

ECONOMIC DEVELOPMENT OPERATIONAL PROGRAMME

CCI number: 2007HU161PO001

Version:

Total number of pages:

GOP_090722.doc

139 pages

EXECUTIVE SUMMARY

Economic Development Operational Programme

The Economic Development Operational Programme (EDOP) has been prepared to encourage permanent growth of the Hungarian economy in accordance with the Competitiveness Concept of the Ministry of Economy and Transport (that has not been passed on government level), to execute the priority 1 of the New Hungary Development Plan (which is the National Strategic Reference Framework of Hungary) on economic development. Its overall objectives are to achieve long term growth of the Hungarian economy by improving the quality of physical and human capital, as well as of total factor productivity. Four specific objectives have been selected to strengthen growth factors:

- Increase in Research & Development and innovation capacity, activity, as well as co-operation
- Complex development of corporate capacities
- Development of the business environment
- To facilitate the access of SMEs to financing resources

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

Development

Funds amounting nearly HUF 3,363 **billion*** are available for the Economic Development Operational Programme.

Priorities	Priority limit Euro	Percentage breakdown
R&D and innovation for competitiveness	990 673 529	29,5%
Complex development of enterprises (focusing on SMEs)	1 314 369 144	39,1%
Improvement of modern business environment	225 500 081	6,7%
Financial instruments	727 076 121	21,6%
Technical assistance	105 703 163	3,1%
Total	3 363 322 038	100.0%

* current price, 15% national contribution,

The programme supported by the European Regional Development Fund and domestic state budget resources does not cover the Central-Hungary region.

The effectiveness of the operational programme's interventions, and the integrated implementation of the developments supporting each other will be promoted like flagship projects for instance by the competitiveness poles or programmes supporting the development of regions that lag behind.

The effect of the economic development

Assistance amounting about HUF 1200-1600 billion has been awarded for economic development under the New Hungary Development Plan and through national co-financing that is supplementary to the structural funds. The above amount derives from the available resources of the Economic Development Operational Programme (EDOP), from the resources of the Central-Hungary Operational Programme (CHOP) available for economic development, as well as from the available resources of the operational programmes of each convergence region for economic development purposes.

Non-repayable support schemes – considering the support intensity of the application scheme announced through the operational programmes, together with private resources will contribute to the implementation of investments of about HUF 2,000-2,500 billion.

Financial programmes (guaranty, credit, capital) are expected to provide external resources worth about HUF 2,200 billion, and with the own resources of the enterprises there is about HUF 3,800 billion available for development purposes.

Based on the above it can be concluded, that the Economic Development Operational Programme (EDOP) in the frames of the New Hungary Development Plan, as well the Central-Hungary Operational Programme (CHOP) serving as a supplementary to the development guidelines stated by the Economic Development Operational Programme (EDOP), the resources of the regional operational programmes available for economic development, as well

as private resources contribute to the implementation of investments of about HUF 5900-6400 billion in the period of 2007-2013.

Partnership

As a closing of the planning milestones of the Economic Development Operational Programme (EDOP), open professional conferences have taken place with the participation of professional and social partners. (Dates: 23 February 2006, 6 July 6 2006). More than 70 professional, NGO and social organizations have participated at these partnership events. Their recommendations referred to the need for higher support of the micro and small enterprises, and the consideration of certain horizontal objectives with high priority.

A social debate on the operational programme has been directed by the National Development Agency on October 16, 2006, and at the same time it has been made available on the homepage, www.nfh.hu. The wider public had the opportunity to express their opinion by 8 November, at the Agency.

The Agency has asked about 4000 partner organizations either by mail or through electronic mail to participate in the reconciliation process. The social debate was open, as the operational programme and the matching questionnaire could have been downloaded by anybody. Everybody had the chance to send their opinion to the email address created for each operational programme.

Furthermore, the Agency has organised series of forums to discuss the operational programme with the participation of the representatives of the Ministry of Economy and Transport, as well as the competent member of the Development Policy Managing Body. The macro forums of high priority have put the Economic Development Operational Programme (EDOP) on their agenda, among others the National Council for the Reconciliation of Interests – that has a National Development Committee responsible for the elaboration of the decision, with that the National Development Agency has regular meetings -, the Economic and Social Council, the Hungarian Academy of Sciences, the National Environment Protection Council, the National Council for Regional Development, as well as the National Development Council, that were established on September 5, 2006. After the evaluation of the received opinions and recommendations, the respondent organizations have received a personal answer letter.

CONTENTS

Executive summary	2
Contents.....	5
Preface	8
Partnership.....	10
1. Situation analysis.....	13
1.1. Introduction.....	13
1.2. Competitiveness situation analysis.....	14
1.3. R&D, innovation.....	15
1.4. The domestic enterprise sector.....	23
1.5. Business environment	31
1.6. External financing of SMEs.....	36
1.7. General state of the labour market	40
1.8. Experience of 2004-2006 period.....	42
1.9. SWOT analysis.....	45
2. Strategy.....	47
2.1. Main objectives of the Economic Development Operational Programme.....	47
<i>(Competitiveness) factors generating permanent growth.....</i>	<i>48</i>
2.2. Specific objectives of the Economic Development Operational Programme	49
2.3. Strategy of the Economic Development Operational Program programme	50
2.3.1. To increase Research & Development and innovation capacity, activity, as well as co-operation	51
2.3.2. Complex development of corporate capacities	52
2.3.3. Development of the business environment	53
2.3.4. To facilitate the access of SMEs to financing resources.....	54
2.3.5. International dimension of the strategy the Economic Development Operational Programme (EDOP).....	54
2.4. Horizontal objectives	56
2.4.1 Policy related to equality of opportunities and the prohibition of discrimination.....	56
2.4.2 Sustainability policy	58
2.4.3 Regional policy.....	59
2.5. Connection of EDOP to other strategies and OPs.....	61
2.5.1. Coherence with national policies.....	61
2.5.2. Coherence with the National Reform Programme and the Community Strategic Guidelines	62

2.5.3. Coherence with Seventh framework programme of the European Community for research and technological development (FP7).....	65
2.5.4. Coherence with the New Hungary Development Plan and other operational programmes	66
2.5.5. Coherence with the regional operational programmes of the convergence objective and the Central Hungary Operational Programme	69
2.6. Summary of the ex-ante evaluation of EDOP.....	70
2.6.1. The process of ex-ante evaluation	70
2.6.2. Key questions of ex-ante evaluation	70
2.6.3. The responses the planning authorities provided for the observations of ex-ante evaluators	73
2.7. Official Statement on the strategic environmental assessment of the EDOP.....	74
The process of the strategic environmental assessment for the OP.....	74
Summary of how environmental considerations have been integrated into the programme.....	76
Transboundary effects	78
Monitoring measures	79
3. Priority axes.....	80
3.1. R&D and innovation for competitiveness	80
3.2. Complex development of enterprises (focusing on SMEs).....	85
3.3. Improvement of modern business environment	88
3.4. Financial instruments	91
3.5. Financing of the implementation of the Economic Development Operational Programme (EDOP) (technical assistance).....	92
3.5.1. Objective	92
3.5.2. Technical assistance in NHDP	93
3.5.3. Activities promoted by the technical assistance priority.....	93
3.5.4. Indicators.....	94
4. Financial table	95
5. Interconnection with the measures financed by the European agricultural fund for rural development and the European Fisheries Fund	97
6. Implementing provisions for the operational programme.....	100
6.1. Management.....	100
6.1.1. Strategy and coordination.....	100
6.1.2. Managing Authority (MA).....	103
6.1.3. Intermediate Body.....	105
6.1.4. Procedures in relation to the implementation of the OP	107
6.1.5. Administrative capacity	108

6.2. Monitoring and evaluation.....	110
6.2.1. Monitoring	110
6.2.2. Evaluation	112
6.3. Financial management and control	114
6.3.1. The tasks of the Certifying Authority	114
6.3.2. Rules for financial management and control.....	115
6.3.3. The process of payment to beneficiaries	116
6.3.4. Control of the European Union’s contributions.....	117
6.4. Provision of information and publicity	119
6.4.1. Provisions related to information supply and publicity.....	119
6.5. Community policies and horizontal principles - sustainability, equal opportunities and partnership, state aid, public procurement.....	120
6.5.1. Sustainability, equal opportunities and non-discrimination, partnership	120
6.5.2. State aid.....	122
6.5.3. Public procurement	123
6.6. Provisions related to electronic data communication between the commission and the member state	123
7. Major projects	125
ANNEXES	126
Annex 1: Organizations, actors involved in the EDOP partnership conciliation process	127
Annex 2: Rules for demarcation between the Economic Development Operational Programme (EDOP) and the regional operational programmes under the convergence objective.....	132
Annex 3: Quantified objectives of the Economic development Operational Programme	135
Annex 4: Contribution of the resources of the Community Funds to the operational programmes by category	139

PREFACE

The Economic Development Operational Programme (EDOP) is a sector based operational programme of the New Hungary Development Plan (NHDP, which is the National Strategic Reference Framework of Hungary) covering six convergence regions. Among the programmes it contributes in the most direct way to the fulfilment of the growth objective set in the NHDP.

The Economic Development Operational Programme (EDOP) serves the achievement of the vision of the mid-term economic development policy, **to transform the Hungarian economy into a developed, knowledge-based economy**. To achieve this goal, an information society has to be built, as well as the dynamic growth of the economy has to ensure the increase in the income and lifestyle level, while having significantly more and better places of work. To implement a knowledge-based economy, as well as to improve the competitiveness of the enterprises in the international competition, to facilitate the social, economic and regional cohesion, to improve the adaptability to the economic and social changes, as well as to ensure the availability of resources necessary for the future generations, - the integration of the Hungarian economy into the global economy, as well as to the single market has to be further developed.

Economy policy based frames of the interventions targeting growth objectives

Hungary's most important strategic documents are the „Programme of the Government of the Hungarian Republic for a successful, modern and fair Hungary” (Government programme), the actual convergence programme of the Hungarian Republic (convergence programme), the New Hungary Development Plan, as well as the National Reform Programme for Growth and Employment 2005-2008 (NAP) that all emphasize that the permanent economic growth has prerequisites, which are the following:

- Macroeconomic stability (transparent and consistent economic policy, sustainable deficit of the state budget and the balance of payments, low level of inflation, low level of (long term) interest rate, stable exchange rates),
- Avoiding deteriorating state economic interventions (unfavourable structure or extent of the tax system, reallocation, performance of the state as owner and employer), as well as
- setting up an enterprise-friendly regulatory and institutional framework (competition policy, regulation, administration, public services, legal certainty, education, and training etc.) that boosts competition.

Without the proper fulfilment of these economic policy tasks – the development policy based interventions, inter alia, the proper emergence of the Economic Development Operational Programme, the implementation of government strategies and the remedy for market failures – are not feasible.

Objective of the Economic Development Operational Programme

The main objective of the Economic Development Operational Programme is to encourage the **permanent growth of the Hungarian economy**, by strengthening the competitiveness of the production sector and the permanent growth factors.

To create a base for the permanent growth of the Hungarian economy, the following **four specific objectives** have been defined:

- **Increase in Research & Development and innovation capacity, activity, as well as co-operation for the better use of the R&D results**, in order to develop a knowledge-based economy,

- **Complex development of corporate capacities**, to help the Hungarian enterprises having growth potential to improve their competitiveness in the international markets, as well as to reduce the backlog of the Hungarian SME sector in terms of productivity and income creating ability towards the large enterprises and foreign competitors,
- **Development of the business environment**, to support the favourable performance of the growth factors,
- **Facilitation of access of SMEs to financing resources in order** to improve the growth potential of the micro, small and medium enterprises sector.

PARTNERSHIP

The Economic Development Operational Programme meets the partnership criteria set in the Council Regulation (EC) No 1083/2006. (Chapter IV, Article 11.). The Hungarian Government has discussed the Economic Development Operational Programme on the government session of October 11, 2006 and initiated a social debate. The objective and principle of the partnership reconciliation process

The principle of the social debate on the operational programme – in accordance with the above referred EC regulation – is the possible widest communication with the professional and social partners, as well as the public, collection of their opinion, recommendations, evaluation and feedback to them on their usage, to achieve wider social acceptance. At the social debate the intention was to have the documents of the programme available and opinion able to the widest public.

Partners, target groups involved in the reconciliation process

The unit of the Ministry of Economy and Transport (MoET) responsible for the planning of the operational programme has prepared with the active involvement of the main divisions involved in the priority setting process the list of those social and economic organizations, that are themselves, or through their members outstandingly effected by the measures of the programme, and that can help with their comments to create a professional base for the operational programme.

During the partnership reconciliation process social, economic, professional, interest representative and NGOs, the regional, local actors and the public were addressed, and involved in the process of the planning of the operational programme. (See Annex 1 for a list of partners)

The discussion was carried out at the following four levels:

Planning working group: A so called Planning workgroup has been established to develop professional points of view, to handle the continuously rising professional questions, as well as the recommendations coming from the participants during the planning process. The planning departments of MoET, the managing authority, as well as the representatives of the main divisions of MoET were involved in the planning working group. The main task of the working group was to supervise the professionalism of the actual interventions process executed in the frame of the operational programme, as well as to develop the professional frame conditions.

Professional workshop: During the planning process of the operational programme, before the handling of the programme as a consistent integrity, it was necessary to separately develop the frame conditions and principles of the most important strategic sections That is why the single chapters of the OP - including the professional recommendations, have been discussed separately, with the involvement of the management authority, the line ministries involved in the planning process, and the key professional partners of the MoET. In accordance with the planning process, professional workshops have been organized to formulate the below chapters:

- Situation analysis workshop: November 2, 2005.
- SWOT workshop: December 12. -20, 2005.
- Strategic workshop 1 (Objective system and priorities): January 23, 2006.
- Strategic workshop 2 (Priorities and intervention areas): 8 May, 2006.

Professional conference: To close the planning milestones of the Economic Development Operational Programme (EDOP) an open professional conference has been organized with the participation of professional and social partners. (Dates: 23 February 2006, 6 July 6 2006). More

than 70 professional, NGO, and social organizations have participated at the separate open partnership conferences, and with their recommendations have represented the interest of their several hundred member companies. The organizations that have accepted the invitations have put their professional comments regarding the draft operational programme in writing. The received professional comments were evaluated by the planning division of Ministry of Economy and Transport through involvement of the competent main divisions of the different specialty fields. The recommendations that were professionally well-founded and that belonged to the competence of the program were incorporated in the Economic Development Operational Programme (EDOP) contributing to the format and the structure of the document.

Publicity: In line with the principle of continuous participation in the planning of the Economic Development Operational Programme (EDOP), the actual version of the operational programme was presented on the homepage of the Ministry of Economy and Transport (www.gkm.gov.hu), as of the beginning of the planning process, giving the opportunity to the widest social and professional public to give their recommendations and to get an insight into the detailed content.

A social debate on the operational programme has been directed by the National Development Agency on 16 October 2006, at the same time the programme was made available on their homepage www.nfh.hu. The wider public had the opportunity to express their opinion by 8 November, at the Agency.

The methodology of the partnership reconciliation was based on the tools that had already been applied at the debate of the New Hungary Development Plan. The Agency has asked about 4000 partner organizations –among others professional and interest representative organizations, and NGOs, as well as representatives of the economic and scientific life - to participate in the reconciliation. The social debate was open, as the operational programme and the matching questionnaire could have been downloaded by anybody. Everybody had the chance to send their opinion to the email address created for each operational programme.

The base for the reconciliation was an electronic, structured questionnaire that helped technically the processing and incorporation of the received opinions. In total nearly 100 organizations have expressed their opinion either using the electronic questionnaires or in the form of an essay that were, for the sake of transparency, made available for anybody on the homepage.

Furthermore, the Agency has organized series of forums to discuss the operational programme with the participation of the representatives of the Ministry of Economy and Transport, as well as the competent member of the Development Policy Managing Body. The organizations invited to the forums were taken from the database containing the lists of almost 4000 partner organizations of nearly each planning unit – ministries, offices with national competence, and regional development councils. About 20-25 social, professional and scientific organizations and NGOs, which are opinion leaders of the issues discussed were invited. The date of the reconciliation forums was shown on the homepage, and also those organizations could have applied for it, that did not receive an invitation previously. An edited reminder was prepared based on each conversation that had been planned to take about two hours. These are also available at the homepage of the Agency. Macro forums of high priority have also put the operational programmes on their agenda, among others the National Council for the Reconciliation of Interests – having a decision preparing National Development Committee, with that the National Development Agency has regular meetings -, the Economic and Social Council, the Hungarian Academy of Sciences, the National Environment Protection Council, the National Council for Regional Development, as well as the National Development Council, that was established on September 5, 2006. The Agency has processed every opinion received by the deadline in a table format, in accordance with the structure of the operational programme. The draft answers to the comments included in the tables were prepared by the planning units responsible for the given themes, showing whether the recommendation was accepted, rejected

or partly accepted. The final outcome of the recommendations was first discussed both in case of the sectoral and regional operational programmes by the Inter-departmental Coordination Committees for the Operational Programme, and the final decision was made by the Operating Committee for Planning.

After the evaluation of the received opinions and recommendations, the respondent organizations have received a personal answer letter.

Key experience of the partnership reconciliation process

Nearly one-third of the actors involved in the partnership process have forwarded their recommendations to the planning division of MoET. In general, it can be concluded that the programme has been received favourably, the respondents have agreed with the key strategic directions and objectives. At the same time, – depending on their interest – there was a significant difference in the opinion on the distribution of the financing resources available for the given priority, there were different points emphasized.

One of the recommendations was to support the micro and small enterprises to a larger extent (especially in the form of non-repayable support), and to allocate to them a greater share of the available resources.

Organizations that support equality of opportunity and environmental protection have also expressed their view, emphasizing the principles of equality of opportunity between men and women and sustainable development - both at the planning and the implementation of the OP.

Several supplements, recommendations have been received that have though effected important areas, due to the regulations on structural funds and the Cohesion Fund, they cannot be supported in the Economic Development Operational Programme (EDOP), instead they can be incorporated in the second operational programme of NHDP. Nevertheless, several of the received recommendations did not belong to the strategic objectives of NHDP, or were against the EU regulations, and this is why they could not have been included to the areas to be developed based on the operational programme.

1. SITUATION ANALYSIS

1.1. INTRODUCTION

The convergence of the performance of the Hungarian economy to the developed West European countries has been in the last decade a continuous process: the domestic growth rate has been more than 4% in 10-year average, and the extent of the convergence to the EU average was the highest in case of Hungary out of the Visegrad countries. However in the last couple of years the relative performance of Hungary has weakened, certain indicators– first of all the outstandingly improving performance of the other countries in the region in terms of growth, working capital inflow, and ranking on competitiveness lists indicate that the performance of the Hungarian economy lags behind its potential, its relative competitiveness position (vs. the competitors in the region) has weakened.

Due to the radical structural change in the 1990's in Hungary, the rate of the high-tech sectors within the production sector – dominated by foreign working capital investments – is outstandingly high. However the high technology level in itself does not necessarily provide high level of added value. The lack of initial relations with the suppliers is a limitation for the of technology transfer towards the domestic entrepreneur sphere. The trends of the past years show that besides or instead of the mainly assembly type of, high technology based, however low added value creating mass production, that has determined the rapid growth in the past, the knowledge-intensive, high value added activities get increasingly high importance in the development of the economy. Inevitably, the second, innovation based phase of the economic structural change has started, but it can reach its real potential primarily if besides the large multinational companies, that have played a major role in the structural modernisation, **also small and medium sized domestic enterprises will be able to create new, competitive products**, and innovative procedures to a larger extent and market them, this way successfully meeting market needs, that have changed since accession to the EU, and in general in line with the globalisation process of the world economy.

The main objective of the development policy is to increase competitiveness, and first of all it has to support the second economic structural change, by promoting the spread of knowledge-based activities of the domestic enterprises. This is why the situation analysis focuses on the domestic trends of the R&D and innovation activities, as well as on the position of SMEs that mostly lag behind, and in addition to that, it separately analysis the unfavourable elements of the business environment, that can cause disadvantage in the (international) competition for all the actors of the economy.

However as the measures targeting the improvement of competitiveness and the development/growth targets of the enterprises have limited effectiveness, and at the same time are for the development policy external factors, and can hardly be implemented, the improvement of the below, unfavourable conditions is also the task of the government:

¹ Most of the listed problems appear in the National Lisbon Action Programme, as well as in the NHDP, and in the appropriate OPs.

- lack of macro-economic stability, high level of twin deficit (mainly due to the lack of fiscal discipline and the low level of domestic saving rate) and the stop-and-go type of economic policy,
- lack of political consensus (lack of agreement on the relation of competitiveness – cohesion – sustainability, on the reforms, that are unavoidable for the sake of competitiveness, and on the allocation of their cost),
- unfavourable structure of state intervention (i.e. a distortive tax system, state interventions are reactive rather than proactive and are mainly restrictive/penalising, the expenditure structure of the large redistribution systems is unfavourable: uneconomical operating cost is accompanied by a low level of developments),¹
- low level of market regulation (in spite of the deregulation objectives - the rate of monopolistic and oligopolistic markets is high, for instance in case of the network industries),
- unfavourable demographic trends on the long run,
- structural problems of education and training (education and institutional structure, financing of higher education), vocational training is not closely linked to the economy,
- low level of employment and activity rate, high ratio of permanently unemployed within the total number of unemployed, labour supply can restrictedly match market demand,
- high rate of grey economy (high rate of the economically inactive, in correlation with the problems of the tax system),
- bad conditions of the transport infrastructure.

1.2. COMPETITIVENESS SITUATION ANALYSIS

According to the complex competitiveness rankings⁴, lagging well behind the results of the EU-15 average (at the same time ahead of Italy and Greece), Hungary performs about at the average level of the newly joined Central-Eastern-European countries (that is outperformed only by Estonia's performance consistently).

Overall, the country's international competitiveness is in line with its development level, however according to the different WEF, GCI and BCI sub indices, Hungary shows diverse results in the different areas: sub index of business environment, technological level and public institutions over perform, while sub index of the enterprises' performance and strategies, as well as macro-economic conditions underperforms relative to the average international position of the country.

² *The economic policy did not make use of the opportunities coming from the significant cut of the previous tax burdens to improve competitiveness factors. In 2000 state budget had primarily surplus, while in 2002-2003 it has already closed with deficit even without interest payment.*

³ *Tax and contribution burden on labour is extremely high, which is partly the reason for the low level of employment.*

⁴ *Growth Competitiveness Index (GCI) and Business Competitiveness Index (BCI) of World Economic Forum (WEF), as well as the world economic competitiveness rankings of the Swiss IMD Business School.*

Growth Competitiveness Index (WEF GCI) scores								
	GCI		Technological sub index		Public institutions sub index		Macro-economic sub index	
	2004	2005	2004	2005	2004	2005	2004	2005
Hungary	4.56	4.38	4.66	4.08	5.07	5.15	3.95	3.91
V-4	4.38	4.28	4.60	4.04	4.49	4.66	4.05	4.14
EU+8	4.54	4.41	4.64	4.05	4.77	4.82	4.23	4.35
EU-15	5.13	5.00	4.87	4.57	5.82	5.72	4.93	5.00

Source: WEF

Remark: On a 7-point scale, higher value shows higher level of competitiveness

1.3.R&D, INNOVATION

Though the domestic R&D sector has achieved internationally in several fields outstandingly important results, according to the aggregated SII measure of EIS 2005 study, it is even lagging behind the EU average, and the backlog in terms of the fulfilment of the objectives of the Lisbon Action Programme is even more. At the same time, we must not forget that, after the significant development and restructuring process that had started at the end of the 90's, the domestic innovation system has undergone full restructuring,⁷ (reorganization of the Science and Technology Policy College, establishment of independent government office and of independent application agency, R&D tax allowance, establishment of an independent innovation fund, innovation contribution payment obligation for some of the enterprises). The result of the above steps is not measurable yet, however the developments are in line with the EU trends.¹

It can be considered as a favourable result, that Hungary belongs to the countries catching up within the EU (based on the growth rate of SII, EIS 2005 study). Furthermore, there are positive partial results, such as our ranking of the 25 EU countries based on the employment rate in high-tech manufacturing, based on the share of innovative SMEs participating in innovation cooperation, or the high value added produced in the high-tech industry. However, domestic innovation policy scored low in the study, and demand for innovative products is low. Furthermore, it is also worrying that we significantly under perform in terms of licenses, community trademarks and industrial designs creation.

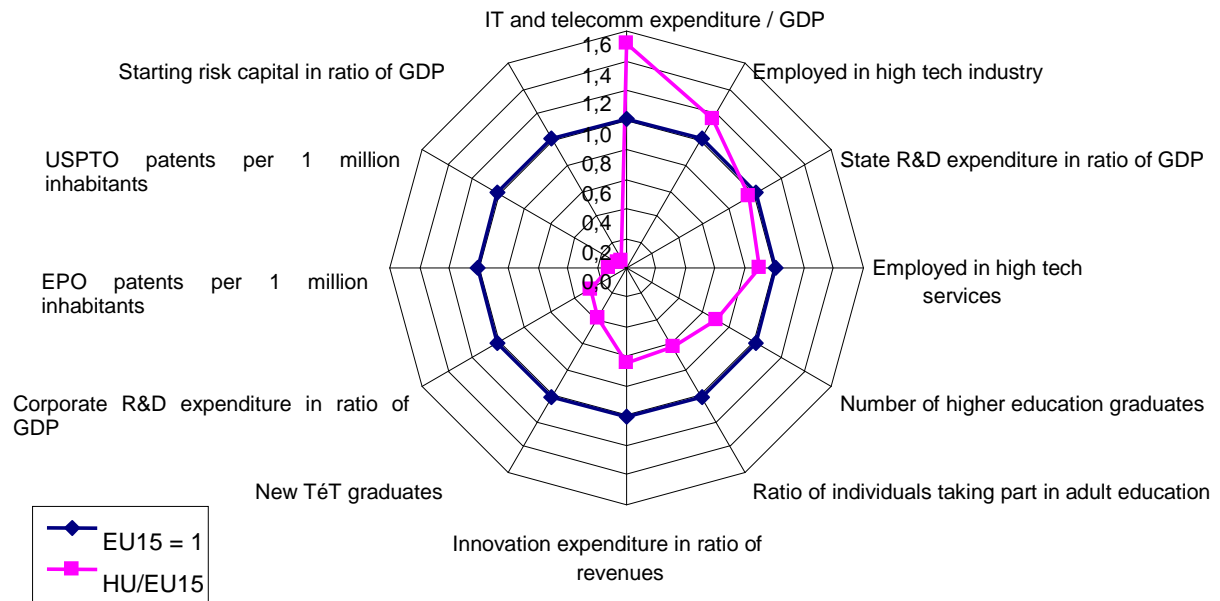
⁵ European Innovation Scoreboard, EIS 2005 Summary Innovation Index (SII) value was for Hungary 0.31, vs.0.42 for EU-25 average.

⁶ The result of that was the expansion of higher education, setting up of Ph. Schools, university integration programme, consolidation of academic institutions.

⁷ Act CXXXIV of 2004 on Research and Development and Technical Innovation entered into force on January 1, 2005.

⁸ According to the comparative OECD studies Hungary was in top position in terms of the tax allowance applied for R&D encouragement. However there is significant tension around the contribution levied on living labour.

Key R&D and innovation indicators compared to the EU-15 average



Source of data: EIS 2005

EIS 2005 has summarized the main challenges of the policy as the following:

Improvement of innovation diffusion:

- Encouragement of lifelong learning (the domestic value is 46% of the EU average)
- Growing the level of innovation expenditures (20% of the EU average)
- Growing the level of new-to-market and new-to-firm-sales (30% and 18% of the EU average)

Development of creative innovation:

- Growing the supply of new S&E graduates (currently 39% of the EU average)
- Increasing the level of business R&D expenditures (29% of the EU average)
- Development of core-seeding capital programmes (6% of the EU average)

Low level of total expenditure on R&D, stagnating R&D investments

Hungary significantly lags behind in terms of Gross domestic expenditure on R&D (GERD) as a percentage of GDP. Furthermore, only one-third of the low R&D expenditure is financed by the corporate sector, that is significantly lower than the targeted level (two-third), or the acceptable EU-average of about 55%.

Gross domestic expenditures on R&D as a percentage of GDP (GERD)					
	2000	2001	2002	2003	2004
EU-25	1.86	1.89	1.90	1.90	1.86
EU-15	1.91	1.94	1.95	1.95	1.92
Hungary	0.79	0.94	1.01	0.94	0.89
Gross corporate expenditures on financing R&D as a percentage of GERD					
EU-25	55.2	55.3	55.0	54.3	..
EU-15	55.5	55.6	55.3	54.6	..
Hungary	37.8	34.8	29.7	30.7	37.1

Source of data: Eurostat, EIS 2005

The nearly monotonic decline of the R&D investment is an unfavourable trend in terms of the competition-improving and knowledge-creating ability of the R&D sector. According to the data of the Central Statistical Office the nearly 43% growth rate of 2000 declined to 31% in 2001, to 10% in 2002, while in 2003 to 7.6%, and the growth in 2005 (+27.8%) could overall hardly compensate for the significant decline in 2004 (-10.4%). Thus in 2004 the R&D investment level of HUF 25 billion has declined to 0.61% of the national economy's investments. It can be perceived that due to the budget restrictions the investment expenditures of the public and the corporate R&D sector have changed in an opposite way, while in 2004 due to the budget restrictions investments in the former declined by 41%, and stagnated in 2005 (+2%), in the business enterprise sector investments have grown by 17%, and respectively 26%. Thus, the share of the business sector within the R&D investment expenditures is 63%, and the share of investments of the total expenditures within the enterprises having R&D activities is significantly higher than the investment rates of the Research & Development institutions or the university research locations.

Research and innovation activities are weak independently of company size

Most of the weak R&D activities are carried out at capital-strong, large foreign enterprises: though the role of the domestic SMEs sector in terms of the Research & Development activities is significant, (24.4% of BERD, vs. the EU-25 average of 22.4%, and the US performance of 14.1%), it can not be considered as an economic strength compared to the generally low corporate expenditure level. This is also supported by the fact that based on the year 2004 data of the Central Statistical Office 630 companies have carried out R&D activity, however about half of the corporate R&D expenditures have been spent at 17 large enterprises. According to the EIS 2005 study 4% of the Hungarian enterprises are strategic innovators, 6% are intermittent innovators, while a further 7% carries out technological innovation, 6% are technology adopters – while 77% does not innovate at all.

Company size is also a crucial factor in terms of innovation activity. The year 2005 study of MoET has pointed out significant differences in both the corporate R&D and the innovation activities broken down by the size of the enterprise. Furthermore, the distribution of innovation activities by corporate operation fields is unfavourable: typically middle-sized enterprises develop innovations in the fields of production and management to a great extent, most of the innovations are linked to the adaptation of the products, only four-tenth to modernisation of procedures.

Share of R&D activities in the business sphere by the number of employees (%)					
	0 employees	9 employees	10-49 employees	50 or more employees	Total
Carries out R&D activities	5.2	8.6	20.2	27.8	6.7
Does not carry out R&D activities	94.8	91.4	79.8	72.2	93.3
Total	100.0	100.0	100.0	100.0	100.0
Share of outstanding developments (innovations) in the business sphere by the number of employees (%)					
	0 employees	9 employees	10-49 employees	50 or more employees	Total
Innovated	16	38	54	72	23
Did not innovate	84	62	46	28	77
Total	100	100	100	100	100

Source of data: MoET: Factors influencing the competitiveness of small and medium sized enterprises after accession to the EU, 2005

Sectoral and regional level differences of the split of R&D and innovation activities

In line with the restructuring of the Hungarian economy, the appearance and market dominance of multinational companies, the R&D ability and interest of the manufacturing industry has changed. Share of the technology-intensive sectors in the economy structure is large compared to their development level. However the enterprises operating in these sectors build mostly on the results that are available in the international networks, and hardly require Hungarian development. Thus the sectoral level structure of the domestic economy is in line with the developed economies, however the intensity of R&D activities is not.

Budapest is the key centre of the domestic R&D and innovation activities, in certain fields it has international importance. Here is the most developed research and education capacity, the centres of large enterprises, as well as here is the highest demand for innovative products. There is also important R&D activity in the regions that have large university centres (Northeast and Southeast regions [Debrecen and Szeged]), or that are the target areas for investments (Central and West Transdanubia). The analysis is rendered more difficult by the fact that the size of the R&D investments tend to be volatile over time, due to the companies' R&D activity being limited to a very narrow circle and being highly concentrated. Thus a single large investment can significantly alter the regional distribution of R&D investments, which is explained by the fact that R&D investments are limited to a narrow segment of enterprises and extraordinarily concentrated, thus a large-scale investment may significantly modify the regional distribution of R&D investments.

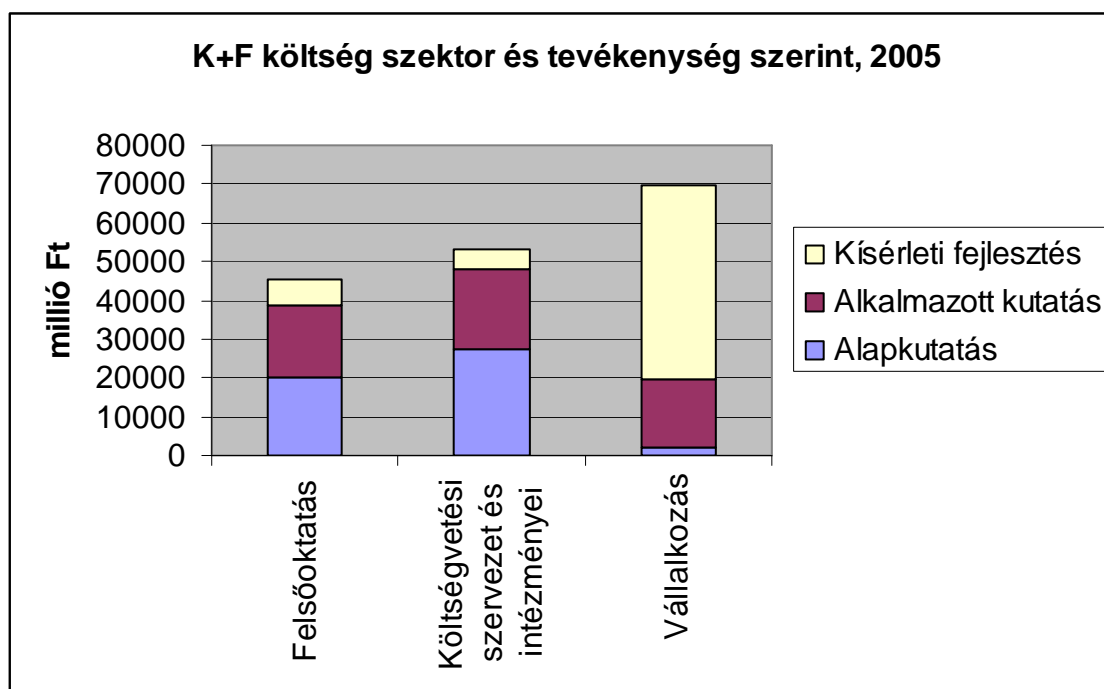
Regional aspects of Research & Development activity, in 2005									
	Expenditure of R&D locations (by % of national economy)			Investments of R&D locations (by % of national economy)			Calculated total number of R&D employees (by % of national economy)		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Central Hungary	69.1	64.3	66.8	69.4	57.8	74.0	64.9	64.6	63.4
Central Transdanubia	6.2	6.0	4.7	9.9	14.0	3.4	5.4	5.3	5.0
West Transdanubia	3.5	4.5	3.2	2.6	9.3	2.0	3.8	3.9	4.2
South Transdanubia	3.1	3.2	3.1	2.0	1.7	2.6	4.7	5.4	5.8
North Hungary	2.5	2.6	2.8	1.5	2.0	2.1	4.1	4.7	4.1
North Great Plain	7.8	8.1	8.6	6.6	11.1	10.7	8.1	7.7	8.4
South Great Plain	7.9	6.6	7.1	8.0	4.1	5.1	9.1	8.4	9.1
Hungary (M HUF, person)	166 629	181 525	207 764	28 106	25 188	32 197	23 311	22 826	23 239

Source: Central Statistical Office

The activity of the publicly financed research centres is not usage-oriented

Hungary spends in international comparison a large proportion of the restricted R&D resources on the most hazardous phase of the innovation process, on financing base researches. Only a smaller part of the R&D activity is used by the economy, due to the underdeveloped business culture, the restricted co-operation of the academic, research and the business sphere, as well as lack of market information and of mechanism that support market introduction. Further, due to lack of resources and differing mentality, mainly corporate research centres' intention is to use their results directly in the production, and in the form of patents. Therefore, while having a low rate of corporate R&D expenditure, only one-third of the researches can be linked to experimental development, that could help the innovative ideas to be directly launched on the market as new products.

This situation is well characterised by the fact, that Hungary has spent the highest cost rate (30.3% in 2001 and 35.9% in 2004) on base research among the OECD countries, however based on base research cost rate per GDP (0.24% vs.0.26%) it belongs to the last ones (in the countries with strong R&D focus, the range of this measure is between 0.40% and 0.70%).



Source: Central Statistical Office

Remark: Without R&D investments

Fragmented research and innovation procedures, weak level of co-operation

The sub-procedures of the R&D and innovation procedures are fragmented, most of the existing research results do not get to feasibility phase. Forms of co-operation of the actors (especially between universities/research institutes and the business sphere) involved in the innovation process are incomplete.

Share of research locations transferring their research results (%)				
Form of knowledge transfer	university	academic	corporate	Total
	research location			
Studies for enterprises	40	38	62	40
Patents and other sales	16	15	62	19
Sales of new products and services	13	11	62	18
Sales of machinery/equipment	6	15	38	11
Studies for the public sphere	42	46	38	44
Studies for international organizations	20	42	15	22
Publications, presentations at conferences	89	88	69	86
Education	62	50	46	59

Source: Study of GKI and BME HFI, Spring 2002

According to the Innobarometer 2004 study, the rate of enterprises carrying out in-house researches is at the level of EU-25 average (52% vs. 53%), however the share of companies that commission outside organizations – other companies, research institutes, universities – is only 9% (EU-25 average: 20%). Compared to the leading countries, the rate of the enterprises that use innovation consultation services is low: only 8% has used publicly financed, while 11% has used private services (in addition to that, 3% has used both during the preceding 2 years (EU-25

average: 5%, 16% and 5%). 5% It is a positive development that most of the SMEs that have reported to carry out R&D and innovation activities have also taken part in some kind of corporate cooperation activity. However it is less typical of domestic enterprises and research locations to participate in international research co-operations, for instance Hungary's activity in the 6th Framework Programme of the EU was limited.

Participation in the 6th Framework Programme of the EU and the received assistance (by March 11 2005)				
	Participants		Received assistance⁹	
	number	share (%)	million EUR	share (%)
EU-15	21 066	80.5	5076.7	90.0
EU-25	23 278	88.9	5 280	93.6
Hungary	390	1.5	40.2	0.7

Source of data: European Commission, FP6 mid term review

Uneven level of R&D base infrastructure

Hungary is also lagging behind in terms large research infrastructure that is necessary to carry out modern researches. This is why Hungarian researchers are extremely interested in the participation in the Pan-European research infrastructure to be set-up under the frames of the European Research Area, as well as in the establishment of new infrastructures, or attracting them to Hungary.

However the NIIF Programme, a domestic research network that plays a mayor role in terms of the ICT base infrastructure, the competitiveness of R&D and the successful international co-operation provide the domestic academic, research and public collection community with an infrastructure that is at the level of the EU-15 countries already for years. According to the studies of TERENA (Trans-European Research and Education Networking Association), Hungary lags behind in terms of electronic base infrastructure only in the fields of super computer technology, and the AAI (Authentication and Authorization Infrastructure).

Underdeveloped incubation and capital programmes

It can be considered as an institutional weakness of the Hungarian innovation system, that the technological and business incubation, that could serve the establishment and growth of innovative SMEs are underdeveloped, as well as there are no bridging and innovation service organizations. The principle of „industrial park & incubation service” that has been preferred by the innovation policy is hardly used in practice at the moment. Although most of the incubators are established in such locations, where there is also an industrial park, only 5 incubators operate within an industrial park. Industrial parks and incubations are hardly connected, as most of the

⁹ *Without excellence networks.*

¹⁰ *At the moment one equipment, the research reactor at Csillebérc that serves as a base for material research, qualification and development base as well as the connected Budapest Research Reactor Neutron Centre (Budapesti Kutatóreaktor Neutronforrás -BKN) can be categorised here.*

¹¹ *NIIF programme serves at the moment more than 420 institutions and 600.000 users. NIIF has the largest international data network capacity possible in the Pan-European GEANT network: among the 34 countries that have joined the network it belongs to the upper third segment, having 10 Gbps access speed. Further, we also have favourable position in terms of the capacity utilization, NIIF is a network within GEANT having one of the largest data flow and best utilization rate.*

¹² *Innovation parks offering a wider range of innovation services operate first of all in academic centres like the INNOSTART National Business and Innovation Centre in Budapest, the Industrial and Technology Park in Budaörs, the INNONET Innovation and Technology Centre in Győr, the Scientific ad Technical Park in Debrecen and the Regional Innovation Centre in Veszprém.*

industrial parks (for instance industrial parks, where mostly multinational companies operate) do not require incubation service.

On the other hand, the existing incubation houses, lacking other resources have to operate as a business organisation, so they are not interested in starting activities with high risk, developing technological incubation, idea management, or in the search and support of innovative activities – this is why we do not have any operating technologic incubator (two will be set-up in the near future). This was also supported by the 2002 year study of the SEED Small Enterprise Development Foundation, namely that although the utilization of the existing incubation houses is high, most of the tenants operate in growing markets, however they are neither innovative, nor starting-up micro enterprises, and need first of all infrastructure, and require consultation and management support to a less extent. In the service range of the incubation houses there are few innovative elements: they utilize the rental of the incubation house, however the standards of the IT network is low, database service, education, consulting, partner search, application monitoring, project management support activities spread just slowly. The support of technology transfer research service is exceptional. Network type of co-operations and foreign relations are lacking. Institutions have neither pre-seed resources that is necessary to start a business activity, nor core-seed resources that could finance the start-up phase.

The average capital need for the Hungarian start-up enterprises is lower than it is typical in the larger economies, however the supply and demand of seed capital does not meet. The appropriate institutional mechanism and actors are inadequate the overcome this market failure and to transfer venture and seed capital to innovative enterprises. This is why it can occur that (according to the study of the Hungarian Venture Capital and Private Equity Association) that in spite of the capital of EUR 4 billion that is in principle available on the market, there is no investment firm that would specialize in the financing of seed capital.

Seed capital investments as a percentage of GDP (including start-up enterprises)					
	2001	2002	2003	2004	2005
EU-15	0.044	0.028	0.021	0.023	0.022
Hungary	0.027	0.003	0.000	0.000	0.004
Venture capital investments (as a percentage of GDP)					
	2001	2002	2003	2004	2005
EU-15	0.096	0.079	0.086	0.084	0.116
Hungary	0.018	0.021	0.029	0.118	0.049

Source of data: Eurostat

Conditions of the R&D and innovation human resources factor are limited

Conditions of the R&D and innovation human resources factor are below the required level. Rate of employment in R&D/population number is only half of the European average. Research expert staff is getting old, their age composition is getting unfavourable (especially in the public sphere). Research activity is fragmented, in 2005 100 R&D experts have worked on 144 Research & Development projects that are ten times more than the international average. The rate of

¹³ *National Technology Incubator and Seed Capital Programme, 2005 mentions 41 incubators.*

¹⁴ *Investors are interested in more saturated companies that already have a market background.*

¹⁵ *Innovative start-up enterprises need resources of HUF 10-50 million, while venture capital would prefer investments over USD 1,000,000. Although the so called Business Angel Club has already been established in June 2000, its activity has had so far limited results.*

science & engineering graduates within the 20-29 years old population is only one-third of the EU-15 average, there is a significant shortage of technicians and skilled workers.

Rate of Science & engineering graduates (within the 20-29 years old population, in 0.1 percent)					
	2000	2001	2002	2003	2004
EU-25	10.2	11.0	11.5	12.3	12.7
EU-15	11.0	11.9	12.4	13.3	13.6
Hungary	4.5	3.7	4.8	4.8	5.1

Source of data: Eurostat

Although domestic statistics show more favourable picture than Eurostat, they also show a decline in the rate of science & engineering graduates. Besides the low number of graduates, the rate of PhD students in this field is also low (in Hungary 3%, vs. the EU-25 average 49%, and in the USA 41%), and it is further declining.

Field of higher education	Number of students by field of education			
	1990-1991	2002-2003	2003-2004	2005-2006
Natural Sciences	1 647	5 917	6 338	7 217
Informatics	2 662	13 048	14 346	12 791
Engineering	20 223	50 590	50 368	50 974
Higher education, total	102 387	341 187	366 947	380 632

Source of data: OM, Central Statistical Office, Education data

The foreign brain drain of the technical experts has also a negative effect on the domestic innovation potential. First of all in Germany (between August 2000 and June 2003 503 Hungarian IT experts have been employed), but also in the other EU member states, as well as in the USA and Japan work Hungarian IT experts, electrical engineers and other technical experts.

According to the researchers of R&D utilization, there are no managers that could facilitate the transfer of R&D results with their expertise.

Overall it can be concluded that to be able to encourage the spread of knowledge-intensive, high value added activities in the domestic economy, the fragmentation of the researches has to be reduced, the effectiveness of the utilization of research results (including market exploitation) has to be increased, as well as the corporate (especially of SMEs) innovation ability and activity has to be developed.

1.4. THE DOMESTIC ENTERPRISE SECTOR

Micro, small and medium sized enterprises play an important role in the economic life of the country: in 2004 they have employed 65% of the total number of employees, they have created half of the gross value added and made 36% of total export sales. However also this short data set shows that their productivity level is below the large enterprises, and only a small portion of them is able to appear on the single or third party markets, and to actively participate in the structural modernization of the economy. The operation of most of them has high labour-low capital intensity, and they have a much higher share of employment than of the revenues or of the income creation. This fact is obvious by itself, however in international comparison the difference of the Hungarian small and medium sized enterprises seems to be extremely large. Consequently, it is important to make attractive for and available to a wide range of the SMEs the knowledge-based, high value added activities and co-operations, to encourage their development

and convergence to the large companies that are more ahead in terms of structural modernization.

The rate of small and medium sized enterprises is low

The number of registered enterprises has continuously grown in the past three years. The number of registered enterprises has grown from 903,000 in 2000 to 964,000 by the end of 2004 (including private individuals conducting a business activity, having tax identification number their total number is 1.2 million), however the number of operating companies was only 708 000 in 2004.

Number of operating enterprises and their distribution by the number of employees on December 31, 2003 and 2004.				
	Enterprises (number)		Enterprises in percent (%)	
	2003	2004	2003	2004
0-9 employees	667 100	673 527	95.2	95.1
10-49 employees	27 782	28 806	4.0	4.1
50-249 employees	5 015	5 028	0.7	0.7
250 and more employees	958	946	0.1	0.1
Total	700 855	708 307	100.0	100.0

Source: Central Statistical Office

99.9% of the enterprises operating in Hungary are micro, small or medium sized. The share of micro enterprises defined as having no employees, or 1 to 9 employees is high, (95.1% of the total number of operating companies), while the share of middle sized enterprises is low in international comparison.

SMEs play an important role in the employment

While recently the importance of private entrepreneurs in terms of employment has decreased to some extent, overall the importance of enterprises having employees, within that of SMEs has increased.

¹⁶*Some of the micro enterprises are forced enterprises operating without employees, that have been established in order to avoid labour market anomalies (first of all contribution burden is high compared to costs of capital revenues). Due to the high number of forced enterprises, the high number of enterprises (the high level of entrepreneurial activity that has been often recalled positively), cannot be evaluated clearly favourable. Furthermore, these enterprises typically do not have any particular physical capital, and they do not plan any development (having a negative impact to the statistics of the SMEs sector), so they are not suitable target for the development policy.*

Breakdown of employment by the number of employees, 2001-2004 (%)				
	2001	2002	2003	2004
0-9 employees	41.4	42.9	42.0	40.2
10-49 employees	16.1	16.5	16.9	17.9
50-249 employees	15.5	15.2	15.3	16.1
250 and more employees	27.0	25.5	25.8	25.8
Total	100.0	100.0	100.0	100.0

Source of data: Calculated based on the data of tax declaration

The performance of the SMEs sector lags behind large enterprises, however the difference is diminishing

The difference in the production of domestic SMEs and the large enterprises sector can also be expressed by the distribution of net revenue and gross value added. The main reasons of the difference in their performance can be the following:

- Problems of size effectiveness (in certain sectors)
- Outdated level of technological and ICT equipments
- Limited access to financial resources
- Low level of innovation capacity
- Imperfect management, market, commercial, marketing, HR, financial and IT skills, abilities, as well as limited readiness for co-operation

The corporate structure of net revenue and value added creation has changed significantly in the last couple of years. Micro and small sized enterprises produce 40% of net revenue and one-third of the value added. A larger share of the revenue comes from the value added in case of the middle sized and large enterprises (that can be explained by the differences of capital supply and the sectoral level distribution).

Net revenue and GVA by the number of employees 2001 and 2004 (%)				
	Net revenue (%)		Gross value added (%)	
	2001	2004	2001	2004
0-9 employees	21.5	22.7	16.3	15.3
10-49 employees	19.0	21.8	15.3	17.0
50-249 employees	18.5	18.2	19.2	18.7
250 and more employees	41.0	37.4	49.2	49.0
Total	100.0	100.0	100.0	100.0

Source of data: Calculated based on the data of tax declaration

Real value of revenue per employee is continuously growing. Productivity positively correlates with company size: the larger the company size, the higher is the productivity level. The backlog of the SMEs sector in terms of productivity is larger than the of the EU-15 average, that can be partly explained by lower level of capital supply.

Gross value added per employee (as a percentage of national average)				
	2001	2002	2003	2004
0-9 employees	75	89	77	66
10-49 employees	76	77	75	78
50-249 employees	90	93	88	87
250 and more employees	132	123	134	144
Total	100	100	100	100

Source of data: Calculated based on the data of tax declaration

Growth potential and targets of SMEs are limited

Growth potential of SMEs is limited by their restricted growth targets: according to a MoET study conducted in 2005, 8% of SMEs has planned to increase the number of their employees, 32% planned significant investments, and 3% planned both. Although the significant rate of stagnating companies can be considered to be natural, and international experience also shows that about 90% of the companies do not intend to grow, in recent years the rate of growing companies has decreased, and the rate of not growing companies has increased, and this trend effects negatively the growth of the middle sized companies segment.

Growth of enterprises by the number of employees (%)					
	0 employees	9 employees	10-49 employees	50 or more employees	Total
Growing	0.6	6.9	19.3	17.6	3.0
Rather growing	28.2	38.3	42.2	52.9	31.3
Not growing	71.2	54.8	38.6	29.4	65.7
Total	100.0	100.0	100.0	100.0	100.0

Source of data: MoET: Factors influencing the competitiveness of small and medium sized enterprises after accession to the EU, 2005

Networking of the economy is weak

According to the MoET study of year 2005, 57% of the enterprises have taken part in any kind of (informal or formal) cooperation that is considered to be an indicator of networking activity. Frequency of practical and formal co-operations to acquire, share or use business information is extremely low, as well as development and application co-operations are more rare than it would be desirable. It is typical of both informal and formal co-operations that micro enterprises take part in co-operation projects more than the average, while larger ones, small and medium sized enterprises below the average.

Rate of enterprises taking part in formal and informal co-operations by the number of employees (%)					
	0 employees	9 employees	10-49 employees	50 or more employees	Total
Support	49.4	64.5	71.4	77.8	53.9
Co-operation	13.2	22.9	42.9	27.8	16.7
Participate in any kind of co-operation	51.5	68.9	76.2	77.8	56.6

Comment: support = informal co-operation

Source of data: MoET: Factors influencing the competitiveness of small and medium sized enterprises after accession to the EU, 2005

Appropriate level of human resources are limited

Quality of human resources, the most important component of permanent economic growth is the function of several correlating factors. The key element of the development of the enterprises is the availability of human resources in the necessary amount and quality. In terms of the fields covered by the Economic Development Operational Programme (EDOP), competence, abilities, education of entrepreneurs and employees, their continuous development to be able to keep them up-to-date are the key factors.

Quality of corporate human resources is partly determined by the domestic education system. However the enterprises have options to keep human resources at a competitive level, such as to encourage and promote employees to participate in professional and adult education schemes, as well as it is a part of corporate strategy to establish and develop training structures of the organisation development and HR systems.

However the number of participants in official adult education is low, as well as the level of formal knowledge concentrated at the enterprises strongly correlates with company size. Employees of micro enterprises participate in official education schemes to a much lower rate than of large enterprises.

Application of distant and e-learning methods is rare, which also indicates, that in practise lifelong learning is not a requirement (neither an option) for the domestic employees

¹⁷This is well represented by the calculation method of UNDP HDI (Human Development Index). This index consists of three fundamental elements: (1) average life expectancy at birth, (2) standard of living, (3) the basic level of knowledge, adult literacy rate. The index value of Hungary was 0.814 in 2001(max value is 1).

Participation of entrepreneurs and their employees in education or training schemes by the number of employees (%)					
	0 employees	9 employees	10-49 employees	50 or more employees	Total
Participated in any kind of education/training programme	19.6	30.3	47.6	55.6	23.5
Did not participate	80.4	69.7	52.4	44.4	76.5
Total	100.0	100.0	100.0	100.0	100.0

Source of data: MoET: Factors influencing the competitiveness of small and medium sized enterprises after accession to the EU, 2005

Establishing a competitive economy requires the existence of some key competences of the employees (i.e. foreign language and IT user skills, communication and conflict resolution techniques, competences related to product launches).¹

56% of the employees has at least basic computer literacy (vs. EU-25 average of 75%), about 2% of the total population had ECDL (European Computer Driving Licence) certificate in September 2005 (vs. the Irish rate of 8.3%).¹ Consequently, to be able to improve the IT skills of the employees the demand for information society, as well as for the transfer of knowledge related to digital skills have to be created. Based on the experience of info-communication services companies, there are not enough IT experts either, and according to short term forecasts following the current educational trends the shortage of experts can further increase²¹.

It is also very important to consider the low level of a special skill area, namely practical venturing/management skills and business market abilities in total population, as well as partly among entrepreneurs (especially the owners of micro enterprises). Especially this fact is an obstacle for the general growth of competitiveness of the domestic SMEs, and it is a bottleneck in terms of increasing the rate of enterprises with large growth potential.

Corporate ICT usage is getting up-to-date slowly

Usage of IT applications in the business and private sphere that can potentially increase the productivity and communication skills of the enterprises is below the European level, although recently our backlog in terms of information technology usage has decreased. Relative level of telecommunication and IT expenditures is basically comparable to the EU average (however the high level of telecom expenditures are partly due to the high price level that can be rather considered as a competitive disadvantage).

¹⁸ Several analysis has proven that there is a strong correlation between the ICT competencies of the employees and the productivity, see for instance: OECD Information Technology Outlook 2004, OECD: New Perspectives on ICT Skills and Employment, 2005, McKinsey Global Institute: How IT enable productivity growth.

¹⁹ IT skills of the workforce – if enterprises and private users have appropriate level of access to ICT facilities – are important factors in encouraging the spread of distant learning (that is an important element of lifelong learning) and distant work, so growing its level apart from the direct growth of productivity level could also help to increase the flexibility of the labour market.

²⁰ Eurostat

²¹ IDC market research institute has been commissioned by Cisco Systems to conduct a survey in 31 countries – among others in Hungary. Based on the research results, there is a shortage of 3200 network experts, which can grow to 6900 people by 2008. In the fields of the development of advanced technologies for e-business (and e-government) the current shortage of 2100 people can grow to 4800 people by 2008. At the moment Hungary ranks 17th of the European countries participating in the survey. Shortage of experts can be a serious challenge for the organisations, that is an obstacle to their development, and it is against the spread of advanced technologies, as well as hampers the economic growth.

Computer usage strongly correlates with the size of the enterprises, however according to the regular study of MoET the rate of small enterprises having computer and access to Internet connection is also growing, and this way they can get up to the level of larger companies. While at the end of the 90's the rate of small enterprises using a computer was below one-third, it grew to more than 85% by 2006.¹ The rate of enterprises having Internet access has also grown rapidly, and it is below 50% only in case of the enterprises having no employee, in case of small enterprises it is nearly 80%. The usage of basic ICT infrastructure is only in case of micro enterprises below the desired level, however the quality of the available infrastructure is often low, and the age and the rate of obsolescence of the IT tools is high.

Level of ICT infrastructure by the number of employees (%)					
	0 employees	9 employees	10-49 employees	50 or more employees	Total
Computer	43.4	70.5	90.5	100.0	51.9
Internet connection in the total sample	28.0	50.4	77.3	94.4	35.7
Own homepage in the total sample	6.1	17.1	40.5	72.2	10.6

Source of data: MoET: Factors influencing the competitiveness of small and medium sized enterprises after accession to the EU, 2005

At the same time, the Internet usage of the Hungarian enterprises is so far rather limited: primarily they use it for getting information, keeping contact with the clients and managing their financial affairs. Only 30% of them use the Internet for keeping contact with the authorities, and 14% to get permissions from the authorities. Limited Internet usage is partly explained by the high rate of narrow band, analogue and ISDN access. While the EU member states have more than 50% corporate broadband Internet penetration, in Hungary this rate is achieved only in case of Budapest, the backlog of the enterprises in the countryside is significant (about 10 percent).

Accordingly, less than 40% of the enterprises have a homepage of their own, and most of these are suitable only for the introduction of their business activities (90%), receiving messages (79%), and orders (66%). Only one quarter of the electronic orders can be paid on-line through the homepage of the enterprises, so the rate of on-line sales is low within the total sales of the enterprises.

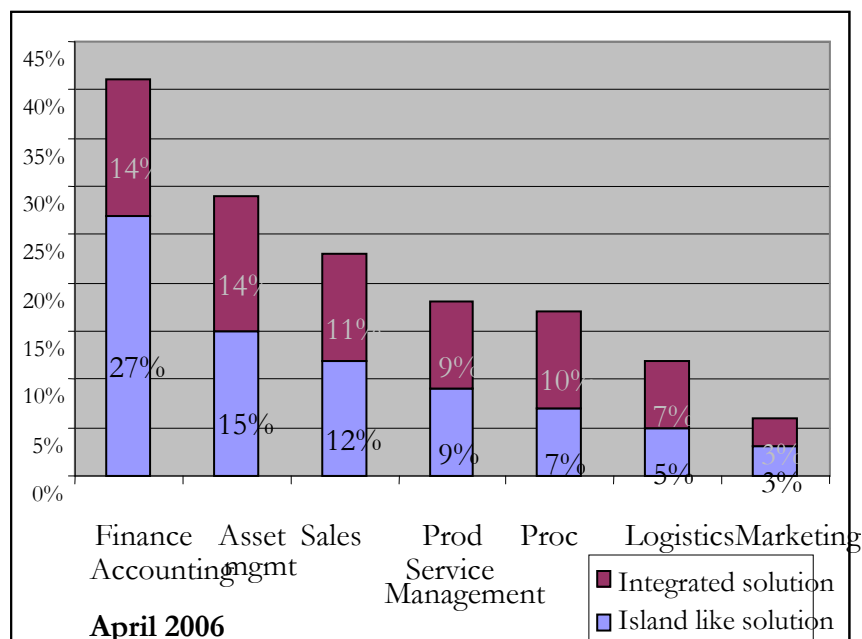
²² *Source of data: GKIeNet Corporate survey April 2006*

Internet usage of the enterprises by the number of employees (%)					
	0 employees	9 employees	10-49 employees	50 or more employees	Total
To get information	94.5	95.6	97.0	94.4	95.1
Keep contact with the clients	73.3	77.6	81.8	83.3	75.6
Manage financial affairs on-line	36.9	43.6	62.1	83.3	42.4
Keep contact with the authorities	24.3	32.9	43.9	76.5	30.0
Sales	25.3	29.5	36.4	47.1	28.1
Internet phone calls	13.8	18.9	15.2	27.8	15.8
Getting permissions	10.7	14.9	25.8	35.3	14.0
Other	6.7	6.6	9.1	5.6	6.8

Source of data: MoET: Factors influencing the competitiveness of small and medium sized enterprises after accession to the EU, 2005

IT systems are so far used at some of the (mainly financial) fields of corporate operations by large enterprises. Rate of added-value corporate process integrations and contents are low, knowledge, technology and information technology related synergies are not utilized. Although most of the Hungarian enterprises use different IT systems to support their business procedures, most of these are handled as separate islands, so they do not fully utilize the opportunities offered by ICT for growing productivity. Typically only large enterprises use integrated management systems (according to the GKIEtNet 2006 study 72%), followed by the middle sized enterprises with significant backlog (34%). At the small enterprises level, due to the incomplete basic IT infrastructure and IT skills, at the moment typically the IT support of accounting and financial procedures is provided, however there are also in these fields mostly „island like” solutions applied.

Application of company management systems (by companies having PCs and more than 5 employees, %)



Source of data: GKIeNet Corporate survey April 2006

1.5. BUSINESS ENVIRONMENT

Unfavourable environment in terms of international comparison

According to the World Bank’s Doing Business ranking published annually, which evaluates 10 main dimensions of the business environment: Hungary ranks 55th of the 155 countries that has been analyzed, and with this result it is only ahead of Poland and Slovenia out of the Central-Eastern-European countries that joined the EU in 2004.

Although in certain fields (like the financial intermediary system) we still have an advantage that we got in the 90’s, overall the survey shows that by now Hungary has rather a medium position in the region. Out of the ten indicators, Hungary has a significant disadvantage in terms of dealing with licences for new investments (ranks 119th), as well as registering a real property ownership is a long and (getting rather) costly process. Tax rates for enterprises is high (56.8% of gross profit), and the administrative duties of tax payment take significant resources (ranks 98th worldwide). Hungary has neither good position in terms of the protection of (minority) investors (ranks 84th), nor hiring and firing costs, and its performance is also weak based on the indicators summarizing work hour regulations.

According to the data of the World Bank, having 6 administrative procedures to launch a business, Hungary ranks middle in the EU. At the same time it takes 38 days to start a business, the procedures are costly, and the level of the minimum capital required is high. The conditions for closing a business (defined by the indicator of capital-rearrangement) are also unfavourable in Hungary, while in most of the European countries it takes one year, based on the Hungarian practise it takes two years. Closing a business in Hungary is an expensive process, and the recovery rate that shows the rate of the capital that can be recovered at the liquidation of the insolvent firm is a low rate of the claim.

Starting a Business				
	Number of necessary administrative procedures	Time	Cost	Min. capital.
	number	day	% of GNI per capita	
Europe and Middle-Asia	9	36	13.5	49.1
OECD	6	19	6.5	28.9
Hungary	6	38	22.4	79.6
Closing a Business				
	Time	Cost	Recovery rate	
	years	% of estate value	%	
Europe and Middle-Asia	3.5	14.0	29.8	
OECD	1.5	7.6	73.5	
Hungary	2.0	14.0	35.8	

Source of data: World Bank, *Doing Business*, <http://www.doingbusiness.org/>

According to the evaluation of the World Bank in the past year there was a significant progress only in terms of the time required to start a business (38 days in 2006) and the costs required (as a percentage of income per capita).

Domestic enterprises are also unsatisfied with the business environment

According to the regular survey of MoET (Ministry of Economy and Transport), the Hungarian business-investment environment is criticized even by the enterprises, first of all the extent of transaction costs and the administrative burden, however uncountable economic regulations and the funding problems of SMEs also cause competitive disadvantage.

It adds to the relative labour costs that the rate of the contribution is higher than in the countries of the Central-Eastern-European region. High level of tax and contribution burden moves the enterprises and private individuals towards grey economy. Though there have been already steps made in this field, the administration duty of enterprises is still too high, and public administration is slow.

Due to the restricted supply of online corporate and public administration content, as well as the high costs of Internet access²³ – in spite of the government efforts made in the recent years – PC and Internet penetration of the domestic households is low. In 2005 42% of the households had a PC, and only 22% of the households have Internet access. 11% of the households had broadband Internet access, that is about half of the total number of Internet connections. Currently, about 10-15% of the population lives in an area having no broadband Internet access. As for towns, cities and villages without broadband Internet-connection, 25-30% of the 3147 Hungarian towns, cities and villages do not have broadband connection at all. Limited availability is significant of underprivileged or dispersedly located towns, cities and villages of difficult access, where establishment costs are higher due to natural features and long distance from the main network. The few number of inhabitants limits economies of scale, and results in lower demand, as well as smaller ROI covering a longer period. Commercial incentive of broadband Internet-establishment

²³ According to the study that has been conducted by Arios Kft in the frames of the NSZS 2005 project that deals with the development of the National Broadband Strategy, while previous research results have shown the lack of interest is the main obstacle to the spread of the Internet, in 2005 all the three groups of the respondents (surfing on the Internet, planning online purchase, not planning online purchase) mentioned the high price of the access as the main obstacle. Based on OECD data, calculated at purchase power parity, the fee of broadband access is more expensive than in Hungary only in 7 OECD countries.

proves to be insufficient here. Due to market dissatisfaction, broadband services cannot be provided to households and enterprises on these towns, cities and villages without government intervention over the short and middle term, digital and economic gap may widen further. Infrastructure is of key importance for the operation and development of enterprises, and also provides means to fulfil municipality related duties.

Rate of the households having a PC as a percent of total population, %²⁴				
	2002	2003	2004	2005
EU-25			54	58
EU-15	50	56	58	63
Hungary	32	42	32	42

Source of data: Eurostat

Rate of households having broadband Internet access as a percent of total population, %		
	2004	2005
EU-25	14	23
EU-15	no data	25
Hungary	6	11

Source of data: Eurostat

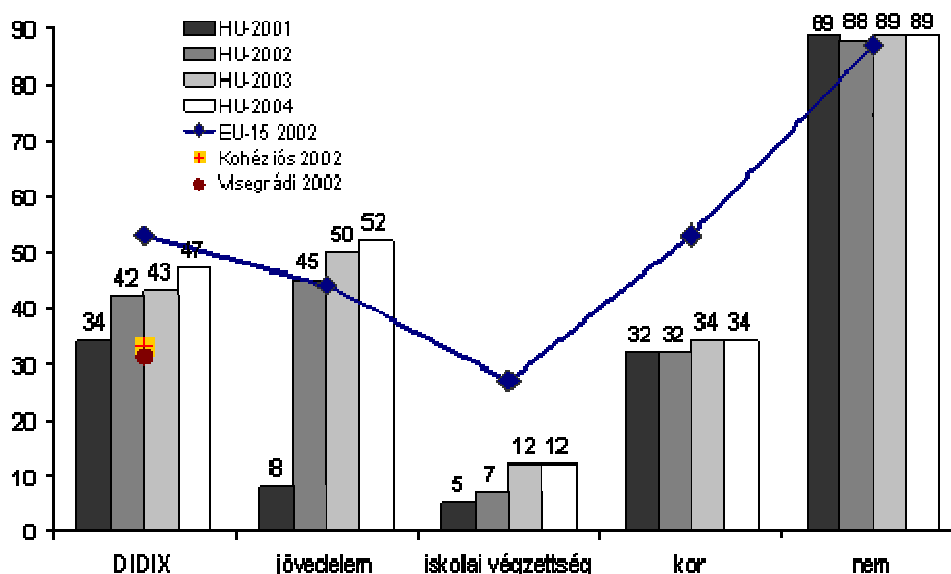
Low level of the digital skills and digital division in terms of private individuals' Internet access are problematic, however the value of DIDIX comprehensive divide index is improving year by year.¹ Education and age have the strongest correlation with the size of the gap. We are also lagging behind the EU-15 average in the above areas, while gender hardly determines Internet usage. In addition to these, there are significant differences in the access to information by the type of the location.

²⁴Both tables (PC and internet access) list households with couples of age bracket 16-74 years.

²⁵ Achievements of the information society, like participation in electronic administration, can be fully utilized only by computer and Internet literates.

²⁶ Digital Divide Index is a composite measure, which shows the differences in Internet access and usage of four so called risk groups (by income, education, age, and gender) vs. society average. The value of the indicator is 100, if there is no difference in the value of the risk group and the society average, the bigger the difference, the lower is the value of the indicator (100 is the best value).

Digital divide index in Hungary and the EU in 2001-2004



Source of data: WIP report 2004, SIBIS

Remark: DIDIX – see Footnote 25. jövedelem = income, iskolai végzettség = level of education, kor = age, nem = gender

Logistics potential of the country is to be utilized

Hungary’s geographical position is favourable from logistics point of view– due to the 4 TEN-T corridors that runs through the country, as well as due to the non-EU member neighbouring countries.

According to the „European Logistics Report” Hungary’s position improved among the countries that can offer the best conditions to establish logistics centres.

Ranking of the aspects of establishing a logistics centre			
Countries	2001	2003	2005
Belgium	1.	1.	1.
France	4.	2.	2.
Holland	2.	4.	3.
Czech Republic	5.	5.	4.
Poland	7.	6.	5.
Germany	3.	3.	6.
Hungary	10.	8.	7.

Source of data: Cushman & Wakefield Healey & Baker: European logistics report [2005]

The establishment of logistics centres has started in the mid 90’s. Large scale investments were made especially in the Budapest conurbation, where between 2001 and 2004 the total area of newly built warehouses has nearly quadrupled between 2001 and 2004. After the saturation of the capital and its neighbourhood, a similar development is expected at the established highways.

Centres play an important role, since through their complex, value added services provided mainly for SMEs, transaction fees decrease, and the timings of the transfers can be improved. From environmental point of view intermodal logistics centres (that can link ways of transport) have high priority, their development requires more intensive support. This way we could also utilize the fact that to the West of Hungary road transport, while to the East of Hungary rail transport plays a leading role in terms of the transport of goods.

Intermodal logistics centres facilitate cleaner transportation, their support is in line with state aid regulations, EU transport policies and prospective logistics action plan. Regional logistics centres located within industrial parks or in their vicinity help SMEs to be competitive with providing high added value services at lower (transaction) costs. They facilitate co-operation among actors in order to improve the operation of logistics centres.

SMEs typically do not use advanced services

In terms of the intercorporate division of work, enterprises purchase primarily tax and accounting services to the highest extent, and in addition to that first of all legal, IT, advertising, and technical services. The different kinds of services are used by micro enterprises less than the average, while by small and medium sized companies more than the average rate. Innovation services, supporting market launch give only a smaller proportion of the services, they are typically used by middle sized companies.

Frequency of services purchased by SMEs by the number of employees					
	0 employees	9 employees	10-49 employees	50 or more employees	Total
Tax and accounting services	56.3	69.0	73.5	66.7	59.9
Legal services	15.0	28.5	51.8	61.1	20.0
IT services	14.1	27.4	49.4	55.6	18.9
Advertising services	12.7	28.5	41.0	44.4	17.7
Technical/technological services	10.5	20.2	37.3	50.0	14.2
Quality insurance services	3.7	8.8	33.7	50.0	6.5
Credit/investment services	3.6	9.2	21.7	22.2	5.8
Application documentation	2.8	9.0	22.9	38.9	5.4
Market research	3.2	6.1	10.8	16.7	4.3
Business plan preparation	3.2	4.7	14.5	11.1	4.1
Other services	2.7	3.6	9.6	16.7	3.3

Source of data: MoET: Factors influencing the competitiveness of small and medium sized enterprises after accession to the EU, 2005

Enterprises of different size turn for advice and information to different institutions. For micro and small enterprises family and business partners, while for middle sized enterprises, banks and consulting firms are the main sources of information.

SMEs: Who would you turn to for business advice? (Ranking)					
	0 employees	9 employees	10-49 employees	50 or more employees	Total
Family, relatives, acquaintances	1	1	3	8	1
Business partners	2	2	1	2	2
Corporate interest representation organizations	3	5	6	5	3
Professional alliances	4	4	5	4	4
Banks, financial institutes	5	3	2	3	5
Consulting firms	6	6	4	1	6
Economic Chambers	7	7	7	6	7
Municipalities	8	8	8	7	8

Source of data: MoET: Factors influencing the competitiveness of small and medium sized enterprises after accession to the EU, 2005

1.6. EXTERNAL FINANCING OF SMEs²⁷

Credit accommodation of smaller enterprises is not solved yet

According to the surveys on credit accommodation²⁸, the Hungarian banking sector has started to focus on the SMEs sector since 2001 to a higher extent. The reason for that is that the banks were not able to achieve outstanding growth on the market of large enterprises, so the more intense competition has led to the ease of credit assessment standards. In spite of that, Hungarian firms (especially micro and small enterprises) are able to get less external resources to finance their growth, than enterprises operating in developed countries. The credit-GDP ratio of the Hungarian non-financial enterprises is lower than the EU-15 average., that has - due to the decreasing of economic growth rates, and the high level of domestic interest rates that have caused temporary downswing –has hardly grown from 24.0% and in 2005 it was 25.7%, in spite of the fact that according to a survey conducted for MoET the respondent banks have considered the credit demand of the SMEs sector during the period of 2003 and 2005 to be always very high.²⁹

The reason for the high credit demand of SMEs is that the growth of the enterprises generates higher financing needs. On one hand the expansion of production requires higher level of the funding of current assets, on the other hand it generates higher financing demand for additions of the assets, thirdly additional costs are generated in line of the necessary development of the organization. In the light of that, experts participating in the study commissioned by MoET have agreed that credit accommodation of the SMEs sector may develop dynamically, however it is still typical, that a significant proportion of the smaller enterprises are not the target group for the banks' credit financing activity.

²⁷ Access of the small and medium sized enterprises to financing resources, analysis of market failures. Based on the Laying the foundation for the financial measures of the Economic Development Operational Programme (GKM, October 2006), the so called JEREMIE Gap analysis.

²⁸ Survey among credit managers, analysis of the banks' crediting practice. Hungarian National Bank, March 2006.

²⁹ Overview of the external financing of micro small and medium sized enterprises in 2000-2005, ICEG, MoET, April 25, 2006.

Corporate credit amount disbursed to corporations by the domestic banks as a percentage of GDP							
	1999	2000	2001	2002	2003	2004	2005
Total corporate credits	21.0	23.4	22.1	19.9	21.9	22.9	24.4
Out of which: Credit amount of SMEs	4.1	6.9	8.9	8.6	9.6	11.2	14.0

Source of data: Based on the data of Hungarian Financial Supervisory Authority, HNB, Central Statistical Office

Leasing market finances first of all non-corporate investments

The leasing market has crucial importance in financing the investments of SMEs lacking funds, hence asset backed leasing transactions can be realized also with low level or zero level of own resources and loan payment can be planned and scheduled years ahead. In line with that, the leasing market has developed a lot in the past years, though at a slowing rate. Today it plays an important role in satisfying the financial needs of the economy also in European comparison: in 2000 it has given about 3% of the GDP, while already 5,4% in 2005, that is similar to the other newly joined member states, and is well over the EU average (of 2.3%). At the same time, a motor-car lease has a significant share of about 70% of the total lease market, that is not closely connected to actual business activities, while lease of commercial vehicles, as well as machinery and equipment lease accounts for only 10%-10% of the market.

Annual leasing market as a percentage of GDP in Hungary						
	2000	2001	2002	2003	2004	2005
Without motor-cars (%)	1.5	1.5	1.3	1.5	1.4	1.7
With motor-cars (%)	3.1	3.8	4.8	5.2	5.3	5.4

Source of data: Central Statistical Office, Based on the calculations of the Hungarian Leasing Association

Factoring is a low volume market

According to the data of the Hungarian Factoring Association, annual factoring turnover has grown at a dynamical and balanced rate between 1999 and 2005, achieving a total turnover of HUF 473 billion (at the value of assigned claims), that is an annual average growth of 32.3% in real value. In spite of that, the Hungarian factoring market significantly lags behind both the West European and Central-Eastern-European average in terms of both the turnover/GDP and the number of clients. In Hungary only 2-3% of the short term financing solutions is factoring, while in the developed EU member states this rate is around 10%. Accordingly, the Hungarian factoring market has significant growth potentials: primarily because of the low base level, the current rate of 30-40% turnover growth can remain stable, however to keep the desired growth this financial service should be stimulated by state support.

Stagnating level of bond credit

In Hungary the Credit Guarantee Pte Ltd. (Hitelgarancia Zrt.) covers less than 10% of the credits of small and medium-sized enterprises. The structural composition of the guarantee of Credit Guarantee Pte Ltd did not change significantly in 2005 compared to the previous years. The act of honour of the corporation is still used by the banks mainly in case of the transactions of

³⁰ Factoring can play an important role in the insurance of the liquidity of the enterprises, however in the Hungarian market practices it is merged with receivable management which also creates significant market problems.

smaller enterprises to reduce crediting risk. Guarantees have helped mainly micro enterprises, 78% of the contracts, and nearly 50% of the guarantees have supported this entrepreneur sphere.

Coverage level does not grow, however based on international experience credit guarantee is the most suitable means of stimulating credit accommodation of small and medium-sized enterprises.

Role of state guarantee: guaranteed credits as a percentage of total credits provided						
	2000	2001	2002	2003	2004	2005*
Total SMEs	9.5	8.5	10.5	8.7	9.4	8.0
Micro	14.0	6.2	5.0	6.2	10.9	11.6
Small	10.9	13.6	16.4	12.8	12.7	7.1
Medium-sized	6.4	13.1	12.6	9.0	6.8	5.5

Source of data: Credit Guarantee Pte Ltd, Hungarian Financial Supervisory Authority

** Comment: 2005 year data are not fully comparable with the previous data due to methodological changes (new definition of SME)*

Not enough venture capital in the pre-seed phase

According to the data of Hungarian Venture Capital and Private Equity Association in 2004 venture and private equity investors have financed 34 companies in 41 transactions, that has been followed in 2005 by 30 transactions, however each having on average nearly twice as high value as previously. In spite of the fact, that venture and private equity investments have had a favourable growth in Hungary since 2000 that is comparable to the Central-Eastern-European trends, private equity investments/GDP ratio (about 0.1-0.15%) is much lower than the EU-15 average of about 0.3%. It is a typical market failure that the lower and middle segment of the market is permanently underfinanced, at the same time the number of large scale transactions is stabilizing, and the average amount of investment is growing.

Venture and private equity investments in Hungary, 2000-2005.									
Amount of business transactions	2000	2001	2002	2003		2004		2005	
	number	number	number	number	M. €	number	M. €	number	M. €
below EUR 1 million	32	17	14	19	4	22	9	18	5
1-2.5 EUR million	7	5	7	9	15	11	17	4	5.4
2.5-5 EUR million	7	3	2	0	0	1	3	1	2.6
5-15 EUR million	7	3	3	1	13	5	37	2	18
More than EUR 15 million	0	0	3	3	85	2	42	1	100
Total amount of business transactions	47	28	29	32	-	41	-	26*	-
-Total amount of business transactions (EUR million)	111	71	127	-	117	-	108	-	131
Average amount of business transactions (EUR million)	2.4	2.5	4.4	-	3.7	-	2.6	-	5.0

Source of data: *Venture capital and private equity study of the Hungarian Venture Capital and Private Equity Association, 2005.*

*Remark: Total number of transactions was 30. However the amount of four transactions was known, so they were not included in the statistics.

A study commissioned by MoET³¹, based on the analysis of the business promotion and capital financing system of the Hungarian state as well as international examples has made the following recommendations:

- In the early stage corporate management skills are incomplete, business propensity rate is too low, this is why first of all there is a need for the active role of the state in the fields of consulting and education, technical support can have great importance.
- The continuity of corporate financing is problematic, financing gaps should be filled:
 - by state financing that is needed in the pre-seed, seed capital and early stages
 - by private capital involvement.
- Early stage state support and venture capital financing, and a higher involvement of the private sphere are needed.

Overall, it can be concluded that though there was a progress in the past years, the financial sector has limited contribution to the financing of SMEs. There are major factors that cause **market failure**, that are well-known in the other EU member states: information asymmetry caused by the fact that commercial banks have few background information about the enterprises due to the short time of their operation, as well as the problem of economies of scale, namely that financial service providers have high level of average fixed costs. To solve these problems, it is necessary to support bridging institutions (that would be able to supply small enterprises with information and opportunities, providing them with business management, market access, partner search and application consulting services), as well as to apply targeted intervention (first of all increasing the supply of financial instruments that are also available for SMEs).

³¹ Draft proposal on the main conditions of the business promotion and capital financing system of the Hungarian state, August 10, 2006. Prepared by the Corvinus Group

1.7. GENERAL STATE OF THE LABOUR MARKET

The key and country specific characteristic of the labour market, as well as the obstacle to employment increase is the low participation on the labour market. Parallel to the low employment level, the unemployment rate is rather low in comparison with the EU corresponding data, while the proportion of economically inactive population is still high.

Key indicators of the labour market (%)				
	Employment rate (2005)	Unemployment rate (2005)	Rate of inactive individuals (2005)	Rate of employed population of Roma origin* (2003)
Men between ages 15-64	63.1	7.0	32.0	28
Women between ages 15-64	51.0	7.5	44.8	15.1
Population between ages 15-64	56.9	7.2	38.6	21.4
Population between ages 15-24	21.8	19.4	72.9	no data
Population between ages 55-64	33.0	3.9	65.7	no data

Source: Central Statistical Office

*Kemény-Janky-Lengyel (2004) A magyarországi cigányság, 1971-2003. Gondolat Kiadó – MTA Entikai-nemzeti Kisebbségkutató Intézete

Employment

In 2005, 56.9% of the active population (63.7% of men, 51% of women) aged between 15-64, a total of 3,878,600 people were employed, the rate of activity was 61.4% in the age group suitable for employment. Compared to the EU corresponding data, the employment rate of both men and women lags behind the average, but the difference is a lot more significant in the case of men.

If we examine the distribution of employment by age, the past years show a shift towards the employment of the elderly. The employment rate of young people aged between 15-24 decreased by 10% in 2005 compared to the figures of 2004. On the other hand, the employment rate of the elderly aged above 50 increased during the same period. Growth of the largest scale was found in the age group 55 to 59, where the number of employed people increased with 8% during a single year.

Unemployment

The unemployment rate of people between 15 and 74 was 7.2% (men: 7.0%, women: 7.5%) in 2005. This means a 1 percentage point increase compared to the previous year, and proves to be the result of deferred retirement age, as well as the decreasing number of opportunities of employment for the first-time job-seekers. The unemployment rate of women had been lower as that of men in the nineties. Later the two converged, and finally, in 2005 the unemployment rate of women turned out to be higher than that of men. More than 43% of the unemployed happens to be in the most active age group, that of 25 to 39, while the smallest amount (5.2%) of the unemployed is aged between 55-64. The highest unemployment rate is that of the young people aged between 15-24 (19.4%).

Some reasons of unemployment are of structural characteristic, namely they turn out to be the results of unfortunate concurrence of demand and supply. The areas having the largest number of competitive and development reserves show a smaller level of unemployment compared to others, at the same time the lack of training starts to become a problem in these areas as well.

Underprivileged Groups in terms of the labour market

Population of Roma origin

The employment of Roma population lags far behind the national average. Estimates show that the employment level of the Romas is less than half of the employment data of the non-Roma population. Also their unemployment rate is three to five times higher than that of the rest of the nation, the number of dependents of one salary-earning member is three times higher.¹ The national representative sample of the Roma population, taken in 2003, showed that the employment rate of the Roma population at employment age is only half of that of the nation's total population at employment age. The average unemployment rate of the Roma population is 40%, but in some highly undeveloped regions of the country it is as high as 90%.

Employment of people with reduced capabilities and disabilities

People with reduced capabilities, mental disabilities and other disabilities are put in a very difficult position on the labour market. According to census returns of 2001, the employment rate of those declaring themselves as people with disabilities was around 9%. The labour market survey of 2002 showed a 12% employment rate of people with disabilities aged between 15-64. Their unemployment rate at the time of census was 18.4%. People with disabilities are also characterized by the accumulation of disadvantages. Their employment opportunities are strongly limited by their low level of education. Most of them were only educated in elementary school.

Women

The employment of women is (also) low in Hungary - only every second woman at employment age has a job. In recent years the unemployment of women increased at a higher rate than that of the men, and in 2005, for the first time since the change of regimes, it even surpassed the latter (7.6% and 7.1% among those at employment age, and 7.5% and 7.0% among those aged between 15-64.)

³² Since Hungarian law prohibits ethnicity based data collection, we have no proper data available

1.8. EXPERIENCE OF 2004-2006 PERIOD

Hungary commenced to use structural funds in the 2004-2006 period, in the frames of the I. National Development Plan implementing the Economic Competitiveness Operational Programme (ECOP). ECOP uses 22,5% of the resources of the Community Support Framework, its three years support allocation is EUR 606.5 million, about HUF 150 billion. (150, HUF billion)

The implementation of NDP1, and within that the implementation of the ECOP (2004-2006) has been started as the first one of the newly joined member states. Calls for application of the ECOP have been announced on 31 January, 2004 and they have been opened for the applicants on February 16, 2004. To fulfil the objectives of the operational programme, 23 calls for applications have been announced and 2 central programmes have been prepared in 2004. In 2005 19 calls for applications have been re-announced, and the two central programmes have also been started. In terms of absorption ECOP has been more successful than it had been expected, the programme is expected to achieve the absorption target, the widest coverage of the resources.

In total 21,392 applications have been submitted to the Management Authority and the contributing organizations by November 15, 2006. Management Authority has reached a final decision on 15,751 applications, and 10,601 applications have been approved.

Concerning the applicants it can be concluded that, in line with the initial expectations, micro, small and medium sized enterprises (SMEs) have submitted most of the applications (in total 91.5%). From the ECOP priorities, call for applications linked to Priority 2, the development of small and medium sized enterprises has received the highest number of applications (76.2% of the total number of applications).

Implementation of the ECOP applications, (number)			
Priority number and title	Number of applications submitted	Projects approved by the MA	Approved applications
1. Investment promotion	700	443	351
2. Development of small and medium sized enterprises	16 302	12 030	8 598
3. Research & Development and innovation	2 046	1 822	986
4. Development of the information society and the e-economy	2 201	1 359	582

Source of data: SMIS (Standard Monitoring Information System) 15 November 2006

A high number of applications have been submitted concerning the call for applications of the ECOP from all regions. Of course Central Hungary region has an outstanding position due to its central location. The reason for that is that the main objective of the operational programme, namely to increase economic competitiveness will be primarily achieved in that region, that has appropriate level of infrastructure and logistics background, as well as human resources are available.

Management Authority has approved by 15 November 2006. 10,610 applications, the approved amount of assistance was in total EUR 638.44 million (HUF 169,186.660 million). 9,012 bilateral contracts for assistance have been signed in the value of EUR 541.95 million (HUF 143,617.95 million). The reason for the overrun of the 3 years financial plan was that in case of certain

applications – to counterbalance the decrease in the commitments due to future withdrawals and dropouts – it was possible to overrun the financial plan to a small extent. Accordingly, the approved projects cover at the moment the three-year financial plan of the OP, contracted value of the assistance is 89,4 % of the OP. Total investment value of the contracted projects is EUR 1,111.2 million (HUF 294,471 million).

By November 15, 2006 assistance worth of EUR 270.12 million (HUF 71,581.2 million) has been allocated, out of that EUR 204.82 million (HUF 54 278.4 million) was based on the clearance of accounts. Based on the declaration of expenditure, remittance of EUR 198,92 million has been received from the European Commission (from which EUR 68.64 million has been advanced payment), based on that 46.37%- of the 3-year financial plan has been reconciled with The European Commission.

As a result of the relationship between ECOP and tender 3.4.1 of HRDOP, the objectives of the two OPs complemented each other successfully. Tender 3.4.1 of HRDOP was issued in April 2005, and closed in March 2006. The competitors who received assistance from ECOP, gained bonus points on tender 3.4.1 of HRDOP. Due to this reason, 30% of winning competitors of HRDOP eventually realized investments supported by ECOP.

In the first quarter of 2006 has the first ex-ante evaluation of ECOP been made. Based on their experience, the evaluators have made remarks and recommendations on the structure, strategy, interventions, implementation, and institutional framework of the ECOP that has been valuable inputs for the planners of the current period. Their key findings for the planners were the following:

- The highest level targets of ECOP are well set, they reflect a modern vision, they are acceptable, however, they have not always been coupled with measures or calls for applications that are easy to implement. The implementation of ECOP follows the structure of the previous application system. It is to be cleared, how important objectives of the programme are the creation of work places as the reduction of regional differences.
- Target groups have not been clearly defined by the strategy of the priorities of EDOP, consequently in certain cases their development opportunities and needs were not properly assessed, that has made accurate planning of the implementation (in terms of the actual intervention procedure, application targets, conditions and project evaluation criteria) more difficult. This is why at the planning phase of the Economic Development Operational Programme (EDOP), more focus should be given to the **easy implementation of the strategy from professional and technical point of view.**
- The current ECOP application scheme usually does not support complex development including various activities, although from development policy point of view, complex development of the target groups would be more desirable.
- As a part of the horizontal activity of the MA of ECOP, the application of the principles of equality of opportunities, prohibition of discrimination and environmental sustainability were assessed among the beneficiaries. The questionnaires could have been returned by the beneficiaries voluntarily. Based on the returned questionnaires it can be concluded that GVOP supports have increased sectoral segregation.

The most important recommendations of the assessors concerning strategic programming and project handling for the period of 2007-2013 were the following:

- Apart from keeping the absorption targets, strategic approach should get more emphasis, striving for the clear definition of the objectives at the intervention areas of strategic importance, as well as for the mapping of the effect mechanism and the expected impact of the intervention.

- The actual content of the call for applications should be more consistent with the strategy of the programme.
- Target groups have to be defined, assessing their needs and development opportunities, matching the intervention to them.
- In order to increase regional cohesion, it is necessary to integrate regional dimensions into every phase of the planning process (situation analysis, objectives and programme strategy, project selection system, monitoring and evaluation system).
- Also project generation activity should get more focus, especially in case of the new target groups that have no application background, as well as in case of those who require it (organisation of information days, specific consulting, perhaps in the frames of an activity that can be linked to a project channel).
- Also project generation activity should get more focus, especially in case of the new target groups that have no application background, as well as in case of those who require it (organisation of information days, specific consulting, perhaps in the frames of an activity that can be linked to a project channel). for instance in case of the larger scale, more complex projects even within the open application procedure a two-round application system could be introduced
- In the field of innovation a chain of interventions that is built on each other is needed (within a coherent national innovation system), that could help the innovative enterprises in different phase of their development curve.
- Objectively assessable criteria should get more in the foreground, and it would be reasonable to strengthen transparency, however in case of professional or strategically oriented aspects it is not worthwhile to rely on them too much.

Concerning the indicator system of the ECOP, the evaluation has made the next statements: the indicator system could be used in a limited way, due to the nature of the OP, the short programming period of 2004-2006, as well as the inadequate monitoring experience. Therefore from the possible usage areas of the indicators project selection and evaluation can be applied, while programme monitoring is less important. In the indicator system of ECOP sometimes the direct link between the different levels of indicators is missing (aggregation problem), that makes both the collection and interpretation of indicators more complicated. The programme level impact indicators used in the period of 2004-2006 (gross value added and job creation) can be considered relevant only in case of the No. 1 and 2 priority interventions of ECOP, and are less related to priority measures of No 3 and 4.

During the planning of the Economic Development Operational Programme (EDOP) a strategic indicator system should be developed that overall covers well the entire OP, and is relevant concerning the most possible interventions, at the same time more emphasis should be given to all the needs of the users related to the programme indicators.

³³ See the applicable project selection systems in Section 6.2.

1.9. SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Hungary has a favourable geographic position from logistics and cultural point of view ▪ There is at certain areas significant scientific capacity, participation in international co-operations ▪ Foreign working capital in-flow is continuous, multinational companies are permanently present in the economy ▪ Significant, in certain elements developed ICT sector 	<ul style="list-style-type: none"> ▪ Competition is not intense enough in the network industries (telecommunication, public services) and in the fields of financial services, government purchases do not stimulate competition ▪ Low level of saving rate, underdeveloped financial culture ▪ Uneven regional development ▪ Labour market related problems (low level of activity and employment, concealment of labour incomes, lifelong learning is not typical, mobility of the workforce is low, flexible and atypical forms of employment are not widespread) ▪ Number of employees having base level of entrepreneurial skills, IT education, language skills and other key competencies is low, especially working at SMEs ▪ Low level of R&D expenditures, capacities and innovation activity of the enterprises, especially in case of SMEs ▪ Link between the Public research institution system and the production sphere is weak, transfer procedures are underdeveloped ▪ Fragmented research activity and R&D infrastructure ▪ Few number of small and medium sized enterprises having great growth potential ▪ High proportion of the enterprises having low production and technology level, as well as low level of efficacy in terms of energy usage ▪ Micro and small enterprises get hardly access to financial resources (capital, credit) ▪ Low level of ICT usage compared to the EU-15 ▪ Domestic SMEs are not prepared enough to internationalise their activities, and to appear on the single market

Middle term trends that were considered during the planning phase:

- Increasing globalisation of the world economy stimulates competition
- Further integration to the single European market
- Continuing, slow convergence and joining of Euro
- Increasing world market prices of energy and raw materials
- Digital convergence, more intense co-operation of technological alternatives
- Growing integration to the European Research Area
- Enterprises will specialize in their core business
- Growing environment–consciousness of state and the society

Opportunities	Threats
<ul style="list-style-type: none"> ▪ Joining the Euro, exchange rate risk will be reduced/eliminated, transaction costs will decrease ▪ Strengthening regional positions of the domestic capital ▪ Through growing globalisation level of the world economy more resources, markets will be available ▪ Increasing demand for complex, environmentally friendly logistics services (eg. intermodal logistics) ▪ With the development and spread of ICT networking cooperations will be more intense ▪ Role of ICT will grow in the R&D and innovation activities ▪ Production sector can be integrated to the global corporate networks and production chains through multinational companies and their suppliers ▪ Involvement of the research locations in international cooperation 	<ul style="list-style-type: none"> ▪ Embedding of the multinational companies into the local economy is inadequate, so after loosing the expiring investment benefits and due to the increasing labour costs some of the companies might cut back their domestic activities ▪ (Digital, linguistic, cultural, regional) division of the society will grow further ▪ The opening of the European labour market will have a brain drain effect on the highly skilled experts and researchers ▪ Low level of energy efficiency, not adequately liberated energy market, and the one sided dependence on imports causes competitive disadvantage ▪ Adjustment to the strict environmental protection and other specifications due to the EU accession is costly

2. STRATEGY

2.1. MAIN OBJECTIVES OF THE ECONOMIC DEVELOPMENT OPERATIONAL PROGRAMME

Based on the National Development Policy Concept (OFK) the main objective of the Hungarian economic and social policy is the convergence (to the level of the developed EU member states both in terms of economic, employment, cohesion, standard of living aspects), that can be achieved only by keeping a growth rate that is higher than the EU average at a permanent level. In line with that, the overall objective of the New Hungary Development Plan (NHDP) as well as the Hungarian action plan of the Lisbon Strategy, the Revised National Lisbon Reform Programme For Growth and Employment 2005-2008 is the **increase of permanent growth** and employment.

Out of the programmes of the New Hungary Development Plan (NHDP) the Economic Development Operational Programme contributes in the most direct way to the achievement of the above growth objective, since its main objective is **to encourage permanent growth of the Hungarian economy** strengthening productive³⁴ sector's competitiveness.³⁵

Recommended indicators programme level:³⁶

³⁴ The definition of competitiveness specified in MoET's Competitiveness Concept is the following: The ability of the economy to provide the adequate supply of permanent growth factors, as well as the necessary conditions that enable the predominance of these factors. Accordingly, in the rest of the current document the concepts of "competitive" and "able to provide permanent growth" will be used as synonyms.

³⁵ In accordance with the original meaning of the English expression of „productive sector” we mean the entire production and service sector that conduct market activities to sell goods and services on the market.

³⁶ Based on document titled Guidelines to define OP indicators, drafted by NDA EÉM on 21 August 2006. Some remaining methodology related questions will be answered by the Indicator workgroup. No objectives can be quantified before the finalisation of financial table for the OP and the clarification of outstanding methodology issues.

Name of indicator	Target value (2010)	Target value (2015)	Initial context ³⁷
1. Growth of Gross Value Added (GVA) created by the corporate sector as a result of the programme	5%	4%	11 469 (2005, HUF billion, at basic price)
3. Gross number of new jobs created	10000	66000	2 777 (Jan 2007, million employees in corporate sector)
4. Change of e-business index (percentage value of best scoring EU member state)	64%	70%	56% (2006)
17. Private investments related to the interventions of the programme (<i>induced investment</i>)	140%	170%	no data (in percentage of state assistance)

(Competitiveness) factors generating permanent growth

Competitiveness Concept of the Ministry for Economy and Transport (MoET) has been prepared to ensure the economy and development policy based frameworks of permanent economic growth. The concept concludes that overall, based on growth and competitiveness theories, permanent growth can be attributed for similar factors according to most important international reports³⁸:

Employees contribute to economic growth through **employment**, while **investments** through capital stock that is through the available production factors. Apart from the supply of capital volume, **quality and structure of physical capital** also plays an important role in encouraging permanent growth through the development of Research & Development, innovation, and adaptability, spread of material and energy saving technologies, as well as through productivity improvement derived from the improving level of physical and ICT infrastructure supply. Quality of **human resources** through the development of education, abilities, as well as relation structure of the population can support the more effective combination of production factors, namely the growth of productivity. Finally, improvements in **total factor productivity** can be also defined separately as growth factor that is affected positively by the compulsion that is typical of competitive markets, the spread of higher value added activities and sectors, the ability of economic structural change, as well as the effectively operating governmental sector, and public administration.

Competitiveness concept, as well as the operation model defined within that is not the only economic strategy and theory based background material based on which the objective system and system of economic instruments have been developed. Apart from the Community Strategic Guidelines (CSG) that set the general framework of the operational programmes, and the New Hungary Development Plan, the strategic background of the Economic Development Operational Programme (EDOP) is based on the **technology and innovation policy strategy**,

³⁷ As every numerical indicator shows the changes directly resulting from the EDOP measures, their initial values are 0%. The assessment of the relative importance of the programme's effect is supported by the communication of the initial values of the base data, thus we find „initial context” in the table.

³⁸ The most important ones are the competitiveness reports of the World Economic Forum, the Swiss IMD research institute, the OECD and the EU.

³⁹ Government Decree 1023/2007.(IV.5.) on the Government's mid-term science, technology and innovation-policy strategy”.

as well as the SMEs strategy. Both strategies focus on the development of the quality growth factor of physical capital with economic policy instruments.

Although the intervention logic of the Economic Development Operational Programme (EDOP) is specific, it differs from those planned in the other operational programmes⁴¹ linked to the NHDP, analysing it based on this logic it can be concluded that the planned development policy interventions (as well as the general governmental economic policy interventions) that have planned in the frames of NHDP are, and overall, through the development of the level of all the growth factors they can contribute to the permanent growth of the Hungarian economy. At the same time, the Economic Development Operational Programme does not target to support all the above growth factors.

2.2. SPECIFIC OBJECTIVES OF THE ECONOMIC DEVELOPMENT OPERATIONAL PROGRAMME

Fulfilling the main objectives of the Economic Development Operational Programme, regarding the growth factors, it intends to contribute first of all to the development of the quality of physical capital. The support of extensive growth of employment and capital stock are limitedly suitable for serving as base for achieving permanent growth driven by the development of knowledge economy, this is why they have been targeted only in certain measures of the Economic Development Operational Programme (EDOP). Improvement of total factor productivity can be insured first of all through regulatory instruments, as well as by increasing of the operational effectiveness of the governmental sector. Out of the interventions planned in the frames of the Economic Development Operational Programme (EDOP) the development of the business environment is able to contribute to the largest extent. The development of the quality of human capital is the direct objective of the interventions of the so called “human” operational programmes, that is to be supported first of all in an indirect way by the Economic Development Operational Programme (EDOP) (encouraging economic co-operation, as well as making certain consulting and educational services accountable in the frames of the supported projects

To support the main objectives of the Economic Development Operational Programme (EDOP), namely the improvement of the growth factors that are able to serve as a base for the permanent growth of the Hungarian economy, the below specific objectives have been selected:

- **Increase in Research & Development and innovation capacity, activity, as well as co-operation** Exploitation of the R&D results, and in general innovation is the most important components of the improvement of the quality of physical capital that can directly contribute to the development of knowledge economy. At the same time, it assumes the development of both the research and innovation capacity, activity, as well as cooperation intention of the enterprises, the improvement of the R&D infrastructure, the targeted development of human resources, providing a financial base for the highly risky pre-competitive research phase and for the spin-off enterprises, and the effective involvement of the state in the research activities.⁴³

⁴⁰ On 7 February 2007 Hungarian Government accepted "long term conception for the development of SMEs for the 2007-2013 period".

⁴¹ See Section 2.5 on coherence.

⁴² Social Renewal Operational Programme (SOROP) and Social Infrastructure Operational Programme (SIOP)

⁴³ "R&D results" means the development and adaptation of new products, technologies and services.

- **Complex development of corporate capacities.** Our objective is to improve the quality and productivity of the physical capital of the enterprises – especially in the underdeveloped areas applying ICT –, in order to support the successful performance of the Hungarian enterprises having growth potential in the international competition, to encourage the establishment of high value added production and service activities in Hungary, as well as to reduce the backlog of the domestic SMEs sector in terms of productivity and income creation abilities compared to large enterprises and the foreign competitors (through the multiplier effect of direct supports and large scale investments producing high value added).
- **Development of the business environment.** Developed business environment, widely used business and ICT services can contribute to the effective operation of the competitive markets, and to strengthening of market positions, this way supporting the favourable performance of total factor productivity, furthermore, through the development of entrepreneurial and ICT skills they can also contribute to the improvement of the quality of human resources in an indirect way. The development of the infrastructure and usage of ICT are key areas of the business environment, that are – together with appropriate investments to human capital – indispensable to establish an information society, can directly support the development of the IT sector, as well as improving the quality of general physical capital (especially through the ICT-intensive Research & Development and innovation, as well as organisational and process management activities) can contribute to permanent economic growth.
- **To facilitate the access of SMEs to financing resources.** Our objective is to overcome the limited access to credit, capital and guarantee resources on the market, that is the most important market failure that hampers the development of micro and small enterprises, since the smaller enterprises, lacking market background can have financing gaps even in a developed business and financial environment due to the high level of average transaction costs, as well as the inevitable information asymmetry. Supporting these enterprises lacking capital to get access to financing resources as a result of the upcoming developments can contribute both to the increase in investments and the quality of physical capital.

2.3. STRATEGY OF THE ECONOMIC DEVELOPMENT OPERATIONAL PROGRAMME

Specific objectives of the Economic Development Operational Programme can be achieved only through the most important growth factors that are necessary to the desired achievement of permanent growth, by development policy interventions built on complex, integrated approach to the components of growth factors. These interventions have to provide preconditions to the development of the different components, having regard to overcoming of the observed bottlenecks and the breakout points achievable through concentrated developments. In addition to direct effects also interactions between the components have to be considered (synergies, negative externalities, ranking).⁴⁴ Developing the appropriate monitoring system enables the

⁴⁴ *Describing the strategy of EDOP only those development policy interventions are mentioned – even supported by other Operational Programmes – that affect the given field, the existence of other - economics and regulation related - prerequisites are considered justified as stated in Preface. We consider other, for instance economic policy or regulatory preconditions given, as described in the Preamble. See Section 2.5 for the categorisation of the mentioned development policy interventions by OPs, as well as for the overlapping-free separation of the authorities.*

assessment of the non-intended consequences of the interventions arising as a result of planning, as well as the corrections of possible mistakes. In order to strengthen regional cohesion EDOP simultaneously serves to minimize regional differences. To facilitate the regional tracking of resources a monitoring mechanism has been created in EDOP.⁴⁵

2.3.1. To increase Research & Development and innovation capacity, activity, as well as co-operation

To increase the level and standards of Research & Development and innovation activity, as well as to more effectively utilise the existing research results - in conformity with the midterm science, technology and innovation political strategy, in a concentrated way -, supply of R&D activities and knowledge products, as well as the institutions of meeting supply and demand (first of all business and public intermediary and supporting organizations, as well as higher education) have to be developed.

The promotion of the demand for R&D results can be achieved first of all by solving the most crucial utilization problems of the Hungarian Research & Development, which is promoting the marketing of research results that contributes a better pay-off of the corporate R&D expenditures.

To develop R&D supply – apart from providing the necessary human resources, that is apart from the encouragement of education of researchers and their employment – also the infrastructural background of R&D has to be developed by the establishment and support of the research centres, knowledge bases, as well as primarily utilization-oriented **corporate research** locations.

To increase the effectiveness of the research and innovation market, it is indispensable to develop the supply and quality of linked services by setting up a network of innovation bridges, **technology parks and incubations, as well as technology-transfer offices**, as well as developing the service standards of the existing institutions.

To achieve a more effective utilization of research results, the increase of the number and intensity of the domestic and international research co-operations between the different market actors – first of all between higher education, research institutes, and enterprises –, as well as a better connection to the international R&D networks and infrastructures, primarily to the European Research Area have high priority. The most important result of that can be, apart from making the activities of higher education and state research institutes more market-oriented, a more intense connection of the SMEs to the research networks, as well as to the utilization of the results.

The improvement of financial resources availability is also connected to the provision of suitable market environment, especially in the case of and the preparation of start-up enterprises for the use of seed capital investments (in the so-called *pre-seed* phase) in order to enable practical utilization of research institutes and their research results, followed by the promotion of them receiving **seed capital** in the next phase.

⁴⁵ *This mechanism provides tools to evaluate the absorption capabilities of less developed regions, and makes it possible to launch supplementary information/consulting activities for applicants in such regions, and ensures effective adjustment of applications. These objectives are checked in partnership also. Regional Development Councils are invited in the drafting procedure for selection criteria for project selection process of sectoral programmes, and regional actors as members participate in the activities of the sectoral Monitoring Committee.*

Awarding development policy assistance it has to be considered that in order to develop the necessary research capacity, researches, research co-operations should focus on prospective areas having high potential for Hungary, as well as on break-out points covering the whole verticum, that had been identified by the development policy. At the same time, to achieve appropriate, concentrated size is not only important regarding research themes and resources. By the promotion of the co-operation between smaller actors and the networking of economy, the EDOP provides for the establishment of **regionally focused development/competitiveness poles** (determined by the National Regional Development Concept approved by Government Decree 97/2005 (XII.25.)), one of the flagship programmes of the NHDP that play important role in the organisation of innovation area as well as in providing the critical mass necessary to break through at the prospective research areas.

2.3.2. Complex development of corporate capacities

In the life cycle of enterprises there are also obstacles that are hard to overcome for most of them under current market conditions. These market failures hamper the necessary investments for the growth of capital short micro and small enterprises, the establishment of formalised structure of the companies getting too large for direct ownership management, that could enable further growth, the development of independent research & development activity, as well as parallel to that the international market entry, and the integration of the settling foreign enterprises in the Hungarian economy.

The first and most important instrument for correcting market failure is the **direct investment support** for micro, and small enterprises (apart from promoting their access to micro-financing resources.)

The second group requires the implementation of several, even more complex developments, that cannot be neglected, as these enterprises have a higher share in local employment their added value, especially in smaller locations. To extend their operations it can be necessary to renew the applied technology, first of all by **adaptive innovation**. If the restricted size of the local market and limited market relations (overall the limited demand) is the key obstacle to extending production or services, then to become a **supplier**, networking co-operations, or Internet presence and electronic trading structure can be a break-through point. In case of becoming a supplier and in a networking co-operation, enterprises can be required to apply **standards**, and to **introduce quality insurance, environmental management** or other systems. Due to the increasing competition and the strict supplier specifications, the need for **technology change due to environmental protection, application of energy-saving and energy-effective technologies, as well as technologies** reducing environmental impacts will get more focus. At the same time due to the growing organisation, it may be necessary to use **organisation development and process management services**, and to introduce corporate management systems.

For the enterprises entering international markets, apart from the high costs of market entry and research development activities that are necessary to be able to remain competitive, it can be also a serious obstacle to the develop capacities, (and mainly in case of direct. Easing the conditions of market entry (for instance using trade development and foreign market investment services), encouraging the integration to the global market and the internalisation process, enterprises that

⁴⁶ The final version of the list of key priority technology areas and knowledge-based industries is expected to be finalised in the mid term technology and innovation policy strategy approved by the Hungarian Government in Government Decree 1023/2007.(IV.5.) (See document).

⁴⁷ Pole towns in convergence regions: and the Székesfehérvár-Veszprém axis.

are able to achieve international expansion, similar to operating capital investments, can play an integrating role among domestic suppliers.

Attracting foreign enterprises and encouraging their **market integration** is the interest of the Hungarian economy, hence the (primarily supplier) relation with these companies, the transferred technology and management skills have all a multiplier effect in the economy. Moreover, subsidiaries established in Hungary, first of all in the **backward regions**, and the regional **service centres** operating there have also favourable direct and indirect effect on employment.

Applying direct enterprise development assistance, - in accordance with the Competitiveness Concept of MoET – the Economic Development Operational Programme preferably would like to avoid expressing sectoral preferences – the success of enterprises, any growth potential they seem to have, should be finally measured by the market itself.

2.3.3. Development of the business environment

An enterprise-friendly business environment can be first of all defined as a precondition for permanent growth factors. Although the important components of business environment (first of all regulatory and institutional system) can be restrictedly developed by development policy instruments, the Economic Development Operational Programme finds important to improve the eligible components, as business services cover nearly all the fields of corporate operation, so the options to use them can be indispensable for some of the enterprises, facing bottlenecks, lack of information, or other kinds of problems.

Quality of physical capital is a growth factor, and its component is the availability of economic **infrastructure** of adequate quality, that is composed of fast accessibility (directly using transport network or buying logistics services), access to info-communication networks and services, as well as public services just as having a business premise in appropriate quality (that is also a market service for instance in industrial parks or incubation houses).

Business **services, that are necessary** for the effective operation of the enterprises, and for the improvement of productivity, can develop all processes of corporate operation (advanced level consulting, for instance brand development or the assessment and development of corporate organisation) With regards to domestic conditions, on one hand NDP would like to promote new market entry and trade development services, corporate and management consulting, on-site or electronic information or networking services by strengthening the demand side of the economy. On the other hand, it would like to contribute to the development of the supply of business services, such as industrial parks, logistics centres, incubation houses, and trade development institution system, as well as overcoming the market shortcomings in terms of financial services (for instance credit guarantee, capital grants).

Availability and use of adequate level **info-communication technologies** are defined as the most important component of the quality of physical capital – apart from R&D and innovation – by most of the growth theories, that is indispensable to create the targeted knowledge-based economy. Stimulating demand for ICT products and services, in the frames of the Economic Development Operational Programme (EDOP) primarily raising the IT level of the internal (corporate management and operation) as well as external relation processes, (supply of information, client relationship management, sales, purchasing) (as well as growing their operation effectiveness level) can directly increase ICT usage. At the same time, increasing level of ICT usage can contribute to the development of the supply side (ICT services, broadband access, available digital contents etc.), and to the strengthening of the information society. Both

mechanism contributes to the growth of the ICT markets, and thus to more intense market competition as well as to decreasing price level.

2.3.4. To facilitate the access of SMEs to financing resources

To overcome market failures that hamper the development of smaller, capital-short enterprises lacking appropriate market background, depending on the actual circumstances different kinds of financial instruments can be applied. The most important instrument that help to solvent, however non-eligible micro and small enterprises is micro-financing.⁴⁹ As a result of the growth of enterprises getting micro-credit and the establishment of bank relations, for the next period it will be able to apply for market financing, or other forms of assistance. The biggest obstacle to higher volume bank financing of SMEs is the lack of credit guarantee, as well as the management of special risks of small enterprises, that can be overcome by using guarantee instruments. The assistance of risk capital programmes, apart from the development of domestic capital market, can contribute to the fulfilment of risk capital needs of enterprises having great growth potential, as well as to the seed capital needs of spin-off enterprises, that are though in the *start-up* phase, are already able to use seed capital, and the seed capital needs of technology-intensive *start-up* enterprises.

2.3.5. International dimension of the strategy the Economic Development Operational Programme (EDOP)

Due to the increasing level of internationalisation of the world economy, within that the growing competition for regional assistance and tax competition, as well as especially in line with our accession to the EU, and through that to the single market, competition conditions for the national economy and its actors have changed. Regarding the competitiveness of the states, the role of the state in enterprise-friendly public administration, regulation, re-allocation, and the state's role as owner gets higher priority. A suitable background provided by the state is crucial also for the rest of the market actors, especially for domestic enterprises, to be able to face intense competition on the internationalised markets. At the same time, also the targeted development of domestic enterprises, - especially SMEs that are most suffering from growth limits - is necessary, to be successful in the more fierce competition, to which the Economic Development Operational Programme (EDOP) would like to contribute at different intervention areas, coping with international challenges.

- **On the global market** only few innovative domestic enterprises, focusing on some kind of knowledge-intensive activity have real chances for success. These can be best promoted by contributing to their necessary concentrated R&D background, own R&D and innovation activities, as well as to the marketing of their R&D results. Attracting transnational companies, that are already competing on the world market to Hungary, first of all through strengthening the appropriate supplier background also have to be mentioned here.
- Domestic middle sized companies with growth potential have chances to be successful **on the single** European market, if apart from contributing to the development of their

⁴⁸ *Apart from direct assistance given to enterprises buying ICT tools and services, the importance of the non-development policy related role of the state in the fields of regulation (e.g. forcing to apply open standards that make the competition between technologies more intensive), electronic administration and public services, broadband access, as well as the development of digital literacy in public education.*

⁴⁹ *Enterprises that can undertake the market priced credits with great likelihood, however due to the amount of the requested credit, or the short market background that are the base for the banks' general scoring process do not get a credit.*

operation effectiveness, ICT usage and human resources, they also get assistance to internationalise their activities.

- Within the single market concerning Hungary's narrower environment, the enlarging EU, as well as the **Carpathian Basin**, strengthening of the domestic SMEs sector, developing their innovation abilities, ICT usage and human resources plays important role. Opportunities in better utilization of our logistics potential have to be pointed out, by that domestic enterprises could achieve more favourable cost level than of the neighbouring countries. To be successful in the direct regional competition it is relevant to ensure balanced regional development, encouraging job creating investments in less developed regions.

2.4. HORIZONTAL OBJECTIVES

By its specific set of targets and instruments, the Economic Development Operational Programme (EDOP) can **closely contribute** to the strengthening the social, economic and regional cohesion of **Hungary**, as well as it **maximally attentive to the development** of the harmonic, sustainable development of the environment, society and economy.

The obligation to apply the above horizontal principles at the implementation of the programme raises expectations towards the beneficiaries and the institution system (**“the enforcers” of horizontal policies – 1st dimension**)

2nd dimension of the integration of horizontal principles into the programme is given by the **“place” of application**, namely that the principles of cohesion and sustainability are prevailing also at the level of the planning, preparation and implementation of the programme and project elements, as well as at the level of the organisation responsible for implementation, and implementation (beneficiaries, MA and intermediate body of OP).

Each **priority axis contributes to the dimensions of horizontal policies to a different extent**, therefore it is reasonable to consider that in case of the different priorities and measures each horizontal policy can be enforced to a different extent.

In accordance with the expectations of the European Union, fulfilment of requirements of sustainability, equality of opportunities and prohibition of discrimination have to be monitored both on programme and project level.

The obligations of the institution system regarding horizontal principles at the place of application are described in the operation manuals. The key elements of that are the next ones: data collection at the applicant organisation on the weight and position of the equal opportunity target groups, as well as on sustainability, setting of equality of opportunity, prohibition of discrimination and sustainability indicators, integration of horizontal aspects to the processes of planning of the programme, implementation, management and monitoring with the involvement of experts, as well as ensuring that the calls for applications should be received by the key equal opportunity target groups.⁵⁰

2.4.1 Policy related to equality of opportunities and the prohibition of discrimination

The strategy of the Economic Competitiveness Operational Programme (EDOP) intends to integrate the aspects of equal opportunities and the prohibition of discrimination in the priority axes and measures, although some of the received applications are to be neutral from equal opportunities and prohibition of discrimination aspects. Thus the equal opportunities and prohibition of discrimination policy of the Economic Competitiveness Operational Programme (EDOP) aims that at an expectable level every applicant should deal with the questions of equal opportunities and prohibition of discrimination, and should be at least up to the minimum level of that. The expected minimum level of equal opportunities have been defined on the basis of principles, methods, and target groups (including individuals discriminated on the grounds of gender, age, sexual orientation, religious conviction or racial origin) that had been set in the Act on Equal Treatment in force.⁵¹ Although all the discriminated groups will be supported, in line

⁵⁰ This approach is in line with the so called „gender mainstreaming” principle of the European Union that has been defined in the New Hungary Development Plan regarding each operational programme.

⁵¹ Act CXXV of 2003 on equal treatment and promotion of equal opportunities (<http://www.egyenlobanasmod.hu/data/Ebktv.pdf>)

with the objectives of New Hungary Development Plan three target groups (women, the Romas, and the disabled) will get high priority. In case of certain interventions if it can be clearly judged, how the projects will actually influence the equality of opportunities of the priority equal opportunity target groups (women, the Romas, and the disabled people) or of other discriminated groups, considering the evaluation criteria, applications evaluated positively from the aspects of the “equality of opportunities and prohibition of discrimination” will have an advantage.

Helping Roma enterprises in gaining access to information and resources

The support of investments realized in disadvantaged and the most disadvantaged regions and creating significant work opportunities are priority areas of the Operational Programme, thus contributing to the increase of openings available for the Roma community living concentrated in the given region, as well as the improvement of their social integration. Apart from this direct investment assistance we put a high emphasis on providing available information. It is primarily the task of the regional and local consultative network operating in the frames of RDOP to assist the Roma enterprises in the research, successful demand and usage of the available financial resources.

The micro-financing programme provides opportunity for the Roma enterprises to gain access to financial resources. The tender put up by the holding fund manager of the financial instruments programmes provides equal opportunities for the potential financial mediators interested in the micro-financing of micro- and SME-enterprises, including Roma micro-financing organizations.

According to Article 16 of Chapter IV of 1083/2006 General Regulation, the Economic Development OP provides assistance for the equal opportunities of women and men, as well as the realisation of equal opportunities between the sexes by different phases of design, realisation, monitoring and assessment stages of the operational programme. Moreover it is the OP that ensures the correspondence to prevent any discrimination based on sex, racial or ethnical origin, religion or belief, disability, age or sexual orientation, especially in case of the availability of the funds. The change arising out of the realisation of the above principle and implying significant social and economical advantages can only be achieved if all these principles happen to be incited and observed comprehensively in all the fields of development policy. In order to ensure equal opportunities a special attention must be paid to the equalization of regional differences, namely that the life chances of the involved social groups should not be affected by their area of inhabitancy.

A. Minimum level of equality of opportunities

It is a general expectation that every organisation, that would like to get assistance, should try to describe the aspects of equality of opportunities and the prohibition of discrimination in the most detailed way. This objective can be achieved by the implementation of the so called principle of minimum level of equal opportunities, the essence of which is that the applicants should deal with the question of equal opportunities and the prohibition of discrimination on the merits, have to take steps toward the implementation of organisational equality of opportunities. At the same time the applicant itself evaluate its own situation in terms of the equality of opportunities, and determines what should be changed. The minimum level of equality of opportunities drafts two expectations:

1. Every applicant has to evaluate in the application on the merits, how the project will effect the equality of opportunities and prohibition of discrimination. Such application, that does not consider the aspect of equality of opportunities cannot be the winner (projects that are neutral in terms of the equality of opportunities and prohibition of discrimination will not be disqualified).
2. The winner applicant will undertake, that based on self-evaluation it will assess the current level of equality of opportunities in the organisation, and prepares a plan of equality of

opportunities. As a part of the assessment, it evaluates whether the organisation is in line with the regulations in force and other requirements (e.g. free accessibility of public places). To prepare the assessment and the plan it can be assisted in the forms of free education, advanced level consulting, and directions of equal opportunities. The future monitoring will be carried out based on the plan of equality of opportunities.

B. Projects getting a positive evaluation in terms of the equality of opportunities and the prohibition of discrimination

In case of those interventions of the Economic Development Operational Programme (EDOP), that can be properly assessed in terms of how the projects will actually influence the equality of opportunities of the priority equal opportunity target groups or other discriminated groups, considering the evaluation criteria, applications evaluated positively from the aspects of the “equality of opportunities and prohibition of discrimination” will have an advantage. Since the list of the positive elements can change by interventions, the setting of the actual evaluation criteria will take place at the level of action plans and calls for applications.

Few examples of the interventions that are expected to have a positive effect on the equality of opportunities:

Assistance to job creating investments in regions lagging behind. As the rate of the Roma population in the 25 small region that are most lagging behind is much higher than the national average, at the work places created with the assistance of the projects the rate of the Roma population among the employees will be higher than the average.

Assisting the usage of ICT technologies and applications applicants will have a chance to utilise distance work opportunities, contributing to the employment of the disabled, or women.

EDOP enables a higher involvement of women to high prestige professions and work places by creating jobs that are related to research & development or requiring other higher educational skills, as well as promoting them to establish enterprises, or supporting them to become entrepreneurs.

At the micro-financing measures of EDOP women, Roma and disabled entrepreneurs can be preferred (enabling these to be included as separate aspects in the scoring).

Free physical and communicational accessibility of public places as well as the readiness to provide priority target groups with services matching their needs is a requirements for the organizations providing consulting or business services supported by EDOP.

2.4.2 Sustainability policy

The reduction of the intensity of the economy’s material and energy usage is a condition of sustainable development and permanent competitiveness of the Hungarian economy. Facilitating research & development, as well as high value added activities, EDOP can contribute to the development of the less material and energy-intense sectors, activities of the economy, and this way to the favourable change of the economic structure. Apart from that, EDOP also raises requirements in case of the operations targeting general technological upgrading in terms of material and energy intensity, and thereby overall it contributes to the reduction of pressure on the environment per GDP rate.

Regarding the environmental effects of the developments to be implemented in EDOP, in accordance with Council Regulation No 1083/2006/EC, as well as the Directives 42/2001/EC of the European Parliament and the Council a Strategic environmental Assessment has been prepared. The SEA has emphasized the importance of stimulating R&D and innovation, as well the structural change of the economy towards high value added products and services, and has

acknowledged the favourable effect of EDOP in this field. However it has called attention to the unfavourable effects of the growing transport and delivery performance need, as well as to that environmental risk that are raised by enterprises getting development assistance, or are stimulated in an indirect way to the effect of the programme, by the improvement of business and investment environment, are using first of all the valuable green fields around the large cities.

Recommendations of SEA have been incorporated in the EDOP strategy:

- EDOP would like to stimulate projects to be implemented in the fields of environmental protection and health care out of research & development activities with high priority.
- In case of the to enterprises to be assisted, EDOP prefers, apart the directives of the regulations, enterprises showing environmental awareness, as well as projects implementing environmental-friendly developments.
- Introduction of environment management systems are activities that can be individually supported in EDOP, however technology developments implemented in the environmental programmes of larger companies can also get assistance. In addition to that, quality and environment management systems can contribute to a significant effect to the reduction of material and energy need, as well as to the operations that place less pressure on the environment, including the implementation of new waste management and waste usage processes and procedures.

Some interventions to be carried out during the realization of EDOP - in coherence with Article 17 of Chapter IV of 1083/2006 Council Regulation, the horizontal objectives of NHDP and the key challenges of the renewed Sustainability Policy Strategy approved by the European Council (15-16 June, 2006) - support sustainable development, as well as objectives concerning protection and improvement of our natural surroundings, including the limitation of climate change.

2.4.3 Regional policy

Application of regional aspects and views have high priority at all fields of development policy, as well as all levels of planning, implementation, project development, monitoring and control in order to enforce regional cohesion. Implementing the objectives of EDOP, high priority has to be given, in accordance with the horizontal policy of the New Hungary Development Plan, to the application of (1) the objectives of regional cohesion and to (2) the horizontal principles of regionality (regional view, regional focus, regional integrity, space usage principles).

EDOP through its objective system and instruments encourages the balanced regional development of the Hungarian economy, contributing to the strengthening of Hungary's regional cohesion. At the same time it has to be emphasized, that EDOP is only a bigger slice of the economic development programmes of NDP2, as its measures are complementary with the interventions of the region operational programmes (ROPs) and the Central Hungary Operational Programme (CHOP). As EDOP and the ROPs can support only those developments that are implemented in the 6 convergence regions, in accordance with the institutional forces of NDP2, using much higher level of resources than CHOP they can automatically contribute to the easing of Budapest-dominance that can be observed at nearly all fields of economic life.

Due to the application of different regional objectives and categories in the priorities of EDOP, different elements of the regional development can get priority:

- In the R&D and innovation priority, as the development of research capacities can only achieve critical mass that is necessary for proper economic utilization if appropriate level of concentration and specialisation is provided, R&D infrastructure and service

development is required, under the development of already existing enterprise innovation collaborations (innovation clusters). A suitable tool for that are the towns which are development/competitiveness poles serving the innovation clusters, already having the highest level of R&D and innovation capacity, and are also regional centres. Strengthening the regional emission role of these pole-towns and innovations clusters is only expected on the long run, at the same time certain corporate R&D projects and collaborations can be supported in any convergence location.

- In the complex development of the enterprises, and the planning of the priorities of financial instruments, in accordance with the relevant strategy EDOP would like to avoid any deteriorating intervention to the market processes, therefore application of regional preferences is restricted, in accordance with the objective system of the New Hungary Development Plan, to the support of job creation in the backward regions. In the case of the above projects investments to be realized in some underdeveloped regions can bid for larger financial assistance in order to ensure equalization.
- Concerning business environment priority, avoiding overlapping with the measures of ROP, EDOP is focusing regarding economic infrastructure on important, large scale regional developments. At the same time, with regards to ICT development, as a result of the fact that in the more developed regions infrastructure has already been developed by the market conditions, it is a natural objective to target the convergence of the ICT infrastructure of the regions lagging behind.

The indicator system of EDOP by the regional breakdown of the different indicators, as far as possible, describes the regional processes taking place due to the OP.

In order to ensure regional cohesion we will continuously monitor the allocation of financial funds in some regions and especially in the disadvantaged and highly disadvantaged small regions during the whole period of the programme. Recommended indicators to the horizontal objectives of the operational programme

Recommended indicators to the horizontal objectives of the operational programme:

Name of indicator	Target value (2010)	Target value (2015)	Initial context⁵²
15. The rate of outstanding equalization target group members (women, disabled people and of Roma origin) at workplaces created by the programme	40%	40%	32 (2004-2006, %, ratio of women in workplaces created under the umbrella of ECOP)
16. Growth of GVA for units of used energy at companies supported by relevant EDOP measures	80%	80%	1.87 (2004, EUR/kg BOE, reciprocal of energy intensity of economy)

⁵²As every numerical indicator shows the changes directly resulting from the EDOP measures, their initial values are 0%. The assessment of the relative importance of the programme's effect is supported by the communication of the initial values of the base data, thus we find „initial context” in the table.

2.5. CONNECTION OF EDOP TO OTHER STRATEGIES AND OPS

2.5.1. Coherence with national policies

The objectives set in the National Development Policy Concept and the National Regional Development Concept have been incorporated in the course of the development of the strategy and priorities of the Economic Development OP.

Interventions are in line with different field policy strategies, including the already approved SMEs strategy, the midterm science, technology and innovation policy strategies, as well as the National Broadband Strategy.

Development strategy of SMEs

Main objectives of SME conception approved by the Government on 7 February 2007:

- To increase the income production of the SMEs, closing up on the level of the highly developed EU member states.
- To increase the number of employees at SMEs and to improve their human capital.

In order to achieve the main objectives, the following subtargets have been defined (in complete harmony with the EDOP's target system):

- To strengthen the innovation capabilities of SMEs.
- To incite the technological developments of SMEs.
- To increase the accumulation of capital of SMEs, including the technological modernisation of the capital stock.
- To increase the participation of the SMEs in financial mediation.

Sub-objectives of the conception which do not fall into EDOP scope:

- To provide more efficient management functions for the SMEs.
- To set up and continuously improve a regulatory environment that ensures and improves the efficiency of the operation of the applicable development policy means. (Regulation of financial activity, as well as investment funds.)
- To reduce the transactional costs of undertaking and operating an enterprise.

(1023/2007. (IV. 5.) Government Decree on **the midterm science, technology and innovation policy strategy** stipulates the accentuated management of concentrated technological innovation capacity improvement of certain leverage industries, having taken into consideration the tendencies revealed as a result of the assessment of the situation. The key technology and knowledge-based industries which may turn out to be the nation's potential breakout points are as follows:

Key technology industries:

- info-communication technologies
- life sciences and biotechnology
- medical technology
- material science and nanotechnology
- environmental technologies
- technology of energy-saving and renewed alternative energy-sources

Knowledge-based industries

- IT and electronic industry
- vehicle and machine industry
- pharmaceuticals
- chemical industry
- food industry
- innovative service industries
- industries and technologies related to environmental protection

National Broadband Strategy

The National Broadband Strategy (NBS) was approved by the government of the Hungarian Republic by means of the 2296/2005 (XII.6.) Government Decree, thus officially confirming the objectives of the NBS set by national consensus, in agreement with the development of broadband communication aiming at the improvement of life quality, the increase of competitiveness, as well as strengthening social cohesion between 2007 and 2013.

The target system of the strategy is divided into the following intervention areas:

- The increase of the use of broadband Internet - population, enterprises, public institutions.
- The widening of the relevant choice of contents - public institutions, enterprises.
- The assuring of equal opportunities - disadvantaged groups.

The objective is to terminate the factors limiting the expansion of broadband communication, as well as helping the increased development related to availability, content, motivation, education and security.

EDOP's 3rd priority will help to achieve the NBS's objectives on the expansion of broadband availability by inciting the establishment of a modern ICT network structure. The OP will provide broadband availability infrastructure to 95% of Hungarian towns, cities and villages by 2010. EDOP's 2nd priority will be responsible for managing the more extensive use of ICT applications in the business sector, as well as helping the spread of intelligent business solutions, electronic commerce, and the informatization of business relationships between companies by means of supporting enterprise (mainly SMEs) info-communication development programmes.

The elimination of limiting factors, such as the lack of motivation and training will be carried out not by the EDOP, but by other operational programmes (such as SROP). The so-called "**Netre-kész**" ("**Ready-for-net**") is a motivational programme aimed at the development of the information society and based on state and market cooperation in order to increase the openness towards ICT. The programme is connected to other governmental projects as well.

2.5.2. Coherence with the National Reform Programme and the Community Strategic Guidelines

The micro-economic section of the National Reform Programme For Growth and Employment 2005-2008 – that has been developed by the Ministry of Economy and Transport involving the experts of the Ministry of Justice, Ministry of Informatics and Communication, the National Office for Research and Technology (NKTH), the Ministry of Environmental Protection and Water, as well as of GVH (Office of Economic Competition), with the central coordination assistance of NDO – apart from the Integrated Guidelines also considers the country specific recommendations that had been specified for Hungary in 2004 by the European Commission (BEPG), the facilities of the Hungarian economy, and the key obstacles to the objectives of

growth and employment.⁵³ Based on the overall economic policy guidelines and the findings of the Cardiff report, competitiveness of the Hungarian enterprises can be developed by creating an attractive, enterprise-friendly environment, strengthening the presence of the private sphere in the research & development (R&D) and innovation activities, utilising the advantages given by the information society, as well as the improvement of accessibility, thereby contributing the most to the fulfilment of the revised Lisbon objectives.

The development of the micro-economic section of the National Reform Programme, as well as its revision in 2006 has been influenced by the priorities of macro-economic and employment sections. Accordingly, those interventions had priority, that can contribute to the enhancement of employment, increase in the mobility of workforce (e.g. SMEs, transport), as well as interventions that do not load the budget on the short run, however through growth stimulation effect can generate income. Most of the measures requiring the resources of the state budget are based on the New Hungary Development Plan (NHDP), as well as on its operational programmes starting as of 2007.

Similarly, Section I and III. of the National Reform Programme also reflect priorities of the micro-economic section, through the continuous reduction of tax burden, as well strengthening the flexibility of education and adaptability of the workforce.

The base for the section on micro-economic priorities of competitiveness development and measures is that the reasons for the lag of the Hungarian economy and of the corporate sector, having lower productivity level than the EU average, are related to the structural facilities of the economy and factoral endowment, as well as the competitiveness of the corporate sector and the effectiveness of public services. The reasons for the lag behind in terms of the productivity of the Hungarian economy are first of all related to the structural facilities of the economy, and the competitiveness of the micro-economy, and the corporate sector. Among permanent growth factors the spread of new (production) technologies, the rapidly adapting workforce, the intensive R&D and innovation activity, the IKT capital stock, as well as the infrastructure serving the economy play mayor role. From the above, first of all the low level of the economy's innovation expenditure has to be mentioned, as well as the weaknesses of innovation's need and abilities. Value of the expenditure per GDP rate is permanently around 1 percent, and similarly in the spread of information society –in spite of the efforts made in the recent years – Hungary lags behind both the EU average, and the performance of the Visegrád countries. Apart from the above, the existence of entrepreneur-friendly business environment, as well as the competitiveness stimulating regulation policy has outstanding importance.

In terms of the implementation of the interventions described in the National Reform Programme the New Hungary Development Plan and within that the Economic Development Operational Programme (EDOP) has priority role (see the table below).

The EDOP's connection to NAP guidances	
Measures of the Economic Development operational programme	National Action Plans related to certain EDOP guidances
<u>Priority 1</u>	
1.1. The promotion of market-oriented R&D and the encouragement of research and technological cooperation	7. guidance: the increase and development of R&D aimed investments, especially in the private sector (NAP II.2.1.1.)

⁵³ *Broad Economic Policy Guidelines are the mayor part of the Integrated Guidelines (IG) led by the Lisbon process, defining mid-term economic policy strategy.*

	8. guidance: the incitement of all kinds of innovation
1.2. The development and consolidation of research centres	7. guidance: the increase and development of R&D aimed investments, especially in the private sector (NAP II.2.1.1.) 8. guidance: the incitement of all kinds of innovation (NAP II.2.1.2.)
1.3. The incitement of self-supporting innovation and R&D activities of enterprises	7. guidance: the increase and development of R&D aimed investments, especially in the private sector (NAP II.2.1.1.) 8. guidance: the incitement of all kinds of innovation (NAP II.2.1.2.)
<u>Priority 2</u>	
2.1. Technology upgrade of the enterprises	10. guidance: the strengthening of comparative advantages of the industrial sector (NAP II.2.1.4.) guidance: 11. the incitement of the sustainable usage of resources, the confirmation of synergies between environmental protection and development (NAP II.2.1.5.)
2.2. Encouragement of corporate organisation development, and modern process management	9. guidance: the incitement of the spread and usage of ICT and the establishment of a fully information society (NAP II.2.1.3.)
<u>Priority 3</u>	
3.1. Up-to-date info-communication infrastructure	9. guidance: the incitement of the spread and usage of ICT and the establishment of a fully information society (NAP II.2.1.3.)
3.2. Development of logistic centres	15. guidance: the expansion of entrepreneurial culture and the establishment of an environment that supports SMEs (NAP II.2.2.4.)

In the light of the renewed Lisbon Strategy, the Community Strategy Guidelines give preference to growth and employment. In line with Lisbon objectives, EDOP handles competitiveness as a top priority and aims at boosting economic activity as well.

The EDOP's connection to Community Strategy Guidelines (CSG)	
Measures of the Economic Development operational programme	The guidelines related to certain EDOP measures
<u>Priority 1</u>	Improving knowledge and innovation for growth
1.1. The promotion of market-oriented R&D	Increase and better target investment in RTD

and the encouragement of research and technological cooperation	
1.2. The development and consolidation of research centres	Increase and better target investment in RTD
1.3. The incitement of self-supporting innovation and R&D activities of enterprises	Facilitate innovation and promote entrepreneurship
<u>Priority 2</u>	
2.1. Technology upgrade of the enterprises	Facilitate innovation and promote entrepreneurship More and better jobs
2.2. Encouragement of corporate organisation development, and modern process management	Facilitate innovation and promote entrepreneurship
<u>Priority 3</u>	
3.1. Up-to-date info-communication infrastructure	Promote the information society for all
3.2. Development of logistic centres	Facilitate innovation and promote entrepreneurship
<u>Priority 4 Financial instruments</u>	Improve access to finance

2.5.3. Coherence with Seventh framework programme of the European Community for research and technological development (FP7)

EDOP is in a complementary relation with the 7th Framework Programme (EU FP7).

EU FP7 wishes to finance EU scale R&D programmes, based on specific principles: co-operation, capacities, ideas, people. Financing of basic researches has a key role in EU FP7 (ideas, frontier research), furthermore establishment and development of research infrastructure play an important role (Capacities). A cluster-like co-operation of industrial partners among each other and with publicly financed research places is realised by Co-operation programme. Competitiveness and Innovation framework Programme (CIP) is of special note, complements EU FP7 tools because it supports development of innovation services.

EDOP set the motivation of utilization oriented national company R&D activities as its main goal. In line with this, the 1st priority axis of EDOP emphasises R&D&I activities launched with market exploitation demand and directly influencing the competitiveness and income generating capacities of enterprises. As a result of this, EDOP strengthens the innovation capabilities of SMEs (making them able to participate in FP7 programmes⁵⁴), and through the development of regional innovation capacities it reduces regional differences.

⁵⁴ The NKTH, however, is planning to launch so-called helping programmes for the promotion of successful Hungarian participation in the EU FP7 programmes (eg. by means of bridging finance) using the resources of Research and Technology Innovation Fund (RTIF).

2.5.4. Coherence with the New Hungary Development Plan and other operational programmes

New Hungary Development Plan

The New Hungary Development Plan gives the strategic framework for the successful and effective usage of the targeted resources of the European Union's Cohesion Fund and Structural Funds for the period of 2007-2013, that is in accordance with the National Strategic Reference Framework required by the European Union.

Overall and specific objectives of the New Hungary Development Plan determine the below objective system:

1. Steps for the enhancement of employment:
 - Improvement of the individuals' employability and the increase of labour market activity,
 - Expansion of labour demand: stimulation of the creation of more and better work place,
 - Development of the labour market environment adjusting supply and demand.
2. Steps for permanent growth:
 - Improvement of competitiveness (by strengthening of knowledge-economy, and innovation, as well as productivity),
 - Widening of the economic base (by regional development, improvement of capital involvement abilities, market extension, higher market integration level, and the spread of modern technologies),
 - Development of the business environment (by easing accessibility, improvement of regulatory environment, as well as making the state services and state operation more efficient).

Considering the objective system described in Section 2.1. of the current document it can be concluded that it is in close correlation with the objective system of the New Hungary Development Plan. EDOP would like first of all to contribute to the achievement of the specific objectives concerning improvement of competitiveness and widening of the economic base, and the New Hungary Development Plan also considers the Economic Development Operational Programme as the primary instrument for the achievement of these two objectives.

Transport Operational Programme (TOP)

Among the growth factors defined by the specific objectives of the operational programme the quality of physical capital has outstanding importance. One component of this growth factor is the availability of economic infrastructure in adequate quality that is composed of fast accessibility (transport infrastructure or logistics services).

The key objective of the improvement of transport infrastructure is the improvement of accessibility developing both competitiveness and cohesion. Apart from the improvement of international accessibility defined as priority by TOP, the thoughtful infrastructure development related to regional accessibility also plays a priority role regarding EDOP. Hence faster accessibility, and the adjusted thoughtful development policy can contribute to the regional and small regional convergence. Other important infrastructural investments – like energy and water supply, sewerage management, waste management etc. – are also crucial from the EDOP's successful implementation point of view, especially because they encourage the development of lagging behind regions and potential growth centres.

The priority of the TOP on „linking ways of transport, development of intermodality of economic centres and their transport infrastructure” supports building as well as upgrading of the connected elements of transport infrastructure (industrial rails, service roads, sailing lines, harbour network) leading to logistics centres and other economic infrastructures – typically outside the fence -, as well as improvement of the facilities of transshipping within the logistics service centres.

Integrating these developments, the EDOP supports the – typically outside the fence – investments related to the improvement of the level of the services provided by the operating logistics centres, as well as increasing the number and complexity of services.

Thus the TOP contributes to the development of the road, waterway etc. developments around and between the logistics base of the enterprises, while the EDOP encourages the establishment and extension of the logistics capacities of the enterprises that enables to provide complex, quality logistics services – especially for supplier networks, clusters, industrial parks

Social Renewal Operational Programme, Social Infrastructure Operational Programme

In order to fulfil the Lisbon objectives (of growth and employment) the New Hungary Development Plan has selected as specific objectives the development of competitiveness by strengthening knowledge-economy and innovation. To fulfil this objective the integrated interventions of the two operational programmes targeting social renewal and of the EDOP are necessary.

In the period of 2007-2013 in terms of the usage of structural funds compared to the previous period complementarity between the funds can be considered to be a positive improvement, that can be up to the 10% of the resources of the OP. (Council Regulation No 1083/2006/EC, Article 34. paragraph 2). The fact that the development of corporate *human resources (including research experts)* is an eligible cost in all the EDOP priorities, as well as the application of the 10% complementarity rule in practise, enables for potential beneficiaries – unlike in the previous planning period – to have their complex enterprise development projects implemented in one application. Further, it is a similar option that measures based on the social inclusion priority of the European Social Fund financing of the other fund can be up to the limit of 15% (Council Regulation No 1081/2006/EC Article 3. paragraph 7.).

In the frames of the Economic Development Operational Programme beneficiaries can get assistance to corporate training programmes, as well as advanced level consulting (organisation development, trade development, investment stimulation, brand development, market development related either to corporate operations, or to research activities) that are directly connected to their projects to be implemented in the frames of the different priorities. From the training and consulting services that can be supported in the frames of EDOP, and are necessary for the successful implementation of the different corporate projects, the interventions of the OPs that first of all contribute in general to the human resources development, and at the same time overall due to their effect to social background are well complementing to these, can be separated without overlapping.

In the frames of ***Social Infrastructure Operational Programme*** the development of the infrastructure of higher education institutes (especially science & engineering education), establishment of human service centres and regional integrated vocational training centres, as well as physical and ICT infrastructure investments related to the establishment of regional education networks can get assistance. In the fields of the infrastructure of modern service and research universities the different target group selection of EDOP ensures that there will not be any overlapping in terms of the authority of the interventions, hence Social Infrastructure Operational Programme (TIOP) focuses on the development of the infrastructure of higher education institutes, while EDOP supports exclusively the research projects of enterprises or co-

operations managed by enterprises. Interventions of the Social Infrastructure Operational Programme (TIOP) related to the development of preventive, health care and rehabilitation institutes, as well as the development of the infrastructure of integrated education and social service systems, accessibility of public places, development of daytime child care services, improvement of the infrastructure of social services, cultural services, and developments of the creative economy will not cause any issue in terms of overlapping authorities.

Within the frames of ***Social Renewal Operational Programme (SROP)*** the objective is to strengthen the flexible adjustment of the education system to the social and economic needs, to improve the efficiency, market orientation, effectiveness as well as accessibility of education. Accordingly, it does not support corporate training programmes related to actual investments, so overlapping with priority 2 of the EDOP will not be an issue. In the frames of the measures related to strengthening the connection of higher education and Research & Development, Social Renewal Operational Programme contributes to different projects from base research to applied research, that use the infrastructure of higher education institutes, carried out in co-operation of research teams, complementing to the research projects supported by EDOP, ranging from base research to the marketing of the results, that are - even if carried out in co-operation - managed by enterprises. Another element of the above measure of the Social Renewal Operational Programme, that is complementary to the interventions of EDOP, is the contribution to the activities related to higher educational, knowledge or technology transfer, that can be separated from EDOP based on that it is related to education while the interventions of EDOP target the development of the infrastructure that is necessary for complex Research & Development and innovation services.

Environment and Energy Operational Programme

For the promotion of sustainable development as a horizontal principle, in the frame of priority axis 2: "Technological modernisation of enterprises", the EDOP supports the propagation of environmental friendly, low-waste, energy and material saving manufacturing technologies in the frame of such **independent action** whose priority aim is to improve the environmental performance by using the tools of sustainable development. It also **deepens environmentally aware mentality and** serves as a followable example for other enterprises (**demonstrational effect**).

From the horizontal point of view, apart from the improvement of competitiveness, the propagation of sustainable resource management and environmental friendly enterprise operation in the Hungarian economy also appears in the EDOP. While promoting the development of the SME sector, the enforcement of actors of the economy who are environmentally innovative and effective should be emphasized.

In the field of energy saving, EDOP supports the energetic development of new and existing technologies of SMEs, while EEOP only focuses on the improvement of energetics characteristics of factories and buildings in the case of SMEs.

In the field of renewable energy sources the EEOP supports the developments in energy production the non on farm use of renewable sources in the case of non-agricultural enterprises.

Support of the State Reform (State Reform Operational Programme, Electronic Administration Operational Programme)

In line with the National Reform Programme for the period of 2005-2008, to be able to develop business environment, it is indispensable to establish and develop the frameworks of an enterprise-friendly legal and regulatory institution system (easing of the administrative burden of and obstacles to the enterprises, liberalisation of the network industries, deregulation, faster service of public administration, development of electronic public services). The above main

objectives have been selected by the State Reform Operational Programme and the Electronic Administration Operational Programme, that can establish the basic conditions for the modern business environment for the market players that would like to use the operations described in EDOP.

The establishment of the modern community ICT infrastructure related to competitiveness will be implemented through the facilitation of the access to broadband networks. In the frames of EDOP, the development of linked network infrastructure will get support in the backward and disadvantageous regions. Expansion of the social access to the infrastructure of the central and regional electronic public administration, linkage to the current network infrastructure, connection, as well as the development of network termination points will be implemented with the assistance of the ***Electronic Administration Operational Programme***.

2.5.5. Coherence with the regional operational programmes of the convergence objective and the Central Hungary Operational Programme

Regional operational programmes

The regional operational programmes (ROP) and the Economic Development OP as sectoral operational programme are developed with complementing and concerted content and intervention areas. A guarantee for that is the acceptance of the principles concerning the overlapping free separation of sectoral-regional competencies, that has been developed together with the planners of the ROPs, as well as the regular professional reconciliation to strengthen the coherence between the OPs, as well as to harmonise the details of the interventions.

The separation of authority of economic development interventions of the EDOP and the regional operational programmes is based on the next main principle: those operations that have a local or regional effect will be of regional competence, while operations that have a wider, national, or international effect will be of the competence of the EDOP related to sectoral development.

Regarding those interventions planned in the Economic Development OP, that require the consideration of local, sub-regional or regional aspects and knowledge, a deep involvement of the regions to the implementation and implementation of the programme and is planned.

See Annex 2 for the detailed description of the rules on the separation of authority between the EDOP and the six convergence regions.

Central Hungary Operational Programme

Measures of the Central Hungary Operational Programme⁵⁵ (CHOP) targeting economic development (priority axis 1: development of innovation and enterprise-oriented knowledge-economy) have been developed in close cooperation of the planners of sectoral OPs including EDOP. As a result of that, measures to be implemented in the frames of priority 1 of CHOP can be divided into two groups. The first group is consistent with the measures announced in the frames of EDOP, and it serves the implementation of the uniform sector level strategy in the area of Central Hungary Region. However the other group of measures has been selected with a consideration to the special position of Central Hungary Region (Pest County – first of all the regions outside the conurbation area – has to cope with different problems than the developed city of Budapest), answering to the problems of local development, however taking into account

⁵⁵ *A separate operational programme of the Central Hungary Region has been prepared as it is to be developed based on the objective of "Regional competitiveness and employment".*

the agreements on the separation of authority with the regional OPs that belong to other convergence target area.

Overall it can be concluded that sectoral developments to be implemented in the area of Central Hungary will be determined based on the synergies and complementary nature of the developments to be implemented on sectoral or regional level, taking into account that the capital of the country is located here, which makes it particularly important that national developments, the needs for the development of the centre of the country, and regional developments should be consistent.

2.6. SUMMARY OF THE EX-ANTE EVALUATION OF EDOP

2.6.1. The process of ex-ante evaluation

In accordance with Council Regulation (EC) No 1083/2006 laying down the general provisions on the on the structural funds for the period of 2007-2013 an ex-ante evaluation of the Economic Development Operational Programme has been conducted with the involvement of independent experts. The evaluation process has been carried out by the consortium of the Budapest office of KPMG and the Fitzpatrick Associates Economic Consultants Ltd. With the management of the Budapest office of PricewaterhouseCoopers.

In accordance with Article 48 of the relevant regulation, the main objective of the ex-ante evaluation is the optimisation of the allocation of the state budget resources, and the improvement of the quality of the programme. The objective of the evaluation was to identify the backlogs and the growth potentials, as well as the evaluation of the coherence among the selected targets and the expected results, and the numerical objectives and the strategy.

The ex-ante evaluation was performed in continuous and close interaction with the planners. The evaluation has started in March 2006. and is expected to be carried out by March 31, 2007. The planners and the evaluators – together with international experts – have taken part in 14 joint workshops so far, where they systematically reviewed and discussed the structure of the draft programme, its main strategic questions (objectives, structure of the interventions), and indicators. The ex-ante evaluators have conducted several discussions with the experts of the effected intervention areas, and the professional associations that are economic and social partners of MoET.

The current version of the programme has become more transparent and clear, and sometimes was enriched by valuable amendments due to the ex-ante evaluation.

2.6.2. Key questions of ex-ante evaluation

In accordance with the guide of the European Commission on ex-ante evaluation of the 2007-2013 programming period the evaluation focused on six key questions based on the version of the Economic Development Programme that had been approved by the government (on November 29, 2006.)

1. Does the programme have a strategy that is able to face the challenges concerning the effected regions and sectors?

The current version of the OP shows significant progress in terms of the application of strategic approach. Further clarification of the objectives and the interventions can be made in the two-year action plans in accordance with the economic development strategy that is being developed.

Overall the current strategy is in accordance with the foregoing development policy practice and experience, the policy related intentions of the planners, the expectations and absorption potential of the players of the economic life.

The previous recommendations of the evaluators have underlined that the coherence among the situation analysis and the applied strategy has to be further developed, to be able to react more to the current competitiveness needs and opportunities of the Hungarian economy as well as the development needs of the production sector.

Some of these recommendations have been accepted by the planners, as far as they were in coherence with their more neutral approach to the sector, region or corporate segments, that gives more freedom in terms of the selection between the forms of assistance. The evaluators still see an option to better map the needs and problems of the target groups (in sectoral, corporate and regional surveys), and to specify of the interventions, and carry out specific action plans in a later stage.

In terms of the stimulation of corporate innovation activities – concerning both priority axis 1 and 2 – the target group to be addressed by the interventions of EDOP is wider than of the previous programme. According to the view of the evaluators this can be further widened during the development of the action plan, by giving higher emphasis to the proactive involvement of the non-innovative enterprises having great effectiveness improvement potential to the innovation process.

The impression of the evaluators was that the flow of the planning process was not ideal, and therefore they were not able to determine that apart from the recommended interventions to what extent have the analysis of alternative approaches and interventions been incorporated in the planning process.

2. Does the programme have well determined, clear objectives and priorities? Are these objectives realistically achievable with the financial resources allocated to the different priorities?

The view of the evaluators was that the objectives related to the priorities are under the current circumstances well-defined. Several recommendations have been made by the evaluators also related to the above, most of which have been accepted by the planners.

According to the ex-ante evaluators in relation to priority 1 there is a threat that higher education and research institute R&D capacities that are restrictedly responsive to market needs will be financed by the organizations. This threat can be reduced to the lowest possible level by the proper formulation of action plans and calls for applications, and by the careful selection of the indicators monitoring this threat (as well as the expected results of the project implementation).

Regarding priority axis 2, it might cause a problem that based on the experience, the application of relatively restricted resources are inadequately focused.

In priority axis 3 it is not clear enough, to what extent the mainly supply-oriented interventions will match real needs, and through their multiplier effect to what extent they will be able to encourage economic growth.

During the target value setting process, the ex-ante evaluators have given continuous feedback pointing out to what extent the resource allocation is eligible to achieve the selected objectives.

3. Is the strategy coherent with the regional, national and Community policies (including the New Hungary Development Plan)? Is the strategy in accordance with the Lisbon objectives?

The priorities of the OPs are based on the Community Strategic Guidelines, the New Hungary Development Plan, as well as the Lisbon National Reform Programme. Accordingly, the strategy – at the level of priorities, priority objectives and intervention areas – consistent enough with the relevant community and national policies (including the SMEs and the Science, Technology, and Innovation Policy Strategy that are being developed).

The programme is well addressing a relatively small, competitive corporate target group having great growth potential, (although the financial instruments priority axis targets also a wider range of micro and small enterprises), therefore it is consistent with the growth objective.

In terms of the Lisbon employment objective, as well as the territorial (regional and sub-regional level) cohesion, as EDOP can contribute to these to a limited extent, only moderate effects are expected.. At the same time, the separation of the authorities of the Regional Operational Programmes can provide a base for the better performance in terms of achievement of the territorial cohesion objective, in case synergies are well utilised.

Regarding the achievement of the competitiveness objectives of the NHDP, EDOP has the most importance role of the operational programmes. However to maximise the effects, the evaluators find it necessary the more thorough planning of the synergies with other relevant programmes by continuing the close professional cooperation with the planners of the other programmes. During this process, special attention has to be given to the programme of Central Hungary Region, where the complementary nature of the programme is different from that of the sectoral and regional programmes to be implemented in the “convergence” regions.

4. Are appropriate indicators assigned to the selected objectives, and do these indicators and the matching target values create a proper base for the future monitoring and performance evaluation process?

The recommended indicator system is based on the evaluation methodology of the Commission and the National Development Agency. The evaluators have consulted several times with the planners during the process of the development indicator system included in the OP, when international experience has also been considered.

After the operationalisation, the described system is expected to be suitable for the monitoring and evaluation of the OP. However the difficulties of getting access to the data collection system can cause a NHDP level problem. According to the evaluators in the first years of the implementation, the National Development Agency should preferably pay continuous attention to this problem.

5. What will be the expected (quantified) effects of the programme?

If the implementation is carried out as scheduled, during the implementation of the interventions the Managing Authority will be able to conduct effective monitoring activities and to flexibly carry out the necessary adjustments, absorption is to be insured, and the programme will be sufficiently successful and effective.

At the same time the achievable effects will depend on the internal (market) environment, the supportive macro-economic policy, or the consequences of the Convergence Programme, the adequate regulation system, and the further effects of the investments carried out in the frames of other OPs. All of these mean such policy related risks that their continuous monitoring and evaluation needs to get special attention.

6. Does the implementation system support the achievement of the objectives selected by the programme?

Both the OP and the implementation system has been fundamentally changed compared to the previous period. To implement the EDOP, by the consolidation of several intermediate bodies that have participated in the implementation of the previous period, a uniform intermediate body will be established by the Hungarian authorities. The legal, organisational, and infrastructural set up of this body has not finished yet. Since the quality of the implementation determines the successful implementation of the objectives selected by the operational programme, authorities have to make efforts to set up the institution system of the implementation as soon as possible and as well-thought as possible.

Taking over the employees and the knowledge accumulated by the previous intermediate body the new intermediate body is expected to be able to execute the programme in line with the regulations. This also requires the preparation for the fulfilment of new, sometimes increased amount of work: due to the novelty (complexity) of some of the interventions of the programme an increased level of responsibility has to be borne by the executive institution system.

2.6.3. The responses the planning authorities provided for the observations of ex-ante evaluators

The evaluation process proved to be of great use to the planning authorities, who therefore outlined the final version of the OP's strategy and text in close cooperation with the evaluators.

However, a few issues still remained that the planners still assess differently:

- The programme includes a strategy which is able to respond to the challenges arising in the affected regions and sectors. The strategic approach of the planners is directed towards the largest possible neutralization by sectors, for they believe in correspondence with the Ministry of Economy's guideline related to competitiveness that the increase of the enterprise sector must be carried out according to the proven market success instead of the state's pre-assignment of the winning sectors. In compliance with this, they strive to solve the issue using assessment methods evaluating market success and would not launch sector-specific operations. The cohesion/closing the gap by territory and enterprise sizes is instrumental in the EDOP, and this is also indicated by the launching of independent operations contributing to these objectives.
- The "ideal course" of planning could not actually have made its way to the preferred extent, and apart from the unavoidable external pressures that hindered planning, the developments facilitating the OP's planning should also be taken into consideration. Among others are the birth of sector strategies (SMEs, STI) realized and approved by government parallel to the OP, or the assessment of EDOP's programming and execution results (midterm assessment), which all helped to provide better foundations for strategic planning.
- The framed implementation rules manage the issues concerning the use of financial resources:
 - Priority axis 1 states that the danger of financing R&D institutions at universities and other publicly financed institution that do not meet market demands could be eliminated with the rule that publicly financed R&D research institution cannot be the direct beneficiary of the EDOP.

- Priority axis 2 ensures the well-targeted use of limited resources, thus only the complex developments of the duly development-oriented enterprises will be supported. This also ensures the return on investment at the level of national economy.
- The coherence of the improvements with ESF-type developments is ensured in the OP by means of conscious exploitation of 10% flexibility (especially in axis 1.).

As for the indicators, the OP planners agree and emphasize the importance of data collection and monitoring institutional systems. The issue at NHP level must be addressed.

2.7.OFFICIAL STATEMENT ON THE STRATEGIC ENVIRONMENTAL ASSESSMENT OF THE EDOP

This section sums up the conclusions of the Strategic Environmental Assessment of the OP, with regard to how environmental considerations have been integrated into the Economic Development OP, how the environmental report was prepared, the opinions expressed and how the results of evaluating potential transboundary effects were taken into account, and the reasons for choosing the programme as adopted, in the light of the other reasonable alternatives dealt with. Moreover, this section summarises the measures decided upon for monitoring significant environmental impact.

This section is the **official statement of the Hungarian Government** related to the operational programme adopted, based on article 11 of Hungarian Government Decree 2/2005 (I.11.) "The environmental assessment of certain plans and programs" and based on Article 9 of the Directive 2001/42/EC of the European Parliament and of the Council on the assessment of the effects of certain plans and programmes on the environment.

The process of the strategic environmental assessment for the OP

In order to facilitate the application of the sustainability and environmental aspects, as well as to comply with legal regulations (Directive 2001/42/EC – hereafter Directive – and its national adaptation, Hungarian Government Decree 2/2005 (I.11.) – hereafter Government Decree), strategic environmental assessments (SEA) for the operational programmes have been commissioned by the National Development Office (predecessor organisation of the National Development Agency, hereafter NDA). The objective of the environmental assessment was to encourage in cooperation with the ex-ante evaluators and the social partners, the integration and application of environmental and complex sustainability aspects during the preparation process for the NHDP's operational programmes.

During the SEA process, special emphasis was put on consultation, communication with partners and presenting partners' ideas to planners.

The NDA, being responsible for drawing up Operational Programmes, selected a consortium through open public procurement to carry out the SEA procedure;⁵⁶ this consortium was led by Respect Kft.

The methodology of the SEA report, based on Annex 4 of the Government Decree, and Annex 1 of the Directive was available to be viewed by official and social partners (according to Article 7

⁵⁶ Other members of the consortium were: Corvinus University of Budapest (Department of Environmental Management and Technology, as well as the Department of Landscape Planning and Regional Development), Environment Awareness Corporate Management Association and BFH Európa Kft.

of the Government Decree), and was discussed at a partnership forum on 19 June 2006. Official bodies (stipulated by Annex 3 of the Government Decree), representatives invited from NGOs and scientific organizations, as well as government bodies participated at the forum, some of whom also submitted their opinion in writing.

In line with approved methodology, the preparation of the SEA has been supported by documented reconciliation with the planners.

The preparation of the Economic Development Operational Programme yielded several opportunities for official, state and social partners to put forward their opinion, especially on environmental and sustainability issues, as follows⁵⁷:

- During the first partnership of the EDOP (between 18 October 2006 and 8 November 2006, social partners were notified by post about the implementation of, among others, their environmental comments between 14 February 2007 and 31 May 2007).
- In the process of the ex-ante evaluation (with the inclusion of the official and state governing parties)
- In the process of the SEA evaluation (the conductors of the SEA were in contact with several civil organizations).
- The consultation of the SEA Report and the OP (between 15 November 2006 and 14 December) was open to any social stakeholder, and specific invitations were sent to the main environmental authorities and NGOs.

The above processes were based on the same draft of the OP (16 October version). The text of the OP was completed while incorporating the findings of all of the consultations.

During SEA consultations (15 November – 14 December 2006), open for all, where relevant environmental NGOs and state organizations were directly addressed. In accordance with Article 8 of the Government Decree and Article 6 of the Directive, the SEA report was subject to consultation from 15 November 2006 for a 30-day period. The consultation was made available to the general public on the NDA website and in a national newspaper.

During SEA consultation, the NDA provided a multi-channel option for receiving partners' comments: partly on the website of the NDA and partly through a web interface. In case of the EDOP, a forum was held on 22 November 2006, together with Transport OP, with the participation of the organisations defined by the Government Decree.

The comments on the SEA of the EDOP reconfirmed most of the findings of the SEA, and suggested some further issues. After amending the SEA report in accordance with the consultation, the SEA team discussed the new version with the planners. Following these negotiations, final versions of Operational Programmes were handed over to the Commission. Following the submission of the programme, the NDA published the final SEA report and a summary, which are available at the www.nfu.gov.hu website. The final SEA report clearly shows how the comments and responses have influenced the OP.

⁵⁷ *The process also provided the opportunity to mediate discussions between the SEA evaluators and the planners.*

Summary of how environmental considerations have been integrated into the programme⁵⁸

A detailed and comprehensive evaluation on the development of the EDOP as a result of the SEA can be found in the following report: "A Gazdaságfejlesztési és Közlekedési Operatív Program környezeti vizsgálata". This document can be downloaded from the website of the NDA.

The main conclusions of the SEA and the position of the planners

Proposition	Responses
There can be certain trade-offs between specific goals. (for example, if large companies receive more support than small and medium-sized enterprises (SMEs) in accordance with research and development objectives, then the position of large companies rather than that of SMEs will also be strengthened in the case of another objective – improving corporate profitability)	Reasons for choosing the programme as adopted, in the light of the other reasonable alternatives considered ⁵⁹ Individual schemes put special emphasis on small and medium-sized companies, and several positive measures will be implemented to assist SMEs to compete with more experienced companies: advisory services, networking opportunities and accessibility to information. The most important schemes are R&D, co-operation, spin-offs and start-up innovation activities.
Those R&D activities should be supported which are in harmony with the principles of sustainability rather than those which go against them. When R&D activity support is granted, its social advantages along with its ecological and human-health risks should be considered. The precautionary principle should be applied in all cases.	Sustainability is a horizontal objective of the NSRF. As a consequence of this, ecological and social sustainability has to be ensured in each project proposal. The risk assessment is a mandatory part of the necessary environmental approval procedure.
Only those biotech developments which aim to preserve biodiversity are acceptable.	Agreed: this is part of the mandatory approval procedure.
The development of the business environment could represent considerable environmental risks.	Agreed: risk assessment is part of the mandatory approval procedure.
The competitiveness of the manufacturing sector can best be improved if micro, small and medium-sized enterprises are strengthened, making use of local resources, labour and expertise.	Agreed: several measures include the creation of new jobs and lay special emphasis on addressing territorial imbalances.
The support should focus on micro and small enterprises rather than medium-sized ones.	As mentioned in section 3.2., supporting large companies greatly contributes to the development of the SME sector through the

⁵⁸ According to Article 11(b) of the Government Decree, and Article 9.1.b. of the Directive

⁵⁹ According to Article 11(b) of the Government Decree, and Article 9.1.b. of the Directive.

	<p>multiplicator effect (indirect effect on employment, connections with suppliers and dissemination of best practices). Direct company support for large enterprises is being monitored, in accordance with the monitoring system throughout the whole programme period. To avoid any deflection of trade, only some of the schemes will be open for large enterprises alongside the SMEs in priority 2. The amount of support in schemes which are also open to large enterprises is adjusted in such a way that it will absolutely not have an effect of deflection of trade that might cause a significant change in the behaviour of enterprises. Furthermore, with regard to support given to large companies, a pre-condition has been set which states that capacity created shall be maintained for five years.</p>
<p>The satisfactory development of business parks in under-developed regions is especially important.</p>	<p>Agreed: this issue has been transferred to the regional operational programmes.</p>
<p>The SEA recommends the use of several indicators to monitor programme implementation, especially for the development of the SME sector.</p>	<p>On the recommendation in the SEA, the Operational Programme monitoring system was upgraded with key indicators for sustainability, with special regard to the indicator "Growth of GVA for units of used energy at companies supported by relevant EDOP measures", and on the recommendation of the SEA – where deemed relevant – indicators shall also be measured broken down in SME target groups⁶⁰.</p>
<p>The SEA recommends the introduction and application of integrated regional evaluations, which are based on the assessment of regional ecological systems with the help of geographic information systems, as well as the analysis of spatial and temporal patterns (e.g. based on the MÉTA5 Programme). For each operational programme, detailed assessment criteria and a monitoring plan should be developed parallel to the development of action plans, containing the programme of measures to follow the SEA.</p>	<p>This will be incorporated into the monitoring system and the monitoring measures.</p>

According to a SEA recommendation, the EDOP sustainability policy has been clarified; this can be found in the OP section 2.4.2.

⁶⁰ Please see Annex 3 to EDOP for indicators and a breakdown of the indicators.

The social partners' and national authorities' main comments:

Proposition	Responses
The Hungarian National Environmental Council proposed that the SEA would be complemented by the principles of the framework for Community action on water policy and climate change policy.	Reasons for choosing the programme as adopted, in the light of the other reasonable alternatives considered ⁶¹
The civil NGOs opinion was that the EDOP contained activities which have the ability to spread without government intervention, therefore their support may cause market distortions.	There will be a targeted evaluation plan, with a special emphasis on sustainability assessment.
Both authorities and NGOs emphasised the importance of properly working out the measures from an environmental and sustainability aspect, as well as the role of the civil organizations in implementation, and the minimum sustainability (or horizontal) criteria emerging from horizontal politics in the project selection, which appear as the basic criteria for application.	As mentioned in section 3.2, the amount of support for schemes open to large enterprises is adjusted in a way that it will absolutely not have any market distortion effects that could cause a significant change in the behaviour of enterprises. See section on Monitoring Measures

Transboundary effects⁶²

With regard to the strategic character of the OP and its detailed information content, it has been analysed in the course of the SEA process whether transboundary effects could be detected. It has been found that – according to the text of the OP – the territorial character of the planned strategic measures, and their implementation's influence on environment could not be identified by lack of specification, thus information on specific territorial effects – including transboundary effects – is not available.

The SEA pointed out that according to Article 4, Section 3 of the Directive, within the hierarchy of strategic documents primarily those sectoral strategic programmes, concepts should be analysed from this point of view, which had been prepared before the OP. However, lower than OP level documents (action plans, tenders) should also be investigated regarding transboundary effects, when relevant data become available. With the above considered, the Hungarian Government presented the NHDP-level plans – as a strategic frame above the OPs – at bilateral meetings with neighbouring countries' governments. Beyond this, a consultation document has

⁶¹ According to Article 11(b) of the Government Decree, and Article 9.1.b. of the Directive.

⁶² According to 9. § of the Government Decree, and Article 7 of the Directive.

been prepared on transboundary effects in the course of the SEA process of the OP's 2007–2008 Action Plans, which document has been sent to the environmental authorities of all neighbouring countries. We commit ourselves to investigate cross-border effects on the Action Plan level in the whole 2007–2013 planning period.

Monitoring measures⁶³

EDOP planners agree with the SEA that an unavoidable problem is posed at OP planning level, by the fact that certain objectives may act in contrary to each other. Therefore, the individual environmental effect of the application cannot be assessed based on the general text in agreement with SEA recommendations in EDOP action plans and during the implementation. This means that at further Operational Programme planning levels (action plans, calls for applications), sustainability aspects of possible alternative support solutions shall have to be considered on an individual basis. Therefore, relevant guarantees were introduced in the implementation section of the EDOP, with special regard to:

- sustainability criteria (minimum criteria for the acceptance of applications),
- the Sustainability Guide assisting the principle of sustainability,
- environmental organisation membership delegated to Monitoring Committees,
- evaluations targeted at sustainability and strategic environmental examinations for actions plans, as set forth by law.

Horizontal indicators, including environmental ones, will be regularly assessed as part of the OP monitoring and evaluation process.

These monitoring elements were built into the existing monitoring and management system of the EDOP to avoid duplication of monitoring.

⁶³ According to 12.§ of the Government Decree and Article 10. of the Directive.

3. PRIORITY AXES

In accordance with the New Hungary Development Plan and the National Reform Programme, to be able to fulfil the objective system that has been defined based on the situation analysis and the SWOT analysis the next strategic priorities can be described in the frames of the Economic Development Operational Programme:

Priority axis 1: R&D and innovation for competitiveness

Priority axis 2: Complex development of enterprises (focusing on SMEs)

Priority axis 3: Improvement of modern business environment

Priority axis 4: Financial instruments

The necessity of the investments described in the priority axes are explained by the problems and opportunities described in the situation. In order to improve the competitiveness of the Hungarian economy it is necessary to overcome market failures (at micro level the barriers to growth) as well as to encourage to find breakout opportunities, an important, indispensable state instrument for that is the proactive application of development policy. At the same time, the main principles to be applied are: the minimum level of intervention to market conditions and rather overcoming market failures, as well as the application of EDOP interventions for competition improving, stimulating purposes.

The relationship of EDOP's specific aims and its priority axes.				
Specific objectives	Priorities			
	R&D and innovation for competitiveness	Complex development of enterprises (focusing on SMEs)	Improvement of modern business environment	Financial instruments
Enhancement of the R&D and innovation capacity, activity and cooperation	+++	+	+	+
Complex development of corporate capacities	+	+++	+	++
Development of the business environment	++	++	+++	++
To facilitate the access of SMEs to financing resources	+	+	++	+++

Note: number of + signs shows strength (+++ is the strongest).

3.1. R&D AND INNOVATION FOR COMPETITIVENESS

The improvement of the low level of the domestic corporate R&D and innovation activities, better utilization of existing capacities and results, as well as the encouragement of the

cooperation between the actors of the R&D&I procedure are the key areas on which the priority axis is focusing. The EDOP would like to achieve these operational objectives by the support of corporate research projects until the products/services implementation phase or even launch of actual products/services, as well as by the development of institutional and human resources related factors of R&D and innovation activities.

Within the priority axis the focus should be on the extensive support of some key fields of science, - that are to be specified in the midterm scientific, technology and innovation policy strategy –, encouraging the establishment and operation of high quality research locations, the establishment of modern, focused R&D infrastructure background, the knowledge and technology transfer between the sectors and the enterprises, the networking of the research sphere and the expansion of their international relations, as well as the education (and training) of experts and exchange of experts.

The promotion of market-oriented R&D and the encouragement of research and technological cooperation

Objective of measure:

To be able to utilise marketable knowledge it is crucial to support the R&D projects that have first of all business purposes, however greater risks of return, to encourage the applied research and experimental developments that have been carried out with the leading role of enterprises in the cooperation of universities and research institutes, and later on to market the results. Therefore the objective of the measure is to support first of all those research projects that have been carried out in cooperation, and that based on the research results contribute to the development of up-to-date, high value added, marketable products, procedures and services.

The content of the measure:

The measure incites such **industrial research and experimental development** activities expedient of the economy that are realized through the close **innovative cooperation** between enterprises, universities and research institutes, as well as provides support for the establishment of up-to-date research infrastructure, and for patent registration, in order to establish the ensure the fresh supply of usable knowledge in certain areas of great significance.

An integrated element of the supported projects is the intention of future market utilization. This is why independent applications can only be presented by enterprises, and co-operation for the purpose of submitting applications can only be managed by enterprises. At the evaluation of the projects, the aspects of **usefulness**, effectiveness, and performance have high priority. Initiation of joint development projects, and in certain cases the establishment of joint research capacities as well as the harmonised development of human resources capacity can contribute to the improvement of the innovation ability of the enterprises.

The measure can contribute to the orientation and focusing of the domestic research activities by the reflection of the expectations of the enterprises and the policy, as well as by the market feedback. Initiation of joint development projects, and in certain cases the establishment of joint research capacities as well as the harmonised development of human resources capacity can contribute to the improvement of the innovation ability of the enterprises.

The measure also includes the support of the necessary research infrastructure development that is based on the current university and research institute capacities, targeting their better utilization, providing the concentration and targeting of the developments as well as encouraging regional cohesion at the same time. This way it also contributes to providing feedback for research institutes set up to examine the demand on R&D, as well as to the incitement of

cooperations between universities/research institutes and enterprises suitable for promoting the transfer of technologies.

The target group of the measure: commercial companies, and non-profit economic organizations operating by property participation of budget-financed or non-profit research institutes.

Eligible activities⁶⁴:

- R&D project (industrial research, experimental development),
- Trade law protection of SMEs,

Support of innovation clusters and innovation/technology parks

Measure objective

The measure's objective is, in connection with development/competitiveness pole NHDP flagship programme, to establish **accredited**⁶⁵ **innovation pole clusters**, and further development of such clusters to make them become "internationally visible", as well as establishment or development of concentrated **innovation and technology infrastructure** (research and innovation service and competence centres), which primarily operates on a business basis, and which, besides co-operation, supports networking activities.

Measure content

The measure aims to support joint R&D projects to be implemented by innovation clusters or member companies of such clusters. A prerequisite of the assistance is passing quality control and accreditation of high quality clusters.

The measure aims to promote **industrial and experimental development activities** to be utilised in the economy, which, in a cluster framework, are implemented in close innovation **co-operation** between enterprises or universities/research institutions and enterprises. The measure provides support for the establishment of modern research infrastructure, patent registration, and in some special areas, ensures support in order to establish resupply options for useable knowledge. An integrated element of the supported projects is the intention of future market utilisation.

Furthermore, the measure facilitates the establishment of concentrated innovation and technology parks (research and innovation service and competence centres), which primarily operate on a business basis, and which provide, for a particular Pole Town's⁶⁶ enterprises and innovation clusters unique and customised R&D&I services⁶⁷, and which establish appropriate

⁶⁴ Listed by the community framework system (2006/C 323/01) of state assistance provided for innovation, development and research based on the terminology of assistance compatible with common market.

⁶⁵ The structure system and professional content of the accreditation is defined by the NHP flagship programme on development poles.

⁶⁶ Defined by the NHDP Pole Programme of development poles.

⁶⁷ The potential range of research and innovation services: research, innovation, linking of two areas, cluster management, research exploitation, commercial, market research, technology rating, technological incubator and transfer services, related to intellectual property and patent rights, searching of potential partners, maintaining of research database, provision of innovation consultation, monitoring of new technologies, searching to obtain external development resources, provision of the required ICT support. As part of the above the examination of the project ideas of researchers at budget-financed institutes, SMEs and independent inventors, the drawing up of business plans and viability studies, the support of the activity of "business angels". The establishment of technological platform and measuring labs for the SMEs conglomerating in the innovation cluster of the given sectors/ areas.

research and ICT infrastructure, a competence centre, technology incubator and platform, in order to help research activities of co-operating SMEs.

Ensuring proper equipment pool, service pool, research and innovation management expert team, which are necessary for supporting operation of high level technology and innovation parks, which already exist or will be established, and which host innovation enterprises, research and innovation services. The innovation and technology parks thus established might significantly contribute to not only the development of innovative enterprises specialised in research or operating in a given sector, but also to the generation and realisation of innovative ideas, the incubation of start-up undertakings, the enhancement of R&D&I co-operations and clusters, as well as indirectly to the improvement of external relations and R&D capacities of the pole towns' universities.

Target group of the measure: Innovation service centres and technology parks operating as economic entities with direct link to the innovation clusters, as well as member companies of accredited clusters, project partnerships established by them, or their consortia.

Eligible activities:

- support of R&D projects
- regional investment type support, aimed at the establishment of R&D&I infrastructure

Encouragement of the independent innovation and R&D activities of the enterprises

The objective of measure:

The development of the independent R&D&I potential and the encouragement of the innovation activities of technology-intensive enterprises can contribute significantly, in an indirect way to the improvement of the competitiveness and growth potential of the corporate sector. Therefore the encouragement of the independent or cooperatively realised product, service and technology developments (as well as the purchase and adaptation of competitive technologies), the utilization of brand-new or enhanced products, the promotion of their market introduction and brand development are our main objectives.

Content of the measure:

In favour of promoting the innovations of enterprises, the measure contains the following drafting:

- The support of market-proven development and manufacturing enterprises of significant income-raising characteristics by means of implementing R&D developments (new product, service, technology and process development, or the enhancement or adaptation of existing R&D developments), self-supporting or realised in cooperation with other SMEs, by introduction of research results also to the market, and by the propagation of patent rights and own trade-names.
- The enhancement of R&D directly used by enterprises by establishing such own R&D units which are capable of carrying out projects to be used directly at the enterprise in cooperation with full-time research establishments.

- The support of such technology-intense start-up undertakings that arise directly from the results of research institutes for preparation of receiving seed capital (e.g. resulting from financial instruments project), and are able to demonstrate the development and manufacturing method of the prototype that is based upon the research results, as well as how they imagine the technological design of the manufacturing, and how they will sell the product containing the technology on the market. Finally, the interventions of the EDOP, providing consulting, incubation, partner search, and financing activities are necessary in order to establish technology-intensive **spin-off** enterprises, cooperating with the university research locations, and due to the complicated assessment of the business viability and the huge risk involved in the first (so-called *pre-seed* phase) of strengthening them by seed capital.

The target group of the measure: commercial companies

Eligible activities:

- R&D project (primarily experimental development),
- Trade law protection of SMEs,
- Market entry,
- Support to beginner innovative enterprises.

Within the frames of the priority, in a complementary manner, in case of each operation the so called complementarity rule can be applied, namely the possibility specified in Council Regulation (EC) No 1083/2006 Article 34(2), that, actions falling within the scope of assistance of the European Social Fund can be financed up to a limit of 10% of the Community funding, first of all through the “the development of human potential in research and innovation, ... through the training of researchers” listed in Council Regulation (EC) No 1081/2006 Article 3 Paragraph 2 a) iii.

Recommended indicators at the level of priority axis 1:

Name of indicator	Target value (2010)	Target value (2015)	Initial context ⁶⁸
5. The increase of enterprise R&D expenditures as a result of priority axis 1	55.8%	15.5%	89.7 (2005, HUF billion)
6. The increase of registration of given EPO patents, utilization and design patents as a result of the programme	19%	30%	181 (2005, HPO domestic institutional registration) 243+250 (2005, HPO, domestic registration) 191 (2003, EPO Hungarian registration)
7. The increase of calculated research workforce as a result of the programme	4%	8%	7 393 (2005, persons - converted to full-time employees at enterprise R&D research establishments)

3.2. COMPLEX DEVELOPMENT OF ENTERPRISES (FOCUSING ON SMEs)

One of the main objectives of the 2007-2013 programming period is the complex development of corporate capacities of enterprises (taken in a broader sense) that have growth potential, first of all micro, small and medium sized enterprises in order to develop their income generating effect and market positions. In order to achieve this, it is necessary to further develop technology-intensive activities, to establish high value added production and strategic service activities in Hungary, as well as especially the modernisation of the SMEs sector, to increase their role played in employment and the development of their innovation abilities, to reduce the difference in terms of productivity between the small, medium sized enterprises and the modern large enterprises that are mostly in foreign property. In terms of the convergence of the regions lagging behind, the multiplier effect generated by the settled enterprises can have an important role that through the development of supplier network can strengthen the position of domestic suppliers, typically of SMEs. In case of the interventions applied in relations to the priority axes, the integration of the development of corporate organisation and human resources, the use of ICT technology and applications, as well as of the business and market development activities, especially within the different corporation development projects, has high importance.⁶⁹

Technology upgrade of the enterprises

Objective of measure:

The objective of the measure is the establishment of technology and knowledge-intense industries in Hungary, focusing on the convergence of the backward regions of the country. By the expansive application of innovative measures resulting in modernisation, the measure is aimed at increasing the international competitiveness and success of enterprises (primarily SMEs)

⁶⁸As every numerical indicator shows the changes directly resulting from the EDOP measures, their initial values are 0%. The assessment of the relative importance of the programme's effect is supported by the communication of the initial values of the base data, thus we find „initial context” in the table.

⁶⁹Contribution to the cluster management that encourages the cooperation of enterprises will be financed from the Regional Operational Programmes.

of development potential, the stabilisation of their subcontractor status, furthermore at creating work opportunities in underdeveloped regions by means of realised investments.

The content of the measure:

A large proportion of the domestic enterprises have technologically outdated production equipment, ICT tools and applications, their production capacity includes mostly equipments purchased at the time of the privatization. Within the scope of measure, we support the establishment of advanced technology manufacturing capacities suitable for manufacturing/provision of competitive, high quality products/services with **significant added value** in case of enterprises (primarily SMEs) of **development potential** in the following areas:

- Investments related to the adaptation of innovative technologies (license, know-how, patent right, manufacturing technology),
- Improvements related to the internationalisation of investments,
- Developments of enterprises with subcontractor status or aiming to be subcontractors,
- Developments realising environmental (energy and material saving) change of technologies to ensure economic sustainability,
- Investments related to creating employment opportunities in underdeveloped or the most backward small regions,
- Establishment and development of international services centres

The target group of the measure: enterprises (primarily SMEs) of development potential.

Eligible activities:

- Obtainment of necessary technical devices
- Infrastructural and real estate investment related to the obtainment of devices
- Obtainment of manufacturing licence and know how related to the obtainment of devices
- Development of IT
- Support of market entry
- Company HR development connected to the project
- Counselling related to the development

Support of large companies greatly contributes to the development of the SME sector through the multiplier effect (indirect effect on employment, connections with suppliers, dissemination of best practices) The direct company support of large enterprises is being monitored according to the monitoring system throughout the whole programme period. To avoid any deflection of trade, only a part of the schemes will be open for large enterprises alongside the SMEs in priority 2. The amount of support of schemes also available for large enterprises is adjusted in a way that it will absolutely not have an effect of deflection of trade that might cause a significant change in the behaviour of enterprises. Further to this, with regard to support given to large companies we set a condition which states the created capacity shall be maintained for five years.

Encouragement of corporate organisation development, and modern process management

Objective of measure:

In the frames of the development, by the encouragement of the utilization of the opportunities provided by the IT tools, the operational effectiveness of the enterprises can be improved. To improve corporate culture, and the effectiveness of the corporate process management it is indispensable to establish corporate management systems (management decision support and information systems, as well as supply management and customer service systems) that can encourage corporate business relations, improve the effectiveness of internal corporate

procedures, network safety and the quality of services, and support effective knowledge management, as well as the introduction of quality, environment and other management systems.

Content of the measure:

Targeting the spread of up-to-date, electronic, integrated, real time, and extended corporate operational models, the increase of the corporate IT level are to be achieved by supporting complex corporate info-communication development programmes, encouraging among others the spread of applications that increase the utilization level of virtual space and the spread of intelligent business solutions, developing consumer electronic trade and the IT of the business relations between the trade and the enterprises.

Target group of the measure: SMEs

Eligible activities:

- Assistance to company process-management,
- Assistance to the introduction of quality, environmental and other control systems, and standards,
- Assistance to e-commerce and other e-services.

Within the frames of the priority axis, in a complementary manner, in case of each operation the so called complementarity rule can be applied, namely the possibility specified in Council Regulation (EC) No 1083/2006 Article 34(2), that actions falling within the scope of assistance of the European Social Fund can be financed up to a limit of 10% of the Community funding, first of all “increased investment in human resources”, as well as “the design and dissemination of innovative and more productive forms of work organizations” listed in Council Regulation (EC) No 1081/2006 Article 3, Paragraph 1.a)

Recommended indicators at the level of priority axis 2:

Name of indicator	Target value (2010)	Target value (2015)	Initial context ⁷⁰
1/b. The increase of the gross value added produced by the enterprise sector as a result of priority axis 2 - by size of enterprise micro & small enterprises: 1.8%	mid: 1.8% enterprises: 1.8% large enterprises: 0.7%	micro & small enterprises: 1.5% mid. enterprises: 1.5% large enterprises: 0.5%	micro & SE: 3 499 ME.: 2 198 LE.: 5 052 (2005, HUF billion, on staff figures, at basic price)
8. The increase of net income of the entrepreneurial sector as a result of priority axis 2	2%	3%	41 273 (2003, HUF billion, joint ventures)

3.3. IMPROVEMENT OF MODERN BUSINESS ENVIRONMENT

In the frames of the priority axis for modern business environment, first of all not directly the enterprises, but the development of their external, operational environment can be supported, complementing to the regulatory instruments described in the National Reform Programme.

Up-to-date info-communication infrastructure

The objective of measure:

In order to develop ICT infrastructure it is necessary to establish a modern ICT network infrastructure, by promoting the access to broadband networks. Target areas of the development are the underdeveloped, economically backward small towns, cities and villages. The main objective is to ensure their closing up, to increase their competitiveness, as well as promoting the integration of the local population into the information society by providing available broadband infrastructure. In these towns, cities and villages the need for state intervention results from market insufficiencies. In order to minimize any deflection of trade, the emphasized areas of infrastructure development were properly limited.

The content of the measure:

The measure promotes the development of broadband telecommunication infrastructure in order to provide Internet-availability for business and home use by means of supporting the establishment of broadband network infrastructure. Thus the supply barrier of availability is eliminated in such economically underdeveloped, commercially less attractive, disadvantaged regions, where broadband network infrastructure has not yet been established and will not be established within reasonable time on market basis.

Due to cost-effectiveness reasons we promote info-communication solutions that are providing up-to-date, integrated access as well as are interactive and open coded providing complementarity. During the development process we put special emphasis on the improvement

⁷⁰ As every numerical indicator shows the changes directly resulting from the EDOP measures, their initial values are 0%. The assessment of the relative importance of the programme's effect is supported by the communication of the initial values of the base data, thus we find „initial context” in the table.

of information safety (data and network safety), thereby the trust put into the IT systems and networks can also be improved. In order to avoid monopolistic situations, and at the same time to be able to reduce prices, apart from market regulation we also incite the appearance of alternative service providers and services, that is the competition between the different broadband technologies by development policy instruments (provision of open access or suitable price indication).

The target group of the measure:

Commercial companies that are registered at the National Communications Authority as legal actors of electronic communication.

Eligible activity:

- The improvement of broadband infrastructure

Development of logistics centres

The objective of measure:

The building up of logistical infrastructure and the availability of complex logistical services are instrumental in the promotion of enterprises focusing on their basic activities and the attraction of foreign investment, which makes the reinforcement of the development of the logistic sector as well as the enhancement and levelling up of services provided by logistic centres (particularly the intermodal and regional logistic centres) (including the ICT applications) necessary.

Content of the measure:

The need for logistics centres providing complex services implies the enhancement of the logistics sector, the improvement of high level services (including ICT applications) provided by logistics centres (intermodal and regional logistics centres) and related "within the fence" infrastructure. Investments aimed at the improvement of logistics services indirectly support SMEs supplier and distributor activities, thus promoting their competitive operation.⁷¹

Target group of the measure

- Intermodal and regional logistics centres,

Eligible activities:

Complex development of services for intermodal and regional logistics centres

Providing investment incentive, consulting and business, information and market development services for the enterprises

The objective of measure:

It is crucial for the small and medium sized enterprises to acquire management, business skills or use services (i.e. supporting foreign market success, such as marketing, brand development, market development, or are related to corporate fusion, and the admission of securities to the stock market) that are necessary for developing, for becoming a supplier, and for entering foreign markets, in order to improve their effectiveness, and their chances for survival and growth.

Content of the measure:

⁷¹ The content of the EDOP measure related to the logistics centre development will be extended by the measures of the Transport OP and certain ROPs targeting the development of the transport and logistics infrastructure, in the same field.

The support of services related to proactive investment incitement and entering international markets. The services promote both the attraction of new investors and the reinvestment of the profit of already settled enterprises. The services include the following:

- Marketing campaigns promoting Hungary as an attractive field of investment,
- Match-making activity between potential investors and local municipalities, as well as foreign-owned large enterprises and subcontractor enterprises,
- Providing information on potential investment premises,
- Support of follow-up activities for materialised investments

In case of counselling related to financial instruments:

- In the case of customers invoking refundable assistance, the claim to manage new customer groups and risks of a new type has been put in by the financial mediators. The financial mediators must be capable of proper assessment and management of customer- and portfolio-related risks. Therefore, within the scope of this measure, we support the training and education programme of financial mediators.
- The customers invoking refundable financial programmes have not typically utilised external resources for enhancing the activities of the enterprise. It is becoming increasingly necessary to help undertakings understand the problems arising out of resource management and to promote their financially conscious utilization of financial funds. Therefore, within the scope of this measure, we support the counselling related to the utilization of financial funds invoked by the enterprises.

The target group of the measure: Enterprises, primarily micro and small enterprises

Eligible activities:

- Counselling on commerce, market development and investment incitement related issues,
- Training and education of financial mediators,
- Counselling on refundable financial funds to be invoked by enterprises

Within the frames of the priority axis, in a complementary manner, in case of each operation the so called complementarity rule can be applied, namely the possibility specified in Council Regulation (EC) No 1083/2006 Article 34(2), that actions falling within the scope of assistance of the European Social Fund can be financed up to a limit of 10% of the Community funding, first of all “increased investment in human resources”, as well as “the design and dissemination of innovative and more productive forms of work organizations” listed in Council Regulation (EC) No 1081/2006 Article 3, Paragraph 1.a)

Recommended indicators at the level of priority axis 3:

Name of indicator	Target value (2010)	Target value (2015)	Initial context ⁷²
The increase of gross value added produced by economical, ICT and logistics services as a result of priority axis 3 - according to Standard Industrial Classification System (TEÁOR)	6%	8%	4 731 (2005, HUF billion, at basic price)
9. The increase of households with broadband accessibility	6% points	10% points	89 (2006, %)
10. Growth of service revenue of logistics centres as a result of the programme	15%	25%	25%

3.4. FINANCIAL INSTRUMENTS

In accordance with the JEREMIE⁷³ initiative of the European Commission, the priority axis plans to improve the access of small and medium sized enterprises to external resources by different financial instruments and related advisory assistance. The resources of the OP will be available in a so called holding fund, that will mainly through refinancing or co-financing of private financial intermediaries improve the access of SMEs to financing resources. The range of financial intermediaries to be involved in the implementation is open, first of all in the first years of the programme they will compete for the implementation opportunities. Financial results, and the operational support granted in the initial period will be handled separately, that will enable the continuous evaluation of the effectiveness of the organizations.

To tackle failures of the financial markets described in the situation analysis –based on the above described operating principles– the next interventions are planned to be made, that can significantly enhance access of the enterprises to financing resources:

- Micro-financing
- Guarantees
- Development of the capital market (venture capital, seed capital)

Micro-financing. Due to the relatively high level of transaction costs it is difficult for the domestic banking system to handle small credit requirement of micro, therefore this corporate segment can be mostly accessed by organizations specialised for micro-financing. To tackle this problem, our objective is to develop the methods of micro-financing and to increase the amount of available resources. Micro-financing organizations will be granted refinancing opportunities and guarantees by the state, which will enable for them the development of credit portfolio.

Guarantee instruments. The biggest problem for banks is the lack of credit collaterals and the management of the risks specific to small enterprises. Bank financing of the SMEs is planned to

⁷²As every numerical indicator shows the changes directly resulting from the EDOP measures, their initial values are 0%. The assessment of the relative importance of the programme's effect is supported by the communication of the initial values of the base data, thus we find „initial context” in the table.

⁷³ Joint European Resources for Micro to Medium Enterprises, joint initiative of the Commission, the EIB and the EIF to improve the access of SMEs to financial resources. <http://www.eif.org/jeremie/> and http://ec.europa.eu/regional_policy/funds/2007/jjj/jeremie_en.htm.

be developed by guarantee instruments, as by improving the institution system of credit guarantee, as with the application of (support) guarantees the multiple amount of the actually provided credit can be provided through commercial loan. This way, guarantees taken for the individual transactions and for the small enterprise credit portfolios will improve the effectiveness of risk management. The holding fund will provide for the commercial banks counter-guarantee as well as shared risk assumption.

The development of the **domestic capital market** is planned to be implemented by co-financing of private funds. Private investors will be encouraged to invest in smaller companies by the non-proportional share of costs and yield. Co-financing will be available for the capital funds, if their investment policy is in accordance with the objectives of the OP. The non-refundable assistance provided to start-up enterprises operating in the pre-seed phase of Priority 1 is complemented and followed by the risk and seed capital.

Recommended indicators at the level of priority axis 4:

Name of indicator	Target value (2010)	Target value (2015)	Initial context⁷⁴
The decrease of the number of micro, small and medium sized enterprises without access to financing resources (loan) as a result of Priority 4	4.3% points	12.8% points	76.8 (2004, %, SMEs without short-dated loans, according to staff figures, in the operating enterprises)
Access of financial mediation in the SME sector (loans outstanding/GVA)	4% points	10% points	25.7 (2005, %, loans outstanding of non financial enterprises/GDP)
The outlaid capital outstanding by institutional investors operating fully or partly with private capital in the ratio of GVA produced by the SME sector	0.4% points	1.4% points	131 (2005, M EUR,) 0.6% (2005, %, risk and private capital investment/GVA)

3.5. FINANCING OF THE IMPLEMENTATION OF THE ECONOMIC DEVELOPMENT OPERATIONAL PROGRAMME (EDOP) (TECHNICAL ASSISTANCE)

3.5.1. Objective

The successful and efficient implementation of the operations related to the operational programme

⁷⁴ As every numerical indicator shows the changes directly resulting from the EDOP measures, their initial values are 0%. The assessment of the relative importance of the programme's effect is supported by the communication of the initial values of the base data, thus we find „initial context” in the table.

3.5.2. Technical assistance in NHDP

According to the Council Regulation No 1083/2006/EC Article 46 the Funds may finance the preparatory, management, monitoring, evaluation, information, control activities of the operational programmes together with activities to reinforce the administrative capacity for implementing the Funds.

During the period of 2007-2013 the resources of technical assistance have appeared twice, in the technical assistance priorities of the OPs and in the horizontal Implementation Operational Programme (IOP).

The limitation between IOP and OP level activities have been established in light of the division of labour between certain levels of the institutional system as well as the division of activities and costs resulting from the operation of institutions.

Consequently

- the technical support priorities of the OPs are designed to assist the operative activities primarily related to project-level execution of certain programmes ,
- activities related to the NHDP and operational programmes.

Distribution of available TA resources is as follows:

TA resource	Distribution of resources (in % of NHDP)
Implementation Operational Programme (IOP)	1.3%
Operational Programme TA priorities total	2.6%
Total	3.9%

3.5.3. Activities promoted by the technical assistance priority

➤ ***Technical-administrative implementation of the operational programme (tasks of the intermediate bodies)***

The organisation contributory to the execution of the operational programme carries out the priority(ies) referred to its sphere of responsibility according to its authority and the guidance received, including:

- preparation of Calls for applications and sample Grant Contracts,
- collection and evaluation of project proposals,
- conclusion and modification of Grant Contracts,
- tracking of project implementation,
- payment of grants, carrying out tasks related to closing projects,
- performs the audits of the procedures, tracks and reports irregularities,
- the provision of thematical communicational activity related to OP or OP priority, based on the yearly communication plan approved by NDA.

(A detailed description of the tasks of the Intermediate Bodies can be found in chapter on implementation).

The tasks of the Intermediate Bodies will be specified in a task-order contract between the Managing Authority and the Intermediate Bodies. The tasks of the Intermediate Bodies in relation to the implementation of the OP will be charged based on the completed activities and performance to the current priority axis.

One of the biggest problems encountered when financing Intermediate Bodies during the 2004-2006 period was that financing was carried out based on costs which did not mean motivation to improve cost effectiveness. To remedy this issue the National Development Agency shall finance Intermediate Bodies of programming period 2007-13 in relation to completing tasks connected to NHDP exclusively on performance basis. Wherever it is possible, the basis of financing is price per unit (eg number of evaluated project proposals, number of completed payments, etc). *(A detailed introduction of financing methods for Intermediate Bodies can be found in section Implementation, under heading "Administrative capacity of implementation).*

➤ ***Completion of other tasks related to the implementation of the operational programme***

Beyond those aforementioned tasks carried out by the Intermediate Body, in the framework of the TA axis, the following activities - connected to the implementation of the Operational Programme - should be supported.

- operation of the Monitoring Committee for the OP as well as the completion of its secretarial tasks,
- preparation of annual implementation reports, studies and analysis related to the implementation of the Operational Programme, evaluations initiated by the Monitoring Committees and evaluations not listed in NHDP level evaluation plan.

3.5.4. Indicators

Name of indicator	Target value (2010)	Target value (2015)	Initial context ⁷⁵
16. Rate of realisation of supported projects*	90%	100%	-

** Ratio of realised development (positive support decision, development and actual closed projects)*

⁷⁵As every numerical indicator shows the changes directly resulting from the EDOP measures, their initial values are 0%. The assessment of the relative importance of the programme's effect is supported by the communication of the initial values of the base data, thus we find „initial context” in the table.

4. FINANCIAL TABLE

In accordance with Council Regulation No 1083/2006/EC Article 37(e), the below two tables are parts of the financial plan:

EDOP - Financing Plan			
CCI number - reference number of OP		2007HU161PO001	
			current price, EUR
Year		ERFA (1)	Cohesion Fund (2)
			European Union total (3)=(1)+(2)
2 007	In regions without transnational support	349 782 391	
	In regions with transnational support		
	Total	349 782 391	
2 008	In regions without transnational support	339 388 697	
	In regions with transnational support		
	Total	339 388 697	
2 009	In regions without transnational support	368 433 178	
	In regions with transnational support		
	Total	368 433 178	
2 010	In regions without transnational support	414 257 800	
	In regions with transnational support		
	Total	414 257 800	
2 011	In regions without transnational support	459 407 328	
	In regions with transnational support		
	Total	459 407 328	
2 012	In regions without transnational support	453 043 561	
	In regions with transnational support		
	Total	453 043 561	
2 013	In regions without transnational support	474 510 775	
	In regions with transnational support		
	Total	474 510 775	
Total	In regions without transnational support		2 858 823 730
	In regions with transnational support		
	Total		2 858 823 730
Grand Total			2 858 823 730

EDOP - Financing Plan										
CCI number - reference number of OP			2007HU161PO001							
								current price, EUR		
Priority Axis	Source	Meth of co-fin *	EU finance (a)	Home finance (b)=(c)+(d))	Home indicative dist		Finance total (e)=(a)+(b)	Ratio of cofinance (f)=(a)/(e)	Information	
					State ©	Private (d)			Other financial	EIB loans
R&D and innovation for competitiveness	ERFA	Public expenditure	842 072 499	148 601 030	148 601 030		990 673 529	85,0%	n.a.	n.a.
Complex development of enterprises (focusing on SMEs)	ERFA	Public expenditure	1 117 213 772	197 155 372	197 155 372		1 314 369 144	85,0%	n.a.	n.a.
Improvement of modern business environment	ERFA	Public expenditure	191 675 068	33 825 013	33 825 013		225 500 081	85,0%	n.a.	n.a.
JEREMIE financial instruments	ERFA	Public expenditure	618 014 703	109 061 418	109 061 418		727 076 121	85,0%	n.a.	n.a.
Technical assistance	ERFA	Public expenditure	89 847 688	15 855 475	15 855 475		105 703 163	85,0%	n.a.	n.a.
Total			2 858 823 730	504 498 308	504 498 308		3 363 322 038	85,0%	n.a.	n.a.

* As per Par (1) of Article 53 of Regulation 1083/2006 a) total sum of eligible costs - including public and private expenditure b) the sum of eligible public expenditure

5. INTERCONNECTION WITH THE MEASURES FINANCED BY THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT AND THE EUROPEAN FISHERIES FUND

The New Hungary Rural Development Programme (NHRDP) that has been prepared in accordance with the New Hungary Rural Development Strategic Plan coordinated by the Ministry of Agriculture and Rural Development has been prepared in accordance with the previously mentioned strategies (National Development Policy Concept, National Regional Development Concept, National Lisbon Reform Programme For Growth and Employment 2005-2008, Sustainable Development National Strategy, National Environmental Protection Programme), as well as the provisions of the Community Strategic Guidelines, the Council Regulation (EC) No 1698/2005 on the European Agricultural Fund For Rural Development, as well as the Council Decision 2006/144/EC on the Strategic Guidelines for Rural Development. Close strategic relations between the EDOP and the NHDP will be implemented in the following way:

The effective agricultural sector and regional development assistance can contribute to the main objective of the Economic Development Operational Programme (EDOP) that is to „ to encourage the permanent growth of the Hungarian economy by strengthening the competitiveness of the production sector” to a large extent, that can be supported by the improving effectiveness and income generating ability of the different enterprises (either in the agricultural sector or in the processing industry). Accordingly, there is a strong connection between the Economic Development Operational Programme (EDOP) and the NHDP, and the two programmes are complementary.

Separation from the Economic Development Operational Programme (EDOP) has to be made in case of the first and third group of measures of the NHDP:

Connection between EDOP priorities and NHDP		
EDOP priority	NHDP group of measures to be limited	Rule of demarcation
Priority 1: R&D and innovation for competitiveness	Group of measures I: The increase of the competitiveness of agriculture and forestry,	<ul style="list-style-type: none"> ▪ Based on the activity: EDOP does not support innovation and technology parks which are connected to such an innovation cluster that is in connection with the production, processing and marketing of the products listed in the annex I of the Treaty establishing the European Community, which result in annex I products – with the exception for wood products, which are taken on board by the OP. This principle applies in respect of all potential beneficiaries, regardless of the level income derived from agricultural activities. ▪ Based on the type of beneficiary: EDOP does not support any project, outside those falling within the scope of the

		<p>production/processing/marketing of agricultural products, by innovation and technology parks which are connected to such an innovation cluster whose all member enterprises are agricultural holdings – natural persons and legal persons deriving more than 50% of net income or tax base from agricultural activity, as per corresponding code of TEAOR.</p>
<p>Priority 2: Complex development of enterprises (focusing on SMEs)</p>	<p>Group of measures I: The increase of the competitiveness of agriculture and forestry,</p> <p>Group of measures III: the diversification of rural</p>	<p><u>Group of measures I:</u></p> <ul style="list-style-type: none"> ▪ Based on the activity: EDOP does not support projects in connection with the production, processing and marketing of the products listed in the annex I of the Treaty establishing the European Community, which result in annex I products – with the exception for wood products, which are taken on board by the OP. This principle applies in respect of all potential beneficiaries, regardless of the level income derived from agricultural activities. ▪ Based on the type of beneficiary: EDOP does not support any project, outside those falling within the scope of the production/processing/marketing of agricultural products, by agricultural holdings – natural persons and legal persons deriving more than 50% of net income or tax base from agricultural activity, as per corresponding code of TEAOR. <p><u>Group of measures III:</u></p> <p>The basis of limitation is defined according to the size of enterprise and the place of investment.</p> <p><u>NHDP:</u> the support of investment of such micro enterprises that realise their projects at rural towns, cities and villages.</p> <p><u>EDOP:</u> excludes the support of investment of such micro enterprises that realise their projects at rural villages⁷⁶.</p>

⁷⁶A rural village is a settlement of which one of the following two descriptions apply:

- its population density is not more than 100 /km², or
- its constant population is not larger than 5,000 inhabitants

	life quality as well as rural economy,	
Priority 3: Improvement of modern business environment	<p>Group of measures I: The increase of the competitiveness of agriculture and forestry,</p> <p>Group of measures III: the diversification of rural life quality as well as rural economy,</p>	<p><u>Group of measures I:</u></p> <ul style="list-style-type: none"> ▪ Based on the activity: EDOP does not support projects in connection with the production, processing and marketing of the products listed in the annex I of the Treaty establishing the European Community, which result in annex I products – with the exception for wood products, which are taken on board by the OP. This principle applies in respect of all potential beneficiaries, regardless of the level income derived from agricultural activities. ▪ Based on the type of beneficiary: EDOP does not support any project, outside those falling within the scope of the production/processing/marketing of agricultural products, by agricultural holdings – natural persons and legal persons deriving more than 50% of net income or tax base from agricultural activity, as per corresponding code of TEAOR. <p><u>Group of measures III:</u></p> <p>The basis of limitation is defined according to the size of enterprise and the place of investment.</p> <p><u>NHDP:</u> the support of investment of such micro enterprises that realise their projects at rural towns, cities and villages.</p> <p><u>EDOP:</u> excludes the support of investment of such micro enterprises that realise their projects at rural villages⁷⁷.</p>
Priority 4: Financial instruments	No group of measures to be limited	-

„A programme financed by the National Fishery Strategy Plan will not finance activities overlapping with EDOP.”

⁷⁷ A rural village is a settlement of which one of the following two descriptions apply:

- its population density is not more than 100 /km², or
- its constant population is not larger than 5,000 inhabitants

6. IMPLEMENTING PROVISIONS FOR THE OPERATIONAL PROGRAMME

The main aspects in terms of the establishment of the implementation system are to summarize the experience of the period of 2004-2006, to establish a coordinated and effective system, to clearly separate tasks and liabilities, to avoid the overlapping of the different procedures, to ensure the transparency of the procedures, and simplify them, as well as to establish a client-friendly system. These fundamental aspects have to be monitored by all actors of the procedure, at all level of the implementation system.

The following national legislation lays down the governing rules for implementation:

- Government decree 255/2006. (XII. 8.) on the fundamental rules and institutions in charge of implementation of support from the European Regional Development Fund, the European Social Fund and the Cohesion Fund in the programming period 2007-2013.
- MHPMO (Minister Heading the Prime Minister's Office)-MF (Minister of Finance) Joint Decree 16/2006 (XII. 28.) on general rules of implementation of support from the European Regional Development Fund, the European Social Fund and the Cohesion Fund in the programming period 2007-2013.
- Government Decree 281/2006 (XII.23.) on rules concerning establishing systems of financial management and controls in relation with receiving support from the European Regional Development Fund, the European Social Fund and the Cohesion Fund in the programming period 2007-2013.

6.1. MANAGEMENT

6.1.1. Strategy and coordination

Throughout programming and implementation the following **aspects of co-ordination** must be ensured:

- The coherence and consistency between development assistance financed from the Funds as well as from national resources;
- The co-ordination of programming and implementation between the different Funds – EAFRD, EFF, structural funds, Cohesion Fund;
- Full exploitation of synergies between operational programmes within the NSRF, as well as eliminating duplications and conflicting activities;
- Taking into account regional considerations in case of sectoral OPs through the continuous involvement of the regional development councils;
- Ensuring that sectoral policies are represented in regional operational programmes through the participation of line ministries;
- The programming and implementation of flagship programmes financed by several operational programmes at a time, including territorial development programmes covering more than one region;

- Ensuring the promotion and respect of horizontal objectives – gender mainstreaming, equality between men and women and prevention of any discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation, ensuring accessibility for disabled persons with respect to Art. 16 of 1083/2006/EC as well as sustainability with respect to Art. 17 of 1083/2006/EC.

The guarantees for coordination equally cover the phases of planning, implementation, monitoring, evaluation and feedback. In order to provide for efficient cooperation of the organisations the principle processes of coordination are defined by the legal framework.

Institutional framework

The overall coherence of strategic planning is ensured by the Government. For this, **the Government** approves

- the National Strategic Reference Framework (hereinafter referred to as the New Hungary Development Plan, (NHDP) as well as the operational programmes before they are submitted to the European Commission;
- the action plans that describe the measures to be implemented by the operational programmes in full detail – the schedule, budget, objectives, target groups, of the planned measures as well as the list of projects to be implemented without a competitive procedure, including the list of major projects;
- any proposed amendments to the operational programmes – prior to their approval by the Monitoring Committees.

The Government evaluates the progress of the implementation of the NHDP and the operational programmes on a regular basis.

In order to facilitate the co-ordination of strategic planning tasks related to the NSRF and the OPs, the National Lisbon Action Programme, the National Strategy for Sustainable Development and the rural development plan, the Government established the **Development Policy Steering Committee (DPSC)**. The DPSC has the task of discussing proposals and reports to be submitted to the Government, including the delivery of an opinion on the OPs, the action plans, the content of the calls for proposals. (These functions are without prejudice to the functions of the Monitoring Committee.)

As a further, high-level advisory body to the Government, the **National Development Council (NDC)** was set up. The NDC's members are:

- the Prime Minister
- representatives of regional development councils,
- delegates of the Economic and Social Council,
- distinguished experts,
- the invited members of the DPSC.

The NDC evaluates the implementation of the development policy objectives, monitors the implementation of the objectives defined by the NSRF, and the enforcement of the development guidelines of the EU, and based on that, prepares recommendations for the Government. (These functions are without prejudice to the functions of the Monitoring Committee.)

The Government's agency charged with the planning and implementation of the National Strategic Reference Framework is National Development Agency. The NDA is responsible for:

- the coordination of the planning, programming, evaluation and implementation of the NHDP,
- the coordination of the planning, programming and implementation of the operational programmes,
- in accordance with the Council Regulation (EC) 1083/2006 Article 27 Paragraph 4.g) ensuring coordination between the support provided by the operational programmes, as well as – in co-operation with the Managing Authority of the New Hungary Rural Development Programme – those of the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF);
- the coordination of all above financial sources with the assistance received from the European Investment Bank and the European Investment Fund and other resources;
- liaising with the European Commission regarding the questions related to the NHDP and the other operational programmes;
- the elaboration of the general procedural requirements for the implementation of the NHDP and the OPs, including the development of a single operational manual;
- the setting up, the operation and the continuous development of the single monitoring and information system;
- the enforcement and promotion of Community policies and horizontal principles such as sustainability, equality and non-discrimination, public procurements and – in cooperation with the State Aid Monitoring Office of the Ministry of Finance (MoF SAMO) – the respect of state aid rules. In the frame of this for the elaboration of documents and guidelines etc., the enforcement of these in the calls for applications and grant facilities, and the monitoring of the fulfilment of these activities.
- the development of the unified communication strategy regarding the implementation of the NHDP, as well as the requirements related to providing information and publicity on the entire NHDP;
- the organisational development of the institutional system (i.e. providing training opportunities, development of curriculum, dissemination and promotion of best practices, ensuring coordination upon the regulations)
- setting up and operation of the unified client service for the NHDP.

Coordination processes

The coherence, complementarity and coordination of the content of the **operational programmes** is ensured through the definition of detailed demarcation principles in the OPs themselves.

The operational programmes are translated into concrete operations by the so-called **action plans**, prepared, on a biannual basis, for an OP or a priority axis thereof. The action plans spell out the objectives and content of the planned operations, their schedule and indicative financial allocations. Action Plans are also required to present a detailed justification for the planned measures through describing their:

- relationship to community policies (including CSG and Lisbon strategy), sectoral and/or regional strategies and programmes (including connections with flagship programmes);

- complementarity with developments financed from national resources.

The proposals for the actions plans are prepared by the Intermediate Bodies (IBs) and the line ministries and/or regions concerned with the guidance of the Managing Authority (MA) in the framework of a working group where all ministries and regions concerned are represented (**Operational Programme Programming Coordination Committee, OPPCC**).

In the interest of ensuring the complementarity and avoid double funding with rural development and fisheries the representatives responsible for the implementation of the **EAFRD and EFF** are also taking part in the meetings of the OPPCC, and in the monitoring committee. Small regional advisory networks for the NHDP and EAFRD-EFF will operate in close co-operation.

As an extension of the partnership principle, but also in an effort to further strengthen co-ordination between programmes and measures, the NDA invites **comments from social partners and NGOs** not just during the preparation of the NHDP and the OPs, but also when elaborating the action plans and calls for proposals. Contributions by potential stakeholders – in writing or during dedicated consultation sessions – are then taken into account when finalising the detailed content of operations.

The application of the partnership principle on the different programming-implementing documents, as well as the fact that the relevant line ministry or – in case of the ROPs – the relevant Regional Development Council may be represented in the project selection committee also ensures the realisation of coordination aspects. As members of the monitoring committees regions also take part in the drawing up of project selection criteria.

6.1.2. Managing Authority (MA)

As of July 2006 the Managing Authority of all OPs operate as separate organisational units of the National Development Agency.

The concentration of the management of the implementation improves the effectiveness of the coordination between the implementation of the OPs, the exchange of experience, the transparency, the accountability as well as the rationalisation of management.

Designation of the Managing Authority

In line with Art. 59 paragraph (1) of regulation 1083/2006/EC, the tasks of the Managing Authority in case of the Economic Development Operational Programme are carried out by the NDA's Directorate General *Managing Authority for Economic Development Programmes*.

In line with Art 59 point (1) of Regulation 1083/2006/EC the tasks of the Managing Authority in the case of Economic Development Operational Programme are carried out by the Managing Authority for Economic Development Programmes General Directorate of the National Development Agency.

Tasks and responsibilities

According to Article 60 of Council Regulation (EC) No 1083/2006 the Managing Authority is responsible for managing and implementing the operational programme in accordance with the principle of sound financial management, and in particular for:

- Coordination of the planning of the operational programmes and the related documents that are under its responsibility. In the framework of the above, it operates with the participation of the relevant ministries, regions and experts the Operational Programme Planning Coordination Committee as a sub-committee of the Planning Operational Committee;
- Ensuring that operations are selected for funding in accordance with the criteria applicable to the operational programme and that they comply with applicable Community and national rules for the whole of their implementation period;
- Ensuring that the system for recording and storing the accounting records for each operation of the operational programme in computerised form is fed with up-to-date data, and that the data on implementation necessary for financial management, monitoring, audits and evaluations are collected;
- Ensuring that beneficiaries and other bodies involved in the implementation of the operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;
- Approval of the calls for applications and the grant contract templates as well as the decisions on the project proposals;
- Receipt and control of the requests for funds prepared by the intermediate bodies, countersigns and forwards verification reports prepared by the IBs to the certifying authority;
- Ensuring that the evaluations of the operational programmes are carried out in accordance with the relevant Community legislation. Thereby, the MA will play a lead role in defining priorities and tasks for evaluation work, in consultation with the Monitoring Committee (see also the chapter on evaluations);
- Preparation and continuous update of the audit trail of the operational programme; setting up procedures to ensure that all documents regarding expenditure and controls required to ensure an adequate audit trail are held in accordance with the requirements of the relevant legislation;
- Ensuring that the Certifying Authority receives all necessary information on the procedures and verifications carried out in relation to the expenditure for the purpose of certification;
- Operation of the Monitoring Committee and providing it with documents required to permit the quality of the implementation of the operational programme to be monitored in the light of its specific objectives;
- Drawing up and, after approval by the Monitoring Committee submitting to the Commission the annual and final reports on implementation;
- Providing the Commission with information to allow it to appraise major projects;
- Elaborating proposals for the amendments to the operational programme;
- Ensuring the implementation of the OP in line with the decisions of the Monitoring Committee regarding the criteria for the selection of operations, implementation of the action plans, ensuring regularity and feasibility of all operations.
- Monitoring of the implementation of the programmes under its responsibility,
- Liaising with the competent directorates-general(s) of the European Commission regarding the operational programme,
- Participation or – where the function is delegated – supervision of the fulfilment of in tasks related to providing information and publicity on the entire NHDP, as well as the operational programme;

- Managing the technical assistance budget of the operational programme;
- Handling of the system level irregularities, making the necessary corrective steps;
- Prepares proposals for the Government regarding the identification of priority projects after consultation with the relevant ministers and regional development councils.

Further organisational units of the NDA – typically regarding the horizontal tasks, related to several OPs, e.g. communication, finance – participate in the fulfilment of the tasks of the OP MA.

With regard to the **Intermediate Bodies**, responsible for delegated administrative, financial and technical tasks of implementation, the MA:

- Provides professional supervision regarding the activities of the Intermediate Bodies related to the implementation of the OP;
- Approves the internal rules of the Intermediate Bodies related to the use of the OP resources;
- Prepares instructions and rules regarding the implementation of the OP for the IB;
- Controls and evaluates the activities of IB on a regular basis.

The Intermediate Bodies provide the delegated tasks based on the task-order contracts that ensure that the Intermediate Bodies receive payment for their services based on their performance.

6.1.3. Intermediate Body

Tasks of the Intermediate Body

The Intermediate Body fulfils in relation to one or more priorities especially the following tasks:

- Participation in the preparation of action plans falling in its competence.
- Preparation of the **annual work plan** based on the requirements of the Managing Authority. The plan shall contain the dates of the calls for applications as well as the annual targets for commitments, support contracts and payments.
- Participation in the **preparation of calls for applications** and sample support contracts in cooperation with the MA and the relevant ministries.
- **Admission and appraisal of project proposals**, and based on the agreements with the Managing Authority setting up and operation of Assessment Committees, in case this task has been delegated to the Intermediate Body.
- Concluding of and amendments to the **support contracts**.
- **Verifying** that the co-financed products and services are delivered and the expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules;
- **Monitoring of project implementation**, payment of contributions, carrying out tasks regarding project closure, performing verification checks, tracking and reporting irregularities.
- **Recording of data** in the single monitoring information system on a continuous basis, providing an up-to-date and reliable database

- Preparation of **quarterly progress** reports on the implementation of the operational programme, the action plan that specifies the details of the implementation process, as well as the annual work plan, with the recommendations on the necessary measures.
- Preparation and up-dating of the **audit trail**.
- Fulfilment of tasks related to **information and publicity tasks**, based on the annual communication plan approved by the NDA.

Qualification, selection and financing of the IB

The **Intermediate Body** contributing to the implementation of the operational programmes was **selected on the basis of a set of objective criteria** measuring its institutional capacity and technical competence. In order to receive the assignment, the prospective Intermediate Body needed to prove the existence of an appropriate, consolidated organisational structure, the availability of human and technical resources, as well as professional competence necessary. *(Further information is provided on the selection procedure under the administrative capacity chapter.)*

To ensure the effectiveness of the implementation, the performance of the **Intermediate Body will be evaluated on a regular basis**.

The Intermediate Body participating in the implementation of the OP – based on the result of the qualification process – was appointed through a joint **ministerial decree**. Details regarding the tasks, responsibilities, and financing of the IBs were fleshed out in dedicated **task assignment contracts**, signed by the NDA, the IB and – where applicable – the owner of the IB.

For the sake of effective implementation of the programme in case of certain support frameworks – based on an individual decision – non-governmental organisations or corporations, commercial banks, can also be involved *(e.g. as managers of indirect grants or capital funds)*.

The **IB will be financed** through the above mentioned task assignment contracts from the technical assistance priority of the OP. In order to ensure sound financial management, correctness and regularity of expenditure declared by the IB in relation to its operational costs the contracts – among others – impose the following requirements:

- The IB has to **separate in full the costs** and incomes related to its activities concerning IB tasks in its financial records as well as in its analytical accounts. Unless unit prices are result of competition, incomes related to IB tasks cannot generate extra profit or finance losses related to other tasks of the organisation.
- The **MA is required to perform controls** of the IB concerning the implementation tasks delegated to it, including the correctness and regularity and effectiveness of expenditure and costs separated in its accounts related to its IB functions.

In case an irregularity is detected the **MA may suspend** the task concerned by the irregularity of the IB or in justified cases all tasks related to the task assignment contract of the IB.

The Intermediate Body of the Economic Development Operational Programme:

In case of the Operational Programme the following intermediate body was appointed as a result of the qualification procedure:

- MAG - Hungarian Economic Development and Subsidies Center Ltd.

The MAG - Hungarian Economic Development and Subsidies Center Ltd. carries out the tender management intermediary tasks of the Economic Development Operational Programme and the Central Hungary Operational Programme according to its contract with NDA, as well as to the relevant EU and state legislation.

The organisation was established in September 2006 by the integration of the HDB's Support Intermediation Directorate (formerly performing tender management tasks itself), the Hungarian Enterprise Promotion Public Benefit Company (MVf Kht), the Information Society Public Benefit Company, as well as a part of the Agency for Research Fund Management and Research Exploitation, in order to set up an efficient, transparent and customer-friendly organisation carrying out the tasks of support intermediation for the benefit of the applicants. All of the predecessor organizations carried out intermediary institutional tasks during the programming period of 2004-2006, thus the integration ensures the survival of the accumulated knowledge and competencies.

As a result of the integration, in the programming period of 2007-2013 a more clearly arranged institutional system serves the applicants, with a special emphasis on the micro enterprises and SMEs. By the integration of the predecessor organisations MAG eliminates several duplications, hence costs are expected to diminish. MAG establishes the best practices according to the formerly applied different operational proceedings and raises them to become the to-be-followed standard of the tender management system, thus increasing the effectiveness and productivity of tender management.

It has all competences and capacities to fulfil its role as an Intermediate Body.

With regard to the conditions set out on Art. 10 of Government Decree No. 255/2006. (XII.8.) the IB may be subject to change.

In order to eliminate duplications or overlaps in tasks – as experienced during the 2004-2006 period – as a general rule, all IB tasks related to an operation shall be assumed by one Intermediate Body only. The applicant or beneficiary shall be in contact with only one organisation (IB) that is responsible for a grant facility during all stages of implementation.

6.1.4. Procedures in relation to the implementation of the OP

In order to improve the efficiency and effectiveness of the implementation, as well to further encourage transparency it is necessary to standardize and simplify the implementation process.

Selection criteria need to ensure that operations/projects:

- contribute to the social-economic objectives of the NHDP, of the operational programmes, as well as the given priority;
- have objectives that are definite, measurable, and achievable;
- are cost-effective;
- are sustainable from a financial and organisational point of view;
- contribute to the enforcement of sustainable development, equal opportunities and the principle of non-discrimination;
- demonstrate the existence of all necessary pre-conditions for their successful implementation.

In each case, specific criteria for the selection of operations will be approved by the Operational Programme **Monitoring Committee**.

Decisions on projects will be made through one of the following procedures:

- Major projects: In line with the provisions of Art. 39-41 of 1083/2006/EC, operations financed by the ERDF or the Cohesion Fund comprising a series of works, activities or services intended in itself to accomplish an indivisible task of a precise economic or technical nature, which have clearly identified goals and whose total cost exceeds EUR 50 million (in case of environment exceeds EUR 25 million). In those cases where major projects are foreseen the indicative list of these projects will be part of the operational programme and the action plan and thus it is subject to public consultation.
- Key projects: Projects that can be supported without a call for applications. These too will be carefully appraised in an assessment procedure, first before pre-selected in an action plan (based on preliminary project proposal), and second before approved for implementation (based on detailed project proposal). Partnership approach will be ensured in both stages, as action plans will be subject to public consultation, and NGOs will delegate members to the project selection committees. Such projects have key importance from the economy and the society point of view. Their beneficiaries are usually – but not exclusively – state or local government organisations (*e.g. infrastructure projects of public benefit, state support of investments having priority employment effect*).
- One-stage calls for proposals: applied whenever – mainly due to the expected high number of applicants (i.e. private organisations) – it is reasonable to select beneficiaries on the basis of a fully competitive procedure.
- Two-stage calls for proposals: This procedure is applied mainly in cases where the size of the target group and the expected number of applications is more limited (typically: public investments), and projects to be financed are more complex. In such cases, projects are first pre-selected on the basis of preliminary (less detailed) proposals. Proposals successful in the first stage then receive assistance, through the IB, during their elaboration into fully fledged, fundable projects.
- Indirect support: cover two different procedures:
 - Indirect grants are used in case of proposals that are below a given value limit, and the allocation of the support, the monitoring of the implementation of the projects, whether they are in accordance with the regulations and the contracts – based on the contract concluded with the Managing Authority – will be fulfilled by professional management body – e.g. non-governmental organisations.
 - Financial support instruments: (e.g. credit, capital, guarantee instruments) are procedures for which the project selection, monitoring of implementation, auditing and the payment of the support will be carried out by financial intermediaries (e.g. banks).

Project selection procedures regarding independent measures are set out in the detailed action plans.

6.1.5. Administrative capacity

The budget of the development plan – and, within that, the size of the EU's contribution – has increased significantly compared to the previous period. Hungary is committed to the continued development of the institutional system, so that the full and continuous availability of appropriate institutional capacities is ensured, and EU support is used in an efficient, effective and timely manner.

In order to meet the challenges taking into account the experience of the 2004-2006 period Hungary has decided upon the structural reform of the institutional system. This comprehensive reform covers both the increasing of the efficiency of task assignment and operational management as well as in connection with that – based on preliminary measurement – the extension of administrative capacities.

Therefore:

- All managing authorities were concentrated in a single institution (the NDA). As a result of that:
 - The rules and procedures for programming and implementation are now standardised. This increases the transparency of the system and allows for better dissemination of best practices.
 - The common background functions of all MAs (i.e. finances, accounting, communication, legal matters) are to be carried out by horizontal units of the NDA for all the MAs. This allows for increased efficiency.
- The Government has revised the assignment of tasks related to programming and implementation between the MAs and IBs according to common principles. The MA will be responsible for the strategic tasks regarding the implementation of the OP while the IBs receive more autonomy and responsibility in the case of specific operational issues related to implementation. Therefore the duplication of tasks is to be eliminated, the possibility for mistakes can be reduced and the performance of all stakeholders will become unambiguously measurable and accountable.
- In autumn of 2006 in the frame of an independent institutional assessment the NDA – similarly to 2003 – has performed a qualification procedure on the potential IBs. The aim of the qualification assessment was to assess the competence of the institutions as regards IB functions, as well as to identify the areas in case of each body needed to be enhanced in order to perform the task (gap assessment). The main considerations of the assessment were:
 - whether or not the body is in possession of sufficient professional experience and skilled human resources,
 - whether the form of organization allows for performance incentive of staff and whether it allows for autonomous performance of tasks of an IB during the 2007-13 period,
 - whether the organizational functions and work is well defined and regulated.

As a result of the qualification process precise activity plans were prepared for institutional development for each of the IBs. The action plans established precise deadlines for the IBs that committed themselves to taking the measures necessary in the field of capacity and competences (which may if necessary for instance foresee the employment of additional staff required or the training of staff).

The gap assessment action plans form part of the NDA-IB task assignment contract and their execution is followed up by the MAs. It is therefore ensured that all IBs maintain adequate number of qualified and trained staff.

- A comprehensive performance measuring and incentive system is introduced both at organizational as well as staff level. Thus, all members of the institutional system became interested in the efficient and as regards the content effective implementation of the programmes.

- A predictable, performance-based system of financing has been introduced for the IB. Where possible, financing is based on unit costs (e.g. number of project proposals evaluated, number of payments transferred, etc.). The contract between the NDA and the IB ensures that the IB has financial interest in high standard, fast selection and management of the projects. It also ensures that the IB manages human and technical resources flexibly: they are free to increase or decrease capacities according to their mid-term tasks. Financial resources to cover the costs of the IB have been allocated to the technical assistance priority of the OP, based on a detailed assessment and calculation of the costs of the institutional system in the 2004-06 period.

Through the individual operational programmes, about two thirds of all TA resources available were earmarked for the financing of IB-level task and capacity needs.

6.2. MONITORING AND EVALUATION

6.2.1. Monitoring

Monitoring Committee

Tasks and competences:

The tasks within the competence of the Operational Programme Monitoring Committee – with special regard to the efficiency and quality of implementation– are specified in Article 65 of Council Regulation (EC) No 1083/2006 and Art. 14. of Government Decree No. 255/2006. (XII.8.). Accordingly, the Committee shall

- consider and approve the criteria for selecting the operations financed within six months of the approval of the operational programme and approve any revision of those criteria in accordance with programming needs;
- periodically review progress made towards achieving the specific targets of the operational programme on the basis of documents submitted by the Managing Authority;
- examine the results of implementation, particularly the achievement of the targets set for each priority axis and the evaluations;
- consider and approve the annual and final reports on implementation, and the annually updated evaluation plans;
- be informed of the annual audit report, or of the part of the report referring to the operational programme concerned, and of any relevant comments the Commission may make after examining that report or relating to that part of the report;
- propose to the Managing Authority any revision or examination of the operational programme likely to make possible the attainment of the Funds' objectives or to improve its management including its financial management;
- consider and approve any application to amend the content of the Commission decision on the contribution from the Funds.

The Monitoring Committee debates the action plans referred to in chapter 6.1.1. In compliance with Article 63 Paragraph (1) of Council Regulation (EC) No 1083/2006 a Monitoring Committee may supervise the implementation of several operational programmes.

Composition:

The Managing Authorities are responsible for establishing the monitoring committees.

In compliance with Article 64 of Regulation (EC) No 1083/2006, the composition of the operational program Monitoring Committee will be as follows:

The Monitoring Committee according to Art. 64 (1) of 1083/2006/EC is chaired by the person appointed by the Member State, the prevailing member of the Development Policy Steering Committee responsible for the programme area concerned.

Members of the Monitoring Committee will be:

- the Managing Authority,
- a delegated representative of the line ministers concerned in the implementation of the operational programme,
- the Intermediate Bodies concerned in the implementation of the OP,
- the representative of the minister in charge of the state budget,
- delegated representatives of regional development councils concerned,
- at least one delegated representative of local government' associations,
- at least one delegated representative of the environmental protection NGOs,
- one representative of each of the employees' and employer's sides of the National Council for the Reconciliation of Interests,
- delegated representatives of non-governmental organisations – within that, at least one member representing an organisation active for 1.) the Roma people, 2.) disabled people and 3.) equal opportunities for men and women,
- one delegated representative of each of the professional and social organisations concerned.

Members attending in an advisory capacity:

- a representative of the European Commission at its own initiative or the request of the Monitoring Committee;
- the representative of MAs in charge of other OPs affected by the implementation of the OP;
- one representative each of the Certifying Authority and the Audit Authority, as well as the Central Harmonisation Unit;
- for operational programs with contributions from the EIB or EIF, one representative of each of the EIB and the EIF respectively;
- as permanent invitees, one representative each of the organisations responsible for the implementation of the EAFRD (European Agricultural Fund for Rural Development) and of the EFF (European Fisheries Fund).

Description of the Monitoring Information System – indicators and data collection

Data supplied by applicants and by the beneficiaries will be entered in the monitoring information system - an upgraded version of the Single Monitoring Information System (EMIR) used for the period 2004-2006. Feeding the system with data is the responsibility of Intermediate Bodies; the NDA ensures continuous operation and upgrading of the system.

The system will ensure the collection, processing and forwarding of data, and the support of implementation, supporting the daily work of all authorities involved in the implementation of the NHDP, as well as the European Commission, and other national institutions.

It is a fundamental requirement in the programming period 2007-2013 that applicants and beneficiaries meet their data provision responsibilities, wherever possible, through electronic means. The system has been developed by considering these criteria.

The IT system delivers real-time data from each level of the implementation system, and serves as a means of electronic communication between the European Commission and Hungary.

In order to ensure transparency the system will also be used to monitor

- compliance with Article 34 paragraph 2 of Council Regulation 1083/2006/EC as regards complementary financing between the ERDF and ESF and respecting the ceilings thereof, including the special cases laid down in Regulation 1081/2006/EC of the European Parliament and of the Council Art. 3(7) and 1080/2006/EC Art. 8;
- the use of additional assistance to the Central Hungary Region pursuant to paragraph 15 Annex II of Council Regulation 1083/2006/EC.

6.2.2. Evaluation

Evaluation plan

The evaluation of the operational programmes will take place based on the coordination specified in the New Hungary Development Plan in a systematic system in accordance with the evaluation plan. The evaluation plan enables the preparation for the evaluations, efficient management of the external and internal evaluation capacities, and utilising the opportunities of the harmonisation of evaluations.

The evaluation plan of the operational programme contains a 3-year forecast and is annually revised, as it is an ongoing evaluation system.

The evaluation plan of the OP will be submitted to the MA of the OP, – with the agreement of the organisational unit ensuring the New Hungary Development Plan level coordination of the evaluation – to the Operational Programme Monitoring Committee, which will annually approve it. (The Monitoring Committee will also have a right to initiate the carrying out of evaluations.) For the implementation period lasting until 2015, the evaluation plan contains forecast evaluations, as well as evaluations selected annually in the system of ongoing evaluation.

The evaluation plan contains the evaluations described below:

- Mid-term revision of the operational programme strategy and implementation system (2009-2010),
- ex-post evaluation of the operational programme (2015-2016),

- annual operational evaluation of action plans (2008, 2010, 2012, 2014),
- ex-post evaluation of action plans (2009, 2011, 2013, 2015),
- ex-ante evaluation of the contribution of action plans, individual interventions and major projects to the implementation of the objectives of the operational programme, and to the enforcement of horizontal policies (2006, 2008, 2010),
- comprehensive evaluation of the operational programme regarding horizontal principles (for example: equality of opportunities, sustainability, etc.) (2008, 2010, 2012)

The evaluation will include the analysis of the impacts of the Operational Programme on climate change (as far as possible analysing the environmental, social and economic costs and benefits of climate change as well) to support different actions for climate change prevention, mitigation and adaptation.

The rules for the potential use of evaluations (publication and availability of evaluation reports, presentation and distribution of results, monitoring the use of recommendations) are laid down in the Operation Manual. These follow the recommendations of the Commission's Working documents on on-going evaluations.

Selection process of ongoing evaluation

In addition to the preliminarily planned (comprehensive, strategic) evaluations the unified evaluation plan of the New Hungary Development Plan will from year to year be complemented with evaluations related to the action plans, for which the operational programme Managing Authority will make proposals in agreement with the Monitoring Committee. In the frames of the evaluation plan the evaluations will be made:

- in case of those operations of the action plan, for which during the implementation there was a significant difference between the indicator values specified in the implementation schedule;
- to summarize the findings in connection with the measure(s) related to the operations of the action plan, and implemented in the 1st National Hungarian Development Plan (NDP1);
- 2 years after the completion of operations having no innovative domestic implementation history in order to summarize the findings of the implementation, and to explore impact mechanisms;
- to assess the intended and non-intended impacts of at least one operation per priority annually as from 2009, by ex-post evaluation.

Irrespective of the evaluation plan it is justified to launch ad-hoc evaluation on the basis of unforeseen needs arising in the implementation system (Intermediate Body, Managing Authority), and of the requirements of the Monitoring Committee.

Evaluation management

The organisation unit ensuring the horizontal, NHDP-level coordination of the evaluation will:

- prepare and conduct the preliminarily planned comprehensive strategic evaluations;
- provide resources for the regular evaluations conducted based on unified methodology and the enforcement of the evaluation plan;

- prepare and carry out the evaluations conducted in issues which concern more than one of the operational programmes;
- prepare and carry out the evaluation of operations having no innovative domestic history;
- ensure that evaluation reports are available to the public.

The Managing Authority will maintain sufficient capacity for the performance of evaluation-related management duties, and will:

- be responsible for the performance of duties related to the evaluation of the operational programme and the related action plans and operations, and for the implementation of those parts of the evaluation plan of the New Hungary Development Plan, which concern the operational programme;
- coordinate, develop and stimulate the operational programme-related evaluation activity;
- make proposal for the 3 year evaluation plan of the New Hungary Development Plan;
- ensure the incorporation of evaluation results into planning and implementation,
- generate the data of the indicators related to the evaluation of the operational programme and their storage in the monitoring information system;
- revise the target values of the priority level indicators of the operational programme every second year, upon closing the action plans;
- launch, in justified cases - for example at the initiative of the Monitoring Committee - evaluations not included in the evaluation plan of the operational programme related to the operations, and support their implementation.

Planned resources for evaluation

As regards financial resources, NSRF-level evaluations as well as preparation of evaluation methodologies, coordination of evaluation activities and financing of evaluations included in the annual evaluation plan will be financed by the Implementation OP.

Further evaluations – e.g. at the initiative of the Monitoring Committee – may be financed from the Technical Assistance resources of this OP.

As regards human resources planned for evaluation purposes, besides the staff of 6 persons in the horizontal evaluation unit of the NDA, and appropriate dedicated human resources provided by the MA will be dealing with evaluations.

6.3. FINANCIAL MANAGEMENT AND CONTROL

6.3.1. The tasks of the Certifying Authority

The Certifying Authority for all operational programmes financed by the Structural Funds and the Cohesion Fund is a separate organizational unit of the Ministry of Finance. The activity of the Certifying Authority is based on the organisation and experience of the Paying Authority (Ministry of Finance, Office of the National Authorising Officer) of the programming period of 2004-2006.

The Certifying Authority will perform the **tasks** described below:

- receiving payments from the European Commission;
- transfer of EU contributions to the national financing account of National Development Agency;
- drawing up and submitting to Commission certified statements of expenditure and applications for payment;
- certifying that the statement of expenditure is accurate, results from reliable accounting systems, and is based on verifiable supporting documents, as well as the expenditure declared complies with applicable Community and national rules, and has been paid in respect of operations selected for funding in accordance with criteria applicable to the programme and complying with Community and national rules;
- taking account for certification purposes of the results of all audits carried out by or under the responsibility of the Audit Authority;
- in order to support certification carrying out desk-based fact finding assessments and paying fact finding visits on-the-spot at organisations participating in the financial implementation,
- keeping accounting records on the turnover of the treasury accounts used to receive transfers, on the receivables and liabilities;
- keeping an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for an operation;
- carrying out financial corrections due to administrative errors and irregularities in the course of the implementation of the operational programme, rendering accounts on Community contributions repaid to the European Commission; sending forecasts of the likely applications for payment for the current financial year and the subsequent financial year to the European Commission latest until the end of April each year.

6.3.2. Rules for financial management and control

Responsibilities of the Managing Authority

- The Managing Authority is responsible for the management and implementation of the Operational Programme in line with the principle of sound financial management.
- The Managing Authority delegates the reception, processing and control of the payment claims of the beneficiaries to the intermediate body – if there is an Intermediate Body.
- The MA monitors the fulfilment of delegated tasks.
- The Managing Authority ensures that for the purposes of certification the Certifying Authority receives sufficient information on procedures conducted in connection with the expenditure incurred in the course of the implementation of the operational programme, and declares to the Certifying Authority by counter-signing the verification report of the Intermediate Body that the procedures applied by the Intermediate Body performing the tasks delegated by it are in compliance with the Community and national regulations. The MA arranges for the submission of the verification report prepared by the IB to the certifying authority.

- The MA has to carry out on the spot checks based on risk-analysis at the IB over expenditure declared by the IB. In order to enhance effectiveness of this function the MA has the possibility to delegate one or more persons (treasurers) from the Hungarian Treasury to the IB to ensure the correctness and regularity of expenditure verified by the IB including correctness of data recording in the IT system.

Responsibility of the Intermediate Body

- The intermediate body is responsible for the performance of tasks delegated by the Managing Authority in accordance with Community and national provisions.
- The Intermediate Body provides for the control of the implementation of projects approved in the frame of the operational programme in accordance with Community and national regulations.
- The Intermediate Body is responsible for the receiving, processing and performing administrative verification checks on the applications for reimbursement submitted by beneficiary, for carrying out of on-the-spot checks based on risk assessment, and for summarising the results of verifications carried out in verification report for the purpose of information supply to the Managing Authority and the Certifying Authority. The Intermediate Body is responsible for payments to the beneficiaries.

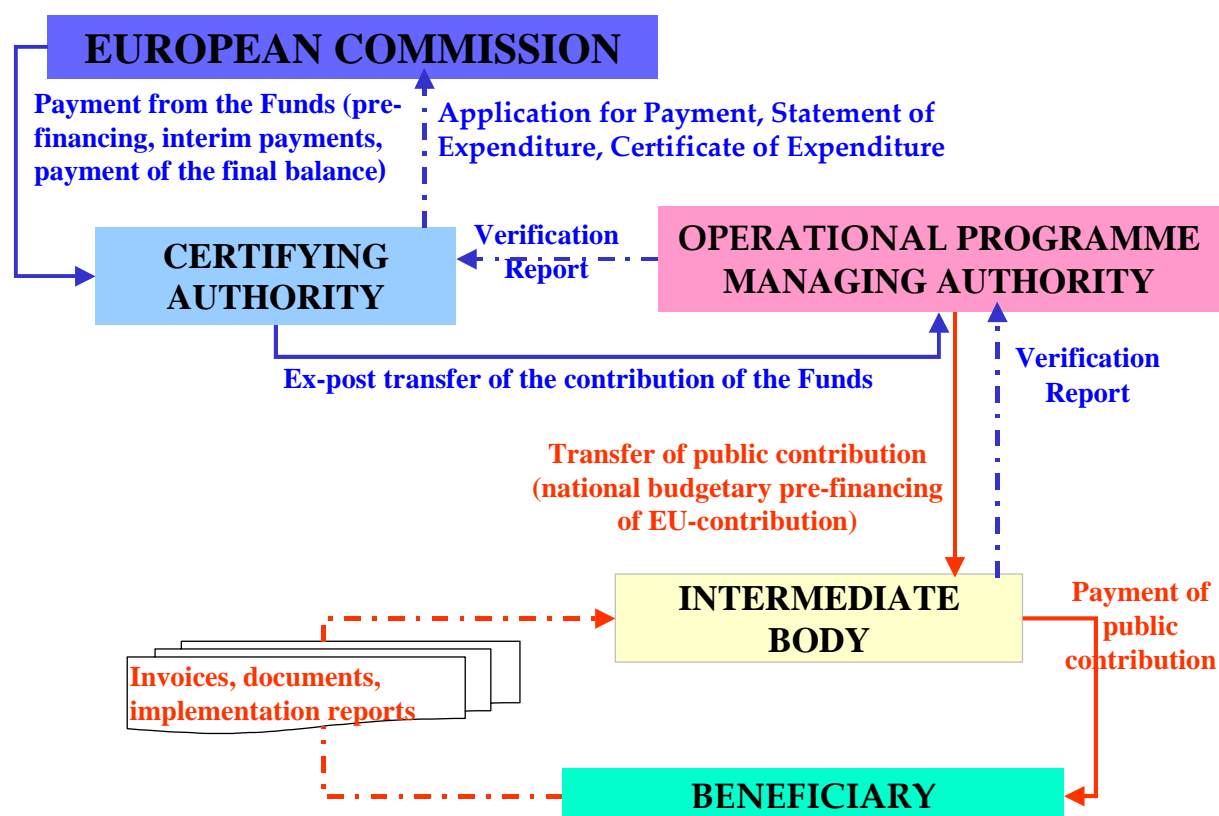
6.3.3. The process of payment to beneficiaries

The beneficiaries will submit their invoices generated in the course of the implementation of the project to the Intermediate Body together with the progress reports, on a regular basis.

The Intermediate Body will perform verification checks on applications for reimbursements financially as well as their content and form, and may conduct on-the-spot checks in accordance with the audit plan prepared on the basis of risk assessment.

On the basis of the approved reimbursement claims the Intermediate Body is responsible for payments to the beneficiaries. It informs the Managing Authority on the results of the verifications conducted in the verification report.

The Managing Authority transfers the Community and the national contributions to the beneficiary from the central budget, which will be refunded to the Managing Authority by the Certifying Authority from the available pre-financing, and from subsequent interim payments.



6.3.4. Control of the European Union's contributions

Financial management and control

The Managing Authority, the Certifying Authority and the Intermediate Body establish and operate the financial management and control system. The financial management and control system shall ensure that the activity of the organisations is in line with the regulations and sufficiently regulated, economical, efficient and effective, the information is accurate, and available in due time. The planning, call for proposals, the financial transaction, accounting, control and monitoring duties are functionally separated, and it is necessary to provide for the adequate regulation of these duties also in the relevant internal regulations.

The Managing Authority, the Certifying Authority and the Intermediate Body are responsible for the elaboration of the audit trail, risk management and irregularity handling rules and the immediate entering up of the eventual changes.

In the course of the financial implementation, the Managing Authority, as well as the Intermediate Body are responsible for carrying out administrative verifications and risk assessment based on-the-spot checks prior to payments. In the frame of the above, it is necessary to control whether the physical and financial progress is corresponding with the programme, as well as the project support contracts, and whether the submitted invoices or documents of equivalent probative value are in accordance with the decision related to the application and the contracting terms, the fulfilment of the physical and performance indicators, and the Community and national rules on public procurement.

The chair of the National Development Agency, the head of the Intermediate Body, the Certifying Authority and the Audit Authority are in every year obliged to make a statement concerning the proper operation of the management and control systems – with content and until a deadline as specified by the legislations.

The Minister of Finance executes its tasks concerning the regulation, co-ordination and harmonisation relating to the control of EU Funds through the Central Harmonisation Unit for Public Internal Financial Control (CHU for PIFC). Regarding EU Funds the CHU elaborates and regularly reviews methodological guidelines to be used in relation to internal controls and makes recommendations for drafting and adopting relevant legislation; through the harmonisation of the audit resources it ensures the fulfilment of an effective, efficient and not overlapping audit activity; and through quality assessment it monitors the execution of relevant regulations and guidelines in relation of the internal control systems.

The minister responsible for the public finance will set up and operate an audit committee involving organisations involved in the implementation of the EU funds, in order to strengthen the transparent use of Community contributions.

The tasks of the Audit Authority

The Audit Authority is a body designated in line with the Community and national rules, responsible for auditing the effective functioning of the management and control systems, which is functionally independent from the Managing Authority, the Certifying Authority and the Intermediate Bodies. In Hungary, the same body performs the duties of the Audit Authority with regards to every operational programme. The tasks of the Audit Authority in line with the provisions of Government Decree 312/2006. (XII. 23.) on the Government Audit Office are performed by the Government Audit Office – a central office having chapter management rights – supervised by the Minister of Finance.

The tasks of the Audit Authority are:

- according to Article 71(2) of Regulation (EC) No 1083/2006, preparation of the compliance assessment criteria of the management and controls systems, to carry out the compliance assessment, and to prepare the report and opinion on that;
- the preparation and fulfilment of the national audit strategy, and annual reporting obligations (annual audit reports and opinions) to the Commission;
- implementation of system audits and sample checks;
- implementation of audits at the request of the European Commission;
- follow-up of the findings of the audit reports and the schedule related to the measures;
- preparation of declarations on partial closure, and closure declarations and the underpinning audit reports;
- participation in preparing member state responses to audits carried out by the European Commission, as well as in the required negotiations;
- participation in the cooperation with the European Commission according to Article 73 of Regulation (EC) No 1083/2006 in order to coordinate audit plans and exchange the results of the audits.

6.4. PROVISION OF INFORMATION AND PUBLICITY

6.4.1. Provisions related to information supply and publicity

In compliance with national and Community legislation requirements, the NDA (National Development Agency) will be responsible for the tasks related to the communication and publicity of the New Hungary Development Plan and the operational programmes, with special regard to the following:

- Communication to the potential beneficiaries, economic and social partners on the opportunities related to the contributions. Within this, special role will be given to the efficient mobilisation of the prospective applicants, to well-founded project generating activity and information on available calls for applications.
- Communication to the public on the role played by the European Union in the implementation of the developments. In the course of the above the communication will focus on the introduction of the results of activities implemented with Community co-financing.

The realisation of activities related to information and publicity involves liabilities on the part of both the actors of the institutional system (NDA, Intermediate Bodies) and on the part of the beneficiaries. It is necessary to coordinate the general communication activities related to the entire New Hungary Development Plan, as well as operational programme-related communication activities and partnership actions at central level. The Intermediate Bodies will participate in the performance of other communication tasks related to the introduction of the support possibilities (organisation of professional and information days, forums for the prospective applicants on the programmes at national, regional, county and micro region level), in promoting the communication activities of the beneficiaries, as well as they also carry out data collection and data provision.

On the basis of the information and publicity guidelines prepared by NDA, the beneficiaries have to introduce their own project to the widest public.

Concerning the implementation of tasks related to information and publicity, in accordance with the regulations, NDA (National Development Agency) will prepare a uniform communication strategy for the entire New Hungary Development Plan, which will define the objectives and message of the relevant measures, the strategy and content of their implementation, the targeted social and economic groups, the criteria measuring the efficiency of the measures, the proposed budget of the measures, their estimated time schedules, as well as the administrative units responsible for implementation, and their liabilities. The communication plan will be prepared annually on the basis of the communication strategy. The task of the Intermediate Body will be to prepare and submit to NDA (National Development Agency) the communication plan related to the operational programme managed and/or to the entirety of the priorities, for approval.

Main areas:

- *Introduction of support possibilities, efficient mobilisation of applicants, project generation*
For the successful and effective use of the development resources it is indispensable to efficiently mobilise the potential beneficiaries, and to introduce the support possibilities. This area requires especially active, efficient and concentrated communication focusing on identifiable target groups (various segments of the range of potential beneficiaries). In the frame of this special attention shall be given to providing direct information and help with

project generation and in case it is necessary through implementation to organizations representing the most disadvantaged groups.

- *Introduction of the results of development programmes realised through co-financing*
The introduction of the realised projects show the success of the domestic use of the structural funds, and reinforces the image of a rapidly and dynamically developing Hungary in the public, strengthens the image of the European Union, and inspires prospective applicants – setting a positive example.
- *Partnership*
The performance of methodological tasks related to the application of the principle of partnership – such as partnership strategy, partnership actions, partnership reports – in connection with social partnership process, keeping contacts with the preferred partners, involving of partners in professional cooperation, and the preparation of a strategy and reports related to the application of the principle of partnership are of extraordinary importance for the Hungarian government and for the European Commission. Partnership activities are carried for each OP and action plan separately. In line with the terms of delegation of tasks, for sectoral OPs the horizontal unit of the NDA carries out partnership activities, financed by IOP, and IBs will participate in these. Costs of the monitoring committee will be financed by the TA priority of the OP.
- *Client service*
A special responsibility of the institutional system is the maintenance of relations with potential and winning applicants. From the aspect of the strengthening of the service provision character of the institutional system, and from the aspect of transparency, this is an important area. Accordingly, the performance of the client communication and information supply task in a unified system is necessary at central and also at local level. The main elements of the unified client-information system are: applicant-information site on the Internet, operation of online and telephone-based customer services (*Contact Centre*), coordination of the information activity of the Intermediate Bodies, setting up and operation of an internal information system coordinating the flow of information.

6.5. COMMUNITY POLICIES AND HORIZONTAL PRINCIPLES - SUSTAINABILITY, EQUAL OPPORTUNITIES AND PARTNERSHIP, STATE AID, PUBLIC PROCUREMENT

6.5.1. Sustainability, equal opportunities and non-discrimination, partnership

In the course of the planning and implementation process, all along, criteria of sustainability (with special attention to the environmental aspects of sustainability) must be fully met taking into account the provisions of Articles 16-17 of 1083/2006/EC. To this end, an environmental assessment was completed in the case of the NSRF and all operational programmes. The NSRF and the operational programmes were submitted to the National Council for Environment Protection.

Appropriate management arrangements shall ensure at all levels of programme implementation, that possible effects which are unsustainable or unfavourable to environment, especially as concerns impacts on climate change, the maintaining of biodiversity and ecosystems, and the drawing on natural resources, are avoided or kept as low as possible, so that the environmental charges of the OP in total, will in the end be climate- and resource-neutral. The OPs positive

effects and potentials for synergies in the sense of optimising its contribution to an environmentally sustainable development, shall be exploited at best and, wherever possible, be strengthened.

The single Operational Manual to be implemented by all Managing Authorities provides guidance for the due adherence to sustainability considerations in the course of the public procurement procedures (so called “green public procurement”).

In the course of the consultations on the NSRF and the operational programmes with the social partners a great number of non-governmental organisations specialised in different aspects of environment protection, or equal opportunities expressed their views which if possible, we took into account while working out the final draft of the abovementioned documents. We also extended the practice of consultations with the social partners to the action plans and calls for proposals.

Equality between men and women and integration of the gender perspective will be promoted during the various stages of the implementation of the NSRF and all operational programmes. Respect of the principle of non-discrimination (prevention of any discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation) will also be ensured during all phases of the implementation, in particular in relation to access to funding. Accessibility for disabled persons is a particular criteria being observed when defining the operations of the various operational programmes and being taken into account during the various stages of implementation as well.

The Managing Authority responsible for co-ordination shall develop guidelines and compile an Operational Manual in order to ensure the full respect of the horizontal principles of equal opportunities, and non-discrimination both at all stages of programme implementation as well as with regard to the institutional system. These guidelines will be specialized by the OP MA taking into account the specificities of the Fund, the programme and potential beneficiaries and target groups. Also the Managing Authority supports and disseminates good practices, ensures the possibility of counselling for beneficiaries regarding practical application of horizontal principles during project implementation. Special attention is also given to monitoring the progress made towards equal opportunities targets on programme level.

In the course of the selection process of the projects – as minimum criteria – the full respect of environmental sustainability and that of the principles of equal opportunities, and of non-discrimination are mandatory by the law. In order to ensure full compliance with the above requirements – we have introduced as a novelty – the procedure of the two level evaluations of proposals. In the course of this selection procedure the acceptance of any proposal is subject to the compliance with the horizontal criteria.

It is mandatory to include into the Monitoring Committees at least one representative of a non-governmental organisation specialised in environment protection. Also, at least one representative each of an organisation for Roma people, for persons living with disability, and dedicated to the equality between men and women should be invited to participate in the Monitoring Committees.

Special reports on the compliance with the principles of sustainability and non-discrimination will be compiled, and submitted, on a regular basis to the Government, the Monitoring Committees, the Steering Committee on Development Policy, the National Development Council and Parliament.

On an annual basis, the National Council for Environment Protection shall be informed on the environmental impact of the NHDP and on the compliance with the horizontal aspects of sustainability.

In the course of implementation particular attention should be devoted to

- the monitoring of the gender equality (in particular in view of collecting data broken down by gender);
- the partnership mechanism;
- and to the effective participation of the disadvantaged groups (with special attention to the Roma minority) in the programme.

Therefore in the course of operations a widely accessible information and customer service will be put in place. It will include provision of targeted information and support services for the disadvantaged groups. The employees of this customer service will undergo specific training courses tailored to the needs of these target groups. For the sake of providing appropriate information to the different handicapped groups, we plan to offer full access to our websites. Applicants from disadvantaged regions will have access to on-site information through branches of the national orientation service established in all micro regions.

National advisory network will provide help with project preparation for potential beneficiaries in all micro-regions. Special support by Roma experts is also provided for Roma beneficiaries.

The implementation system is fully committed towards the ensuring of the horizontal principles of sustainability as well as the promotion of equality between men and women and non-discrimination, therefore the introduction of the EMAS is foreseen for the NDA. Furthermore measures will be taken in order to provide for a family-friendly work-environment.

Partnership also prevails at all stages of implementation:

- members of non-governmental organisations take part in the project selection committees (including for preparatory activities) as full members (with voting right);
- half the members of the Monitoring Committee are delegated by non-governmental organizations;
- in the frame of environmental impact assessment public consultation is mandatory for projects.

The detailed tasks of the particular actors of implementation related to partnership are contained in the operation manual.

6.5.2. State aid

The NDA takes into account to their full extent legislation in force regarding state aid. To ensure compliance with state aid regulations the **State Aid Monitoring Office** (SAMO) of the Ministry of Finance participates in the preparation of the programmes and action plans (see further on). Furthermore, it examines, in each case, the relevance of the state aid rules with respect to the activity to be co-financed. The Managing Authority (MA) bears responsibility for the compliance of the operational programme with state aid rules and the SAMO ensures professional control over this compliance. Therefore all support schemes shall be pre-assessed by the SAMO.

6.5.3. Public procurement

Hungary has a Public Procurement Act which was adopted by the Parliament in 2003. More than 10 regulations (“secondary legislation”) lays down some detailed rules of public procurements e.g. templates of call for applications, the way of publishing call for applications, special rules related to construction procurements, design contests, etc.

Intermediate bodies are responsible for ex post controls related to public procurements conducted by beneficiaries. The National Development Agency has set up a unit for ensuring regularity during public procurement procedures. The role of the Unit for Public Procurement and Control (UPPC) is to provide management control during public procurement procedures.

The rules concerning management control and ex post control are laid down in a regulation which was issued by the minister who is responsible for developments and by the minister of finance (16/2006.(XII. 28.) MEHVM-PM).

6.6. PROVISIONS RELATED TO ELECTRONIC DATA COMMUNICATION BETWEEN THE COMMISSION AND THE MEMBER STATE

The SFC2007 system of the European Commission under development will operate on the basis of electronic data provision according to the expectations of the Commission. The IT system is accessible for the institutions of the member states in two different ways (through the website – Web Application, as well as directly through electronic connections with the member state system – Web Service). It is possible to get connected to the system either using one of the methods, or by combining the two methods. The data that have to be submitted in accordance with the annexes of the regulations will be displayed up to the level of the operational programme components.

In the case of those data, which are included in the Single Monitoring Information System (EMIR), data loading will be ensured according to the specifications supplied by the Commission. Those data, which do not have to be recorded in the Single Monitoring Information System (EMIR) (to avoid duplication of data), will be entered in SFC directly by the key users of the responsible central institutions (such as central coordination, Certifying Authority and Audit Authority).

The Member State Organisation - MSO, responsible for tasks related to the system will be NDA (National Development Agency) in accordance with to domestic regulations, so the Member State Liaison, as well as the 'MS System Owner', the executive of the member state organisation responsible for technical issues will be designated also from the members of the staff of NDA (National Development Agency).

Regulations on data provision

Concerning the given data, the method of data provision depends on the way of connection the designated institutions use for data provision purposes out of the two options:

- if they upload the data to the SFC2007 system through the website, the authorised key users of the above assigned institutions (central coordination, Certifying Authority and Audit Authority), enter data to the tables within the competence of their organisation in the requested form, as well as verify them.

- if the member state system sends the data to the SFC2007 system through direct electronic contact, the authorised key users of the above assigned institutions (central coordination, Certifying Authority and Audit Authority) load the data into the member state system, verify and send them to SFC2007.

Irrespective of the way of data recording, – the task of the assigned institutions (central coordination, Certifying Authority and Audit Authority) is the direct and perfect loading of the data into the system(s) keeping the deadlines, so that the data provision by other institutions related to their report can also be carried out within the deadline.

The documents will be supplied upon upload into the system. The documents will be deemed to have been sent to the Commission, only if they have been validated by the authorised persons.

If the system is permanently inaccessible, especially if the deadline for the data delivery is endangered, the member state will deliver the information to the Commission in the form of paper-based document specified in the relevant regulations. If the access problem has been solved, the member state, or the designated competent organisation will subsequently carry out the loading of the information to the system (SFC2007). In such cases the official date for sending the documents will be the date of the sending of the paper-based documents.

7. MAJOR PROJECTS

In the frame of the Economic Development Operational Programme support to major projects with an allocation of more than EUR 50 million, which have to be approved by the European Commission is not planned currently.⁷⁸

⁷⁸ *Council Regulation (EC) No 1083/2006 Article 2(39-41)*

ANNEXES

1. Organisations, actors involved in the EDOP partnership conciliation process
2. Demarcation of EDOP and ROP's
3. Quantified objectives of EDOP
4. Contribution of the resources of the Community Funds to the operational programmes by category

ANNEX 1: ORGANIZATIONS, ACTORS INVOLVED IN THE EDOP PARTNERSHIP CONCILIATION PROCESS

Name	Seat	Telephone	E-mail address
Professional social partners			
Hungarian Chamber of Commerce and Industry	1055. Bp. Kossuth Lajos tér 6-8.	474-5100, 474-51-90	elnok@mkik.hu , kompakt@mkik.hu
Association of Industrial Parks	1012. Bp. Attila u. 123.	201-7954	iparik@ipe.hu
CHIC Central Hungarian Innovation Centre	2040 Budaörs, Gyár u. 2.	23/887-500 30/9429-963	info@chic.hu bus@chic.hu polgarne@chic.hu
Association of Hungarian Scientific, Technological and Industrial Parks	1144 Bp, Füredi út 74-76	467-0236 20/9342-756	consulting@dckft.t-online.hu
Joint Venture Association	1012. Bp. Kuny Domonkos u. 13-15. (1525 Bp. Pf.88.)	212-2506, 489-0368, 255-1060,	info@jointventure.hu
Hungarian Innovation Association	1036 Bp. Lajos u. 103.	453-6572	innovacio@innovacio.hu
National Federation of Traders and Caterers (KISOSZ)	1061 Bp. Andrássy út 43.	342-5574, 322-0464, 68	kisosz@axelero.hu
Hungarian Academy of Sciences	1051 Bp. Roosevelt tér 9.	411-6367, 331-316w	szego@office.mta.hu h526mos@ella.hu
Amcham (The American Chamber of Commerce in Hungary)	1052 Bp. Deák Ferenc u. 10. V.em.	266-9880	info@amcham.hu , peter.fath@amcham.hu

Name	Seat	Telephone	E-mail address
German-Hungarian Chamber of Industry and Commerce	1024 Budapest, Lövőház u. 30.	345-7600 345-7642	info@ahkungarn.hu franyo@ahkungarn.hu
Hungarian Europe Business Council	1113 Budapest Villányi út 24/c,	216-0487 30/99-29-351	lobbypartnersltd@t-online.hu
Hungarian Biotechnology Association	Hungarian Biotechnology Association Address: H-6722 Szeged, Béke u. 5/a.	(62) 424-729 30-998-5800	info@hungarianbiotech.org duda@solvo.hu www.hungarianbiotech.org
Association of IT Companies	East-West Business Center 1088 Budapest Rákóczi út 1-3	235-7617 70/3800051	peter.morenth@ivs.hu csz@center.hu istvan.balogh@ivs.hu
ITD-H	1061 Budapest, Andrássy út 12.	472-8100	retfalvi@itd.hu
National Federation of General Consumer Cooperatives and Business Associations (ÁFEOSZ)	1054 Bp. Szabadság tér 14.	353-4222	afeosz@afeosz.hu
Foundation for Enterprise Development of Budapest	1072 Bp, Rákóczi út 18.	268-1720	nagym@bvk.hu
National Consortium for Enterprise Development Network Kht.	4400 Nyíregyháza, Váczi Mihály u. 41.	42/502-133	primomvk@nyirinku.hu
National Association of Managers	1012. Bp. Kuny Domonkos u. 13-15.	225-8791	menzov@axelero.hu
Hungarian Association of International Companies (HAIC)	1036 Bp. Lajos u. 48-66.	436-1317, 250-8441	nvmt@elender.hu
National Association of Craftsmen's Corporations (IPOSZ)	1054 Bp. Kálmán Imre út 20.	354-3140, 269-2946, 40	szucs@iposz.hu , iposz@elender.hu , titkarsag@iposz.hu
Hungarian Industrial Association (OKISZ)	1146 Bp. Thököly út 58-60.,	343-5140, 343-5188, 81,	okisz@okiszinfo.hu , okisz@mail.elender.hu

Name	Seat	Telephone	E-mail address
Confederation of Hungarian Employers and Industrialists (MGYOSZ)	1055. Bp. Kossuth Lajos tér 6-8. VI.em. 621-622.	474-2065, 2040, 269-2227,	szelesgabor@ikarus.hu
National Association of Entrepreneurs and Employers (VOSZ)	1107 Bp. Mázsza tér 2-6.	414-2181, 82	center@vosz.hu
VOSZ Trade and Service Section	1054 Budapest Tüköry u. 3. I. em.	269-1397	kszs@vosz.axelero.net
Association of Economic and Scientific Organisations	1027 Bp. Fő u. 68.	201-8737	gttsz@mtesz.hu
Association of Technical and Scientific Foundations	1055. Bp. Kossuth Lajos tér 6-8.	474-7908	mteszelnok@mtesz.hu
Hungarian Association of Economics	1051 Bp. Sas u. 25. VI.em.	331-6906, 302-1798	szef@mail.tvnet.hu
IT Conciliatory Forum	1055 Budapest, Kossuth tér 6-8.	302-7211	info@inforum.org.hu
Hungarian Association of Logistics, Purchasing, and Inventory Management	1061. Budapest, Király u. 12.	267-8740	info@logisztika.hu
Hungarian Association of Logistics Service Centres	1087 Budapest, Kerepesi út 3.	432-5085, 432-5089	mlszksz@t-online.hu nogradib@t-online.hu
National Association for Consumer Protection	1055 Budapest, Balaton u. 27.	311-7030	ofebp@matav.hu
Hungarian Association of Content Industry (MATISZ)	H-1012 Budapest, Kuny Domokos u. 13.	213-5089	info@matisz.hu jmlinarics@matisz.hu
IFUA Horváth & Partners Kft.	1119. Budapest, Fehérvári út 79.	382 88 09	company@ifua.hu , viktoria.bodnar@ifua.hu
ICEG European Centre	1118 Budapest, Dayka Gábor utca 6/B	248-1160	pgaspar@icegec.hu aoszlay@icegec.hu
GKI Economic Research Rt.	1461. Budapest, Pf. 232.	318-18-68	losoncz@gki.hu
National Trade Association	1012 Budapest Kuny D. u. 13/15.	212-2107	oksz@dbassoc.hu

Name	Seat	Telephone	E-mail address
Association of Hungarian Brands	Budapest 1132 Alig u. 14.	320-9094	brand@brand.hu
Craftsmen's Corporation of the Hungarian Catering Trade	Budapest 1138 Párkány utca 46.	349-6092	aranykacsa@axelero.hu
Hungarian Catering Trade Association	Budapest 1077 Király u. 77.	341-0197	info@mvsz01.axelero.net
Hungarian Franchise Association	Budapest 1537 Pf. 446.	212-4124	franchise@franchise.hu
Institute for World Economics	1014. Bp., Országház u.30. 1525, Bp., Pf.: 936.	224-6700 30/233- 6937	tszemler@vki.hu
Association of Human Health Private Service Providers	1081 Budapest, Népszínház u. 27. II/10.	210-9072, 210-9074	kurucz.beata@invitel.hu
Hungarian Bank Association	1051 Bp, József Nádor tér 5-6.	483-1866	bankszovetseg@bankszovetseg.hu
Association of Technical and Scientific Foundations			csasziaac@t-online.hu
Forum for the Cooperation of Trade Unions	1051 Budapest, Sas u. 10.	301-8730	szef@mail.tvnet.hu
CovySoft Networks Rt.	Budapest 1181 Üllői út 365.	814 24 24	norbert.mocsai@covysoft.net
Microsoft Hungary Kft	1031 Budapest, Graphisoft Park 3.	437 2843 30 688 99	v-gaborv@microsoft.com
Mayor's Office in the Capital		327-1927 06-20-916-6896	kocsism@budapest.hu
Számadó Kft	1091 Bp., Üllői út 119		csiba.andras@szamado.hu
Berkes és Tsa Tanácsadó Kft	1239 Budapest, Vetés utca 28.	2839558 06-30-9524989	agota.berkes@interware.hu
Intermediate Bodies			
Hungarian Development Bank	1051. Budapest, Nádor u. 31. 1365. Budapest, 5. PF. 678	428-1695 475-1217	almasi.akos@mfb.hu szegedi.gyula@mfb.hu
MVF Kht.	1139 Budapest, Váci út. 99.		kende.gabor@mvf.hu balogh.arpad@mvf.hu
IT Kht.	1077. Bp., Csengery u.14-16.	30/92-20-348	sandor.kisgergely@itkht.hu laszlo.kincses@itkht.hu
Agency for Research Fund Management and Research Exploitation (KPI)	1117.Bp., Neumann J.u. 1/c. 1519. Bp., Pf. 558.		anita.kiss@kpi.gov.hu ors.kovacs@kpi.gov.hu
Experts and evaluators			

Name	Seat	Telephone	E-mail address
PricewaterhouseCoopers Kft.	1077. Budapest, Wesselényi u. 16.	461 9476, 70 436 4752	judit.habuda@hu.pwc.com mate.vincze@hu.pwc.com
KPMG Advisory Services	1139. Budapest, Váci út 99.	887 7281	janos.matolcsy@kpmg.hu
Tétényi Tamás		30/9826212	tetenyi@t-email.hu
Regional partners			
Central Hungary Regional Development Agency Kht.	1146. Budapest, Váci út 17.	471-8955	tamas@proregio.hu
North-Great Plain Regional Development Agency Kht.	4028. Debrecen, Simonyi út 14.	52/524-760	fdebreczeni@eszakalfold.hu
South-Great Plain Regional Development Agency Kht.	6720. Szeged, Oroszlán u.2.	62/424-215	gyurcsekt@del-alfold.hu
North-Hungary Regional Development Agency Kht.	3529. Miskolc, Csabai kapu 37.	46/503-989	laszlo.francsics@norda.hu
Central Transdanubia Regional Development Agency Kht.	8000. Székesfehérvár, Rákóczi út 25.	22/513-370 22/513-377	info@kdrfu.hu gabor.kigyossy@kdrfu.hu
South–Transdanubia Regional Development Agency Kht.	7621. Pécs, Tímár u. 23.	72/513-769	miszler@ddrft.hu
West Transdanubia Regional Development Agency Kht.	8800. Nagykanizsa, Király u. 47.	93/509-527	gabor.gyorffy@westpa.hu
Line ministries			
Professional divisions of Ministry of Economy and Transport			

ANNEX 2: RULES FOR DEMARCATION BETWEEN THE ECONOMIC DEVELOPMENT OPERATIONAL PROGRAMME (EDOP) AND THE REGIONAL OPERATIONAL PROGRAMMES UNDER THE CONVERGENCE OBJECTIVE

Principle described in the OP:

Operations that have a local or regional effect will be of regional competence, while operations that have a wider, national, or international effect will be of the competence of the EDOP related to sectoral development.

According to the objectives of the interventions the economic development related interventions of EDOP and the different ROPs can be broken down to the following groups:

1. Direct enterprise development, modernization (by repayable financial instruments, as well as non-repayable support schemes)
2. Promotion of Research & Development and innovation (cooperation between enterprises as well as between enterprises, universities and research institutes)
3. Development of research infrastructure and services (research centres, also in part: innovation/technological parks, accredited clusters)
4. Support of innovative start-up enterprises (with seed capital)
5. Development of innovation bridging institutes (innovation/technology parks) and their services (related to consulting and education)
6. Development of economic infrastructure (industrial parks, logistics centre, incubation)
7. Networking, cluster management support
8. Other development of the business environment (ICT, advanced level consulting, information service)

Within the above groups, in accordance with the principle, the below regional sector level competences can be defined:

1. Direct enterprise development, modernization (by repayable financial instruments, as well as non-repayable support schemes)

- a) Repayable financial instruments serving enterprise development, modernization – **Economic Development OP**
- b) Non-repayable support schemes serving complex enterprise development and technological modernization. Area to be developed, with the following characteristics:

Specifics of the Economic Development OP:

Direct promotion of complex enterprise development

- Internationalisation of the enterprises
- Development of supplier capacities
- (Larger scale of) adaptive innovation
- Material and energy saving, environmental awareness
- Labour-intensive technology development (regional service centres – primarily in regions lagging behind)
- Development of corporate process management and IT services

Specifics of the Regional OPs:

- Development related to tourism⁷⁹.

Obviously the enterprises dealing with accommodation and catering services (TEÁOR H55) as main activity are not eligible for the direct enterprise development related contributions of the Economic Development Operational Programme (EDOP), i.e. they can submit applications

2. Research & Development and innovation: The entire process of R&D, and innovation, focusing on corporate research including

- Promotion of innovation and R&D related cooperation between universities, research institutes, and enterprises
- Corporate Research & Development and innovation is under the competence of the Economic Development OP.
- Support of joint R&D projects of consortia, project partnerships, member companies of economic co-operations (pole accredited/innovation clusters), which are accredited in line with nationwide uniform aspects, and aim to achieve goals of international significance.

3. Development of research infrastructure and services (research centres, also in part: innovation/technological parks, accredited clusters): under the competence of the Economic Development OP

- Support of research infrastructure investments of consortia, project partnerships, member companies of economic co-operations (pole accredited/innovation clusters), which are accredited in line with nationwide uniform aspects, and aim to achieve goals of international significance.

4. Support of innovative start-up enterprises (with seed capital): under the competence of the Economic Development OP.

5. Development of innovation bridging institutes (innovation/technology parks) and their services (related to consulting and education)

The following are under the competence of the Economic Development OP.

- R&D infrastructure and services (research centres, technology & innovation parks)
- Bridging institutes (technology/innovation parks, technology incubation, technology transfer offices)

Activities are under the competence of the Regional OPs

Bridging institutes (the technology transfer offices among these)

6. Economic infrastructure

The following are under the competence of the Economic Development OPs:

- Logistics centres

The following are under the competence of Regional OP:

⁷⁹ regarding the development of their corporate process management at the EDOP applications.

- Industrial parks,
- Development of incubator houses
- Sites not having industrial park title

7. Networking services, cluster management

The following are under the competence of Regional OP:

Support of networking activities (cluster management), as well as asset procurement (joint investments) with no R&D purposes, and targeted at inter-enterprise co-operation fall under the scope of the **regional Operational Programmes**.

8. Business environment related to other enterprises

The following are under the competence of the **Economic Development OP**.

- Assistance to the introduction of quality, environmental and other control systems, and standards
- Development of corporate process management
- Support for setting up e-commerce and services
- Development of (broadband) network infrastructure
- The support of services related to proactive investment incitement and entering international markets
- Consultancy related to financial instruments programmes

The following are under the competence of Regional OP

- Business guidance in the fields of entrepreneurship and market development (except for support of pro-active investment-promotion, foreign-market entry related services and the guidance related to financial instruments programmes).

ANNEX 3: QUANTIFIED OBJECTIVES OF THE ECONOMIC DEVELOPMENT OPERATIONAL PROGRAMME

Name of indicator	Target value (2010)	Target value (2015)	Initial context ⁸⁰	Source of data ⁸¹	Breakdown
1. Growth of Gross Value Added (GVA) created by the corporate sector as a result of the programme	5%	4%	11 469 (2005, HUF billion, at basic price)	CSO, SMIS	regional, company size
1/b. The increase of the gross value added produced by the enterprise sector as a result of priority axis 2 - by size of enterprise micro & small enterprises: 1.8%	mid: 1.8% enterprises: 1.8% large enterprises: 0.7%	micro & small enterprises: 1.5% mid. enterprises: 1.5% large enterprises: 0.5%	micro & SE: 3 499 ME.: 2 198 LE.: 5 052 (2005, HUF billion, on staff figures, at basic price)	CSO, SMIS	regional
2. The increase of gross value added produced by economics, ICT and logistics services as a result of priority axis 3 - according to Standard Industrial Classification System (TEÁOR)	6%	8%	4 731 (2005, HUF billion, at basic price)	CSO, SMIS	regional
3. Gross number of new jobs created	10000	66000	2 777 (Jan 2007, million employees in corporate sector)	CSO, SMIS	regional, company size

⁸⁰As every numerical indicator shows the changes directly resulting from the EDOP measures, their initial values are 0%. The assessment of the relative importance of the programme's effect is supported by the communication of the initial values of the base data, thus we find „initial context” in the table.

⁸¹ Aggregated baseline data are taken from the primary sources indicated, however, the calculation of indicator values and the treatment of arising methodology issues shall be the competence of the relevant NDA department responsible for analysis, evaluation and modeling.

4. Change of e-business index (percentage value of best scoring EU member state)	64%	70%	56% (2006, percentage value of best scoring EU member state)	EU E-business watch survey	-
5. The increase of enterprise R&D expenditures as a result of priority axis 1	55.8%	15.5%	89.7 (2005, HUF billion)	CSO, SMIS	regional R&D act, company size
6. The increase of registration of given EPO patents, utilization and design patents as a result of the programme	19%	30%	181 (2005, HPO domestic institutional registration) 243+250 (2005, HPO, domestic registration) 191 (2003, EPO Hungarian registration)	CSO, SMIS, HSI	R&D act, company size
7. The increase of calculated research workforce as a result of the programme	4%	8%	7 393 (2005, persons - converted to full-time employees at enterprise R&D research establishments)	CSO, SMIS	regional R&D act, company size
8. The increase of net income of the entrepreneurial sector as a result of priority axis 2	2%	3%	41 273 (2003, HUF billion, joint ventures)	Tax Office, SMIS	regional, company size
9. The increase of households with broadband accessibility	6% points	10% points	89 (2006, %)	SMIS	Regional
10. Growth of service revenue of logistics centres as a result of the programme	15%	25%	25%	Tax Office, SMIS	Regional

11. The decrease of the number of micro, small and medium sized enterprises without access to financing resources (loan) as a result of Priority 4	4.3% points	12.8% points	76.8 (2004, %, SMEs without short-dated loans, according to staff figures, in the operating enterprises)	Tax Office, Hungarian Financial Supervisory Authority, SMIS	regional, company size
12. Access of financial mediation in the SME sector (loans outstanding/GVA)	4% points	10% points	25.7 (2005, %, loans outstanding of non financial enterprises/GDP)	HNB, SMIS	-
The outlaid capital outstanding by institutional investors operating fully or partly with private capital in the ratio of GVA produced by the SME sector	0.4 % points	1.4% points	131 (2005, M EUR), 0.6% (2005, %, risk and private capital investment/GVA)	MKME, SMIS	Regional
14. Rate of realisation of supported projects	90%	90%	-	SMIS	-
15. The rate of outstanding equalization target group members (women, disabled people and of Roma origin) at workplaces created by the programme	40%	40%	32 (2004-2006, %, ratio of women in workplaces created under the umbrella of ECOP)	SMIS	Regional
16. Growth of GVA for units of used energy at companies supported by relevant EDOP measures	80%	80%	1.87 (2004, EUR/kg BOE, reciprocal of energy intensity of economy)	SMIS	Regional
17. Private investments related to the interventions of the programme (<i>induced investment</i>)	140%	170%	no data (in percentage of state assistance)	SMIS	regional, company size

Principle for calculating indicators (meaning of expression "as a result of the Programme"): when compiling the indicator system for NHDP/EDOP we measured the change in a given EDOP measure target group by gauging the relative change of the indicators within the target

group, by comparing values of beneficiaries with those of non-beneficiaries. We usually consider the relative change relevant to the target group as a whole.

Example: growth of GVA produced by the corporate sector is calculated by dividing the available database into two groups based on amount of support provided by EDOP. Within the set timeframe we compare the GVA growth surplus recorded among beneficiaries with the GVA growth in 'control/baseline' trend/no support given' groups. Finally, the percentage value of the indicator is calculated, it is a ratio between this growth surplus and the growth of the total corporate sector (target group) GVA.

Production of the indicator:

$$\frac{GVA_{incr,beneficiary,billionHUF} - (GVA_{beneficiary,billionHUF} * GVA_{incr,non-beneficiary,percentage})}{GVA_{comprehensive\ target\ group,billionHUF}}$$

Note: GVAincr – GVA increase (depending on the index it is a factual number or % value.)

GVA - Gross Value Added

ANNEX 4: CONTRIBUTION OF THE RESOURCES OF THE COMMUNITY FUNDS TO THE OPERATIONAL PROGRAMMES BY CATEGORY

CCI number of the OP: 2007HU161PO001

Name of the Operational Programme: Economic Development Operational Programme

(in EUR, at current price level)

Dimension 3: Priority theme

Code	Euro
01	75 348 562
02	70 154 125
03	91 315 363
04	350 534 720
05	193 008 875
06	8 153 438
07	141 254 791
08	1 507 916 059
09	196 568 960
10	20 835 937
11	52 522 165
15	61 363 047
85	80 862 919
86	8 984 769
Total	2 858 823 730

Dimension 2: Forms of financing

Code	Euro
01	2 240 809 027
02	507 599 367
03	110 415 336
Total	2 858 823 730

Dimension 3: Regional breakdown

Code	Euro
00	707 862 391
01	1 784 220 273
05	366 741 066
Total	2 858 823 730