programming documents (NDP, Operational Programmes, Programming Complement)
• leadership experience
• excellent inter-personal and communication skills
• initiative and co-operative attitude
• fluency in English

3.4.1.3 Service contract for pipeline development:

Phare support will be used to organise in each region a sustainable system of identifying, registering, and co-developing good quality project proposals responding to relevant regional and sectoral developing strategies and funding priorities. The resulting Project Assessment and Development Facility (PADF) would entail, around each RDA, the establishment of a network of trained local partners, supported by a set of IT tools (electronic aids to develop, collect and process applications and information on on-going projects), along with access to TA resources. Local actors (county self-governments, municipalities, social partners and civil organisations) will deliver project ideas that will be assessed by RDA-experts, and, if found viable, further developed with the help of the RDA. Additionally, the RDAs will establish close co-operation with the relevant managing authority at central level, providing well-developed proposals to these bodies. Already in the short term, the above system should result in establishing a pipeline of mature project proposals for future SF funding, including a number of concrete preparatory studies for projects of strategic regional importance

3.4.2 Developing capacity of the Implementing Agencies for ISPA and the future Cohesion Fund

This component will be specifically targeted at the staff of the future Cohesion Fund Implementing Agencies, namely the two ISPA Implementing Agencies (Departments) in the Ministry of Transport and Water Management and the Ministry for the Environment.

This component will be implemented through a twinning covenant including one PAA each for the Implementing Agencies within the Ministries of Environment and Transport and Water Management respectively, with medium and short-term experts and training to be defined later on and in any case within the framework of each twinning covenant.

The twinning for the ISPA/Cohesion Fund agencies will focus on the following different areas:

• Assist in defining the responsibilities of the different actors within the Implementing Agencies;
• Assist in the development of the structures and capacity for the implementation and monitoring of the measures/projects;
• Ensure proper co-ordination between the line ministries and the final beneficiaries involved in the preparation of the measures/projects;

• assisting in managing the technical and financial elaboration/implementation of a large number of project proposals - project pipeline - in a way that large amounts of EU assistance can be used efficiently.
• Assistance in introducing quality assurance in administrative and financial operations as well as the supervision of the tendering and contracting process.
• Ensuring appropriate co-ordination between the different ministries, bodies or actors at measure/project level.

• Establishment of the structures and procedures for proper monitoring of the measures/projects

• Assisting the ministry concerned in preparing the legislative and institutional framework required for the implementation of the Cohesion Fund

• Strong co-operation will also be necessary with the PAA in charge of assisting in the establishment of the managing authority for the Infrastructure Operational Programme.

The concrete activities should be defined in more detail during the covenant preparation based on a needs assessment.

• **Profile of the PAAs**
  
  • sound theoretical and practical experience related to the EU fund relevant to his/her field of activity
  
  • at least 3 years working experience at a national (co-ordinating) agency responsible for the implementation of the Cohesion Fund projects (as appropriate)
  
  • good practical experience of monitoring activities including good knowledge of IT monitoring tools
  
  • good knowledge of financial flows
  
  • leadership experience
  
  • excellent inter-personal and communication skills
  
  • initiative and co-operative attitude
  
  • fluency in English

3.4.3. Public Internal Financial Control (Financial Management and Control systems and Internal Audit)

This component will assist the Hungarian Government in establishing the appropriate system for payments and payment certification under the Structural Funds and strengthening institutional capacities related to internal financial control and audit of the future EU Structural Funds and Cohesion Fund assistance with special regard to the decentralised internal audit functions in line ministries and agencies.

More specifically, the project covers:

(a) Setting up the structures or strengthening the existing structures that will be become responsible for payment, certification of claims, internal financial control and audit of future EU funded programmes, including the paying authority/-ies to be designated under Article 9(o) of Council Regulation 1260/1999, in line with:

a) Commission Regulation 438/2001 of 2 March 2001 laying down the rules for the application of Council Regulation 1260/99 regarding management and control system and

b) the Commission Regulation 448/2001 of 2 March 2001 regarding the procedures for making financial correction for assistance granted under the Structural Funds.

(b) assistance to implement outstanding legal harmonisation tasks in the field of payment, financial control and audit with special regard to the decentralisation process

(c) development of methodology for Financial Management and Control systems as well as standardisation of audits, risk-analysis, audit plans and reports and prevention of irregularities in co-operation with the SAO and the GCO.

(d) intensive training for national, regional and local internal financial control and performance-related audit experts, including training of trainers
(c) Setting up audit and internal financial control system and auditing at the regional level using a pilot region

The Guaranteed results - benchmarks - for this component include:

(a) Structures responsible for payment, internal financial control and audit for Structural Funds and Cohesion Fund assistance in line with commission regulation 438/2001 and 448/2001 of March 2001 established and trained, including the paying authority/-ies

(b) elaborated methodologies for transparent and efficient financial control system, covering audit trail, ex-ante control, risk analysis and reliable prevention of irregularities. Correct interpretation of all professional terms related to internal financial control and internal audit. This activity will take into account the work done with GCO for developing and audit model for EU funds

(c) streamlining and strengthening - as necessary - of the system of internal financial control for EU funds, strictly in the context of new or amended legislation

(d) well trained professionals in internal control able to implement sound financial management and in internal audit, able to implement financial systems based and performance audit.

(e) establishing a working model suitable for internal financial control and auditing at the regional level.

The component will be implemented through a twinning assignment, including a PAA for 18 months, responsible for providing advice on the above areas, who will act as the overall co-ordinator and supervisor of the project, co-ordinate the work of short and medium-term experts and keep permanent contact with the national authorities. In the framework of the financial control service subproject (components b and d) considerable private sector input is envisaged for the methodology and training component. This subproject will be tendered separately through an international service tender.

Profile of the PAA:

- must have sound theoretical experience related to financial management and control methods and internal audit methodology as well as in relevant modelling methods,
- must have knowledge and experience of the recent development of Public internal Financial Control in the framework of Enlargement as developed by the European Commission
- must have at least 5 years of practical experience in internal financial control and internal audit under the Structural Funds
- must have leadership experience
- must be fluent in English.
4. Institutional Framework

Project implementation will be co-ordinated by a Steering Committee co-chaired by the Ministry of Economic Affairs, in its capacity of Co-ordinator of the programming process and the Ministry responsible for Managing the Community Support Framework. It will include the Ministry of Finance, and all the Ministries that will assume the role of Managing Authorities for the Structural Funds and Implementing Agencies for the Cohesion Fund. Other Ministries can be invited as appropriate. The EC Delegation will be invited to participate to the Steering Committee as an observer.

The Steering Committee will meet every 2 months to ensure proper co-ordination of the various project activities, review the progress of the project and take the necessary corrective actions.

In case during the course of the project implementation problems are identified that require urgent Government attention, the Steering Committee will bring these problems to attention of the relevant Government bodies and the Commission requesting a rapid and effective solution.

The Ministry responsible for the CSF Managing Authority will ensure the secretariat for the Steering Committee. The beneficiary Institutions will be responsible for ensuring the realisation of project objectives with regard to their specific area of competence. Tendering and contracting will be the task of the CFCU.

The monitoring of the project will be ensured by the JMC Sectoral Monitoring Sub-committee responsible for Economic and Social Cohesion projects.

5. Detailed Budget (million €)

<table>
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<th>Contract</th>
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<td>7.40</td>
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</table>

The Government co-financing for the twinning component is an estimated indicative amount and will not be part of the twinning covenant budget. It provides an indication of the resources in cash or kind that the beneficiaries will have to mobilise to cover the necessary counterpart costs arising from the implementation of the twinning.

Albeit no indicative co-financing is indicated for the Twinning under component 3 the government undertakes to cover, in cash or kind, all the necessary obligations deriving from the implementation of the twinning operations in line with the twinning regulations and the text of the covenant.

The co-financing for the service contract should be intended as joint co-financing between Phare and Government resources. The Phare amount is binding as a maximum amount available for the project. The ratio between the Phare and national amount is also binding and has to be applied to the final contract price.
6. Implementation Arrangements

6.1. Implementing Agency

The Implementing Agency of the project is the Central Finance and Contracting Unit (CFCU). The CFCU will be the Contracting Authority and in that capacity will issue and evaluate tenders, conclude contracts and authorise the treasury to make contractually related payments. The CFCU will also endorse twinning Covenants as appropriate. The Director General of the CFCU will act as PAO of the project. Her contacts are:

PAO: Ms. Judit Rózsa, director general  
CFCU, Hungarian State Treasury,  
H-1052 Budapest, Deák Ferenc u. 5.  
Tel.: +36-1-327-3652, +36-1-327-3650  
Fax.: +36-1-327-3572, +36-1-327-3573  
e-mail: rozsa.cfcu@sdi.hu

The following people will be act as SPOs in relation to the activities under the different components of the project. The SPOs will be responsible for the technical part of the project in terms of design, evaluation follow up and monitoring and will normally be the Project leaders of the twinning Covenants.

Component 1:

Twinning covenant

The Senior Programme for this component will be the Deputy State Secretary in Charge of the future CSF Managing Authority

Service contract for pipeline Development:

Peter Szalo  
Deputy Secretary of State, Ministry of Agriculture and Regional Development  
Phone: + 36 1 488 71 71  
Fax: + 36 1 488 7188

Component 2:

Mr. Győző Kenéz  
Director General, Ministry of Transport, water management and telecommunication  
Tel.: +36 1 352 8863  
Fax: + 36 1 352 8862  
Email: gyozo.kenez@kovim.hu

Component 3 (twinning and service):

Dr. Imre Czakó, Head of Department, Department for Financial Control, Ministry of Finance  
Tel: +36-1-3275603  
Fax.: + 36-1-327-5608  
e-mail: mre.czako@pm.gov.hu
6.2. Twinning
The beneficiaries institutions for the twinning covenants will be the bodies designated as managing authorities for the CSF and Operational Programmes for the Structural Funds and the future implementing Agencies for the Cohesion Fund.

6.3. Non-standard Aspects
Not applicable.

6.4. Contracts
The project will be implemented through 3 twinning covenants of 3, 0.8 and 1.15 M€ respectively and 2 service contracts for 0.5 M€ each.

7. Implementation Schedule

<table>
<thead>
<tr>
<th>Component</th>
<th>Start of Tendering</th>
<th>Start of Project Activity</th>
<th>Completion</th>
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<tr>
<td>C1 Service - Pipeline Development</td>
<td>12/2001</td>
<td>08/2002</td>
<td>04/2003</td>
</tr>
</tbody>
</table>

8. Equal Opportunity
The agencies involved in the project are all equal opportunity employers. No discrimination between sexes will apply when selecting participants for training and study visits.

9. Environment
Not applicable.

10. Rates of Return
Not applicable.

11. Investment Criteria:
Not applicable.
12. Conditionality and Sequencing

12.1 Conditionalities

- Phare support is conditional to a clear government decision on which administrative bodies will assume the role of Managing and paying authorities under Structural Funds. The MAs for the OPs and the CSF should be formally designated before the signature of the FM.

- The assistance to the Managing Authority for the future Operational Programme for Regional Development programme is conditional on a clear definition of roles and functions between the Ministry's own staff and the NARD. These divisions of functions need to preserve the Ministry’s overall responsibility and control functions. To that effect the Ministry of Agriculture and Regional Development will provide an explanatory note to the Commission before the end of May.

- The necessary working environment for PAAs - including appropriate office and assistance facilities and the facilitation of contacts at the appropriate level - will be the responsibility of the beneficiary institutions, and Regional Development Agencies, respectively.

- Beneficiaries of training should be required to sign a fixed contract with the national administration to continue working in their jobs for a substantial set period after completing the Phare-funded training programmes.

- The Hungarian Government will ensure the sustainability of all beneficiary organisations.

12.2 Sequencing

April 24, 2001       Government Decision on Managing and paying authorities
May 2001            Explanatory note on division of functions between the Ministry of Regional Development and the NARD
June 2001           Establishment of the Steering Committee
July 2001           Selection of Twinning Partners
August-October 2001 Drafting of twinning Covenants
November 2001       Implementation

ANNEXES TO PROJECT FICHE:

I. Logical framework matrix
II. Detailed Implementation Chart
III. Contracting and Disbursement Schedule
IV. List of relevant Laws and Regulations
V. Description of the roles and functions of the institutions involved
<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX</th>
<th>Programme name and number</th>
<th>HU0105-01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total budget:</td>
<td>7.6 M EUR</td>
<td>Phare budget: 6.0 M EUR</td>
</tr>
</tbody>
</table>

### Overall objective
- Strengthening institutional structures in order to achieve, upon accession, sound and efficient management of EU Structural and Cohesion Funds

### Project purpose
- Institutional preparations for the programming and management of Structural and Cohesion Funds are to be completed

### Objectively verifiable indicators

<table>
<thead>
<tr>
<th>Source of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual absorption of EU funds in Hungary reaches at least 200 m by end 2001, 250 m by end 2002</td>
</tr>
<tr>
<td>Regular monitoring reports of the Joint Monitoring Committee, the National Fund and the National Co-ordinator</td>
</tr>
<tr>
<td>Positive assessment of Administrative capacity from the commission.</td>
</tr>
<tr>
<td>Positive outcome of discussions during the negotiations under Chapter 21</td>
</tr>
</tbody>
</table>

### Assumptions
- Government decision on location of paying and managing authorities taken by June 2001
- Sufficient human and financial resources allocated to the managing and paying authorities
- Availability of co-financing to implement projects

### Results

<table>
<thead>
<tr>
<th>Source of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Development Plan finalised.</td>
</tr>
<tr>
<td>Draft Operational Programmes and Programme Complements prepared,</td>
</tr>
<tr>
<td>Monitoring committees for the CSF and the Operational Programmes established and ready to be operational</td>
</tr>
<tr>
<td>The institutions of NUTS II Regions further consolidated so as to ensure proper partnership at the programming level and adequate project pipeline development. Sufficient quantity of high quality, mature project proposals to absorb EU-funding under first wave of Structural Funds programmes</td>
</tr>
</tbody>
</table>

### Activities

<table>
<thead>
<tr>
<th>Source of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programming documents (NDP, Ops, Draft Programming complements) finalised</td>
</tr>
<tr>
<td>Tasks and responsibility of MA defined and staff trained</td>
</tr>
<tr>
<td>Managing authorities ready to implement the Operational programme.</td>
</tr>
<tr>
<td>Monitoring system in place.</td>
</tr>
<tr>
<td>Pipeline of integrated programmes and projects ready for SF-financing right upon accession.</td>
</tr>
<tr>
<td>Legislative framework required for the full decentralisation of ISPA fully in place in line with council regulations 1266/99 and 1260/99 before end 2002</td>
</tr>
<tr>
<td>First wave of fully decentralised ISPA programmes implemented in time... and without significant irregularities</td>
</tr>
<tr>
<td>New Legislation in the field of payment, internal financial control and audit covering remaining harmonisation tasks enacted before end 2002</td>
</tr>
<tr>
<td>Paying authorities ready to implement tasks related to structural funds implementation</td>
</tr>
<tr>
<td>Public internal financial control and audit functions developed at the required level.</td>
</tr>
<tr>
<td>Institutional structure in the non-target region in place and staff trained</td>
</tr>
<tr>
<td>Partnership structures developed at NUTS II Regional level;</td>
</tr>
</tbody>
</table>

### Means

<table>
<thead>
<tr>
<th>Source of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission decision on EDIS for ISPA</td>
</tr>
<tr>
<td>Official Journals &quot;Magyar Közlöny&quot; and Határozatok Tára</td>
</tr>
<tr>
<td>Reports on the progress of projects (in particular through the JMC)</td>
</tr>
<tr>
<td>Successful discharge procedure of the annual budgets by Parliament</td>
</tr>
<tr>
<td>Decrees defining tasks and responsibilities MA</td>
</tr>
<tr>
<td>Ad-hoc Reports by State Audit Office and Government Control Office</td>
</tr>
<tr>
<td>NDP</td>
</tr>
</tbody>
</table>

**Note:** The table continues with additional indicators and sources of verification, but the above snippet outlines the key points of the logical framework matrix.
• Finalisation of programming and development of the capacity of the bodies identified as future managing authority (MA) and Monitoring Committee for the CSF and each of the Operational Programmes
• Developing capacity of the Implementing Agencies for ISPA and the future Cohesion Fund
• Establishing and strengthening the structure responsible for payment, financial control, audit and fraud prevention.

• twinning, including training and TA assignments, and exchange of experts
• limited supplies to implementing agencies and regional development agencies

• progress reports by twins and contractors
• Project pipeline established at national and regional level

• Timely adoption of proposed legislative measures by Government and/or Parliament
• Continued commitment of beneficiaries to project goals, full implementation of proposals by the relevant Agencies
• Regular participation of IA and RDA staff in trainings, continued employment of trained experts

**Preconditions**

- Projected financial, technical and human resource needs covered

---

### ANNEX 2

**DETAILED IMPLEMENTATION CHART**

<table>
<thead>
<tr>
<th>Component</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1 Financial Control and Audit - twinning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C1 Financial Control and Audit - service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C2 ROP - twinning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C2 ERDF service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C2 ERDF SOP twinning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C2 ISPA - twinning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C2 ISPA/Cohesion Fund - twinning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C3 NDP / CSF Authority - twinning</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<p>| Design                                         |      |      |      |
| Tendering                                      |      |      |      |
| Implementation                                 |      |      |      |</p>
<table>
<thead>
<tr>
<th>CONTRACTING</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>C1 Financial Control and Audit - twinning</td>
<td>1,20</td>
<td>1,20</td>
<td>1,20</td>
</tr>
<tr>
<td>C1 Financial Control and Audit - service</td>
<td>0,60</td>
<td>0,60</td>
<td>0,60</td>
</tr>
<tr>
<td>C2 –ROP twinning</td>
<td>1,50</td>
<td>1,50</td>
<td>1,50</td>
</tr>
<tr>
<td>C2 ERDF -- service</td>
<td>0,70</td>
<td>0,70</td>
<td>0,70</td>
</tr>
<tr>
<td>C2 ERDF SOP -twinning</td>
<td>0,70</td>
<td>0,70</td>
<td>0,70</td>
</tr>
<tr>
<td>C2 ESF Agency - twinning</td>
<td>0,30</td>
<td>0,30</td>
<td>0,30</td>
</tr>
<tr>
<td>C3 NDP / CSF - twinning</td>
<td>0,08</td>
<td>0,16</td>
<td>0,24</td>
</tr>
<tr>
<td>TOTAL CONTRACTS (Phare only):</td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DISBURSEMENT</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>C1 Financial Control and Audit - twinning</td>
<td>0,40</td>
<td>0,50</td>
<td>0,60</td>
</tr>
<tr>
<td>C1 Financial Control and Audit - service</td>
<td>0,20</td>
<td>0,40</td>
<td>0,60</td>
</tr>
<tr>
<td>C2 ERDF Agency - twinning</td>
<td>0,32</td>
<td>0,65</td>
<td>0,97</td>
</tr>
<tr>
<td>C2 ERDF Agency - service</td>
<td>0,20</td>
<td>0,40</td>
<td>0,60</td>
</tr>
<tr>
<td>C2 ESF Agency - twinning</td>
<td>0,12</td>
<td>0,25</td>
<td>0,37</td>
</tr>
<tr>
<td>C2 ISPA/Cohesion Fund - twinning</td>
<td>0,24</td>
<td>0,50</td>
<td>0,75</td>
</tr>
<tr>
<td>C3 NDP / CSF - twinning</td>
<td>0,08</td>
<td>0,16</td>
<td>0,24</td>
</tr>
<tr>
<td>TOTAL DISBURSEMENT (Phare only):</td>
<td>0,00</td>
<td>0,00</td>
<td>0,00</td>
</tr>
</tbody>
</table>
ANNEX 4

LIST OF RELEVANT LAWS AND REGULATIONS

- 2073/1999 (IV. 21.) Government Resolution on the tasks related to the preparation for the Structural Funds and the Cohesion Fund,
- 2134/1999 (VI. 11.) Government Resolution on EU-compatible alignment of the state aid system
- 2171/1999 (VII.8.) Government Resolution on the establishment of an Inter-ministerial Co-ordination Committee of Development Policy
- 2273/1999 (X.22.) Government Resolution on tasks related to the preparation for the Structural Funds and the Cohesion Fund

- Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities (amended by COUNCIL REGULATION (EURATOM, ECSC, EEC) N 610/90 of 13 March 1990)
- Commission Regulation 438/2001 of 2 March 2001 laying down the rules for the application of Council regulation 1260/99 regarding management and control system and
- the Commission Regulation 448/2001 of 2 March 2001 regarding the procedures for making financial correction for assistance granted under the Structural Funds.
ANNEX 5

DESCRIPTION OF ROLES AND FUNCTIONS OF THE INSTITUTIONS INVOLVED

Preparations for the Structural Funds

According to Government Resolution 2037/2000 the main co-ordinator of pre-accession preparations in Hungary is the Ministry of Economy (MoE). More specifically, the MoE is responsible for

- The review of the entire system of state aids and support schemes, including state development funding contributing to economic and social cohesion
- Co-ordinating the development of legal rules and institutions responsible for the future operations of the Structural and Cohesion Funds in Hungary
- Co-ordinating the preparation of the National Development Plan.

The above tasks include legal regulatory and deregulatory activities, training, methodological development, as well as economic planning tasks. Thereby the MoE is co-ordinating with the Minister for Phare in charge of the overall co-ordination of pre-accession instruments, the Ministry for Agriculture and Regional Development (MoARD), the Ministry of Finance (MoF), as well as with the sectoral ministries responsible for the future Operational Programmes of the NDP.

The institutional framework for the structural funds is under development. While the co-ordinating authorities for the different EU funds were already identified, the final list of the Operational Programmes of the NDP, Managing and Paying Authorities is not yet determined.

The planning and programming of measures at the sectoral level is the responsibility of the government ministries, co-ordinated by the MoE. The institutional structure for the development of the NDP has recently been determined by the relevant interministerial committee. (Interministerial Committee for the Co-ordination of Development Policies) The structure guarantees the application of the principle of partnership through the continuous consultation of Regional Authorities and Social Partners during all stages and at all levels of the NDP process.

The network of regional institutions is co-ordinated by the Ministry of Agriculture and Regional Development. There are 7 NUTS – II level regions in Hungary, all disposing of a decision-making Regional Development Council, and their executive arms, the so-called Regional Development Agencies. The regional bodies are preparing regional development plans and ensuring partnership at the regional level. The future role of regional bodies in the implementation of the NDP will only be determined during the NDP process. Nevertheless, regions will be guaranteed the possibility to involve themselves in the preparation of sectoral plans, (and vice versa) in order to secure an efficient reconciliation of regional and sectoral operational programmes with each other.

The Phare programme has, since 1992, implemented several regional development programmes in Hungary. Although the institutional framework of these programmes is not necessarily a direct indication of the future institutional set-up under the structural funds, it is worthwhile to note, that at least 5 of the 7 NUTS – II regions have accumulated practical experience in the development and implementation of EU-conform integrated regional development programmes. This includes the identification and selection of development projects through open public call for proposals evaluated by independent groups of technical experts compiled on the basis of partnership, as well as the supervision, monitoring and/or implementation of projects.
At the sectoral level, there have been several Phare interventions, since 1990 in all areas covered by the Structural and Cohesion Funds. All relevant ministries have departments (former PMUs) experienced in the management of EU-funded programmes.

The current programme directs Phare support to those ministries, which are responsible for the future operations of the structural and cohesion funds.

- the Ministry of Economy, co-ordinating the ERDF
- the Ministry of Economy in co-operation with the Ministries for Education and Social Affairs, in charge of the ESF
- the Ministry of Regional Development, responsible for regional development programmes and institutions
- the Ministry of Transport and Water Management and the Ministry of Environment responsible for large-scale Cohesion Fund-type investment projects.

While the Preliminary National Development Plan is expected to give a good indication of what programmes could figure in the NDP, and how the implementation responsibility for these programmes could be distributed among the responsible ministries, final decisions as regards the location of managing authorities, paying authorities and other institutions/bodies prescribed by the Acquis (notably Council Regulations 1260 to 1265 /1999) will only be taken in the course of the NDP process.

Public Internal Financial Control

In the field of Public Financial control there are three principal institutions in Hungary:

- The National Audit Office (Állami Számvevőszék)
- The Government Control Office (Kormányzati Ellenőrzési Hivatal)
- The Ministry of Finance (Pénzügyminisztérium)

**The National Audit Office is independent from the Government, and is responsible directly to Parliament. It is the supreme national control authority performing external financial controls. Its legal status is regulated by a special law. The National Audit Office has the authority to control the use of public funds in all state institutions and all other entities benefiting from public funds.**

The Government Control Office is the internal audit institution of the Government. Its head is appointed by the Prime Minister. The Activities of the GCO are determined by six-monthly audit plans approved by the Government. The GCO’s task is to perform audits within the realm of governmental bodies (ministries, ministerial agencies and other budgetary institutions). Upon instructions from the government the GCO is also engages in the development of new methodologies in the area of public finances. This includes the area of monitoring activities, where the Government Control Office has been implementing Phare projects under earlier Financing Memoranda.

The Ministry of Finance is responsible for the planning, implementation and control of the budget. Furthermore, it is in charge of the development of the legal and institutional system of Public Internal Financial Control. The minister for finance is empowered and responsible to prepare and submit to Government and/or Parliament all relevant proposals. The minister for finance is operating and supervising the Hungarian State Treasury (Magyar Államkinstár) - which plays a central role in controlling all state expenditure – as well as the Territorial Public Finance Offices— (Területi Államháztartási Hivatalok). These territorial offices (1 per county) are performing ex-ante controls with regard to the use of state support to municipalities, natural persons and enterprises, including social aid schemes. The possibility of an eventual transfer of the responsibility for external financial controls for all national aid from the Hungarian State Treasury to the Regional Budgetary Offices is currently under examination.
According to Government Resolution No. 2064/2000 the Minister of Finance is now responsible for the overall regulation, supervision and development of the areas of public finance, the treasury system, public internal financial control, and financial audits. This responsibility includes the co-ordination of measures necessary for the consistent implementation Acquis Communautaire, as well as co-ordinating contacts with the European Union’s institutions.

(Before this resolution the co-ordination of pre-accession preparatory measures was the responsibility of the State Audit Office. Although no longer acting as the co-ordinating authority, the State Audit Office still takes part in the review of the system of public finances and the development of the distribution of responsibilities between different control and audit bodies.)