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Subject: State Aid SA.48680 – Hungary
Evaluation plan regarding the Government decree 210/2014 (VIII.27.) concerning the use of investment incentives

Sir, /Madam,

1. PROCEDURE

(1) By electronic notification of 9 February 2018, Hungary submitted a summary information sheet pursuant to Article 11(a) of the Commission Regulation (EU) No. 651/2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty[1] (hereinafter "GBER") on the modification of the Aid scheme " Government decree 210/2014 (VIII.27.) concerning the use of investment incentives (hereinafter the Scheme). This submission was registered as SA.50393 (2018/X).

(2) The modification of the scheme consisted of a yearly budget increase above EUR 150 million, making it a large scheme in the meaning of Article 1(2)(a) of the GBER. Under this provision, aid schemes are exempted only for a period of six months after their entry into force, unless a longer period of exemption is authorised by the Commission following the assessment of an evaluation plan for the scheme to be notified by the Member State concerned. The budget increase took effect on 20 December 2017 and the annual budget planned is EUR 175 million.

[1] Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty

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(3) In order to obtain the prolongation of the period of exemption, Hungary notified an evaluation plan for the scheme on 15 November 2017 which was registered by the Commission under SA.48680 (2017/EV) on 17 November 2017. By letters of 19 December 2017 and 5 April 2018 the Commission asked for supplementary information. By letters of 2 February 2018, 2 May 2018 and 14 May 2018 Hungary provided the requested information.

2. DETAILED DESCRIPTION OF THE KEY ELEMENTS OF THE NOTIFIED EVALUATION PLAN

(4) As required by Article (2)(16) of the GBER and in line with best practices established in the Commission Staff Working Document on Common methodology for State aid evaluation[2] (hereinafter: "Staff Working Document"), the notified plan contains the description of the following main elements: the objectives of the aid scheme to be evaluated, the evaluation questions, the result indicators, the envisaged methodology to conduct the evaluation, the data collection requirements, the proposed timing of the evaluation including the date for submission of the final evaluation report, the approach for the selection of the independent body conducting the evaluation, and the modalities for ensuring the publicity of the evaluation.

2.1 Objectives of the aid scheme to be evaluated

(5) This scheme is an important Hungarian regional investment aid scheme. It aims to address the low level of employment and investment in Central Hungary's c) areas and in the less developed regions of Hungary. Furthermore, it aims to facilitate sustainable new investments and job creation by the beneficiaries. It also aims to facilitate the development of new technical and technological solutions, facilitate the development of exports and increase the competitiveness of products manufactured and services provided.

(6) The aid is directed towards enterprises of all sizes and in all sectors where aid can be granted under the GBER and is granted in the form of a financial grant.

(7) Its average annual budget is approximately EUR 175 million and between 1 July 2014 and 31 December 2020 the Hungarian authorities expect around 200 beneficiaries.

(8) The evaluation plan covers the whole period 2014 – 2020.

(9) The maximum aid intensity available to aid beneficiaries takes into account the different level of economic development of the individual regions. In line with the regional aid map 2017-2020 for Hungary[3], the maximum aid intensity ranges from 25% to 50% for a-areas and from 20% to 35% for c-areas.

(10) The minimum size of investment and the minimum number of additional jobs to be created are specific to the regions and they also depend on the aim of the

[2] Commission Staff Working Document on Common methodology for State aid evaluation, Brussels, 28.5.2014, SWD(2014) 179 final.

[3] Official Journal: JOCE C/4/2017

investment (asset investment projects/job-creating projects/regional shared services/technology intensive projects).

(11) After the submission of application for aid, the managing authority either accepts or rejects the application. If the application is accepted, the grant agreement is drafted by the managing authority.

(12) According to the Hungarian authorities, possible negative effects that could be associated with the Scheme are adverse impacts on competitors and/or suppliers, steering-away investments from one region to another or dead-weigh loss resulting from the fact that some investments might have been realized also without the aid.

2.2. Evaluation questions and result indicators

(13) The evaluation questions address both the direct impact of the aid on the beneficiaries and the indirect impact of the scheme (positive and negative externalities), as well as the proportionality and appropriateness of the scheme. The result indicators are linked to the evaluation questions and to the objectives of the scheme.

(14) The direct impact of the aid on the beneficiaries will be addressed by the evaluation questions on the performance of the beneficiaries and on the incentive effect. In this regard, specific questions were established with the objective to assess to what extent the aid contributed to increasing investment, employment, gross value added and turnover by the beneficiaries and the qualification of the employees, and also whether there were any differences of the effects across groups of beneficiaries (size, location, sector).

(15) As regards the assessment of the direct impact of the aid on the beneficiaries, the chosen indicators will assess the evolution of the companies (beneficiaries and of the control group) in several different areas.[4]

(16) The indirect impacts of the aid scheme will be captured by studying the extent to which the Scheme has contributed to achieving the economic development policy objectives of the government, in particular those related to job creation; whether it has contributed to fostering additional local growth through spillovers and whether there is any evidence that the implementation of the Scheme has led to a crowding-out of private investments and whether it has led to a major distortion of competition.

(17) With regard to the evaluation question on the contribution of the Scheme to achieving economic development policy objectives, the following result indicator will be used: change in the number of full-time equivalent employees. As regards the evaluation question on fostering additional local growth through spillovers, the following result indicators will be used: employment, investment and gross value added at county level. As regards crowding-out effects, the following result indicator will be used: sectoral investment. Concerning the effect on competition, the result indicators to be used are evolution of the birth, death and survival rates

[4] Indicators chosen: (1) complementary private investment, (2) number of full-time equivalent employees and its change, (3) change in turnover and its change, (4) change in gross value added and its change, (5) educational attainment of the new employees.

of companies, evolution of market shares and evolution of the concentration indicator.

(18) The evaluation questions on appropriateness and proportionality of the Scheme will, in particular, assess the efficiency of the aid scheme's design by investigating whether the same effects could have been achieved with less aid or different form of aid and and whether the form and volume of the Scheme was proportionate to the problem being addressed. Also, given the labour shortage in recent years a question will be asked on whether the programme is still relevant to achieve the policy objectives related to job creation. The result indicator chosen to measure the proportionality and the appropriateness of the aid are aid to employment ratio, aid to turnover ratio and aid to gross value added ratio and the job vacancy rate will be used to assess the relevance of the scheme.

2.3. Envisaged methodology to conduct the evaluation

(19) At the level of beneficiaries, a counterfactual approach will be taken, using propensity score matching with difference-in-differences to estimate impacts regarding the number of full-time equivalent employees, gross value added and turnover. Using a companies database, a control group will be built. The selection of the control group will be made on the basis of a list of selected characteristics (control variables) such as sector, number of FTEs, gross value added and other relevant firm characteristics (such as investment) if the data is available. This approach is aimed at minimizing the so-called selection bias in estimating the effects of support. Statistiscal analysis of the data will include the difference-in-difference method, using panel data to control for persistent differences between the groups. The analysis of indirect impacts will be mainly conducted through case studies and descriptive statistics, which will allow to gain a well-grounded understanding regarding the implementation of projects on the ground although they cannot establish causality.

2.4. Data collection requirements

(20) The data at the beneficiaries level will be taken from two sources. As regards the details of the support itself, data is to be collected from the aid database managed by the Hungarian Investment Promotion Agency. As regards the accounting data of the enterprises, data will be obtained either from the corporate tax returns database of the National Tax and Customs Administration of Hungary or from OPTEN Informatics Ltd.

2.5. Proposed timing of the evaluation, including the date of submission of the final evaluation report

(21) According to the Hungarian authorities, the foreseen timing for the evaluation is composed of the following phases:

Task	Deadline
Submission of the Interim report to the European Commission	October 2019
Conducting 6 case studies	Q4 2019

Full-scale data collection and completion of all case studies	Q4 or Q1 2020
Submission of the Final evaluation report to the European Commission	June 2020
Publication of the evaluation results	Q3 2020

The Hungarian authorities thus committed to submitting the final evaluation report to the Commission in June 2020.

2.6. Independent body selection to conduct the evaluation

(22) The Hungarian authorities confirmed that evaluation will be conducted by KPMG Advisory Ltd. Which has a team of professionals specialised in policy evaluations and impact assessment services. KPMG Advisory is independent from the aid grantor and was selected to conduct the evaluation through public procurement.

2.7. Modalities for ensuring the publicity of the evaluation

(23) The Hungarian authorities confirm that the evaluation plan and the final evaluation report will be available through the www.kormany.gov.hu website.

3. ASSESSMENT OF THE EVALUATION PLAN

(24) The correct application of the GBER is responsibility of the Member State. The present decision on the evaluation plan does not assess whether the aid scheme to be evaluated was put into effect by the Member State in full respect of all applicable provisions of the GBER. It does therefore neither create legitimate expectations, nor does it prejudge the position the Commission might take regarding the conformity of the aid scheme with the GBER when monitoring it, or assessing complaints against individual aid granted under it.

(22) Pursuant to Article 1(2)(a) GBER, certain aid schemes[5] in the meaning of Article 2(15) GBER[6], if their average annual State aid budget exceeds EUR 150 million, should be made subject to evaluation. The Commission notes that the annual average budget of the aid scheme concerned currently exceeds EUR 150 million as set in Article 1(2)(a) GBER.

(23) As the Commission explained in recital 8 of the GBER, the evaluation of large schemes is required *"in view of the greater potential impact of large schemes on trade and competition"*. The required *"evaluation should aim at verifying whether the assumptions and conditions underlying the compatibility of the scheme have been achieved, as well as the effectiveness of the aid measure in the light of its general and specific objectives and should provide indications on the impact of the scheme on competition and trade."* State aid evaluation should in particular

5 Schemes under Sections 1 (with the exception of Article 15), 2, 3, 4, 7 (with the exception of Article 44), and 10 of Chapter III of this Regulation (Article 1(2)(a) GBER)

6 'Aid scheme' means any act on the basis of which, without further implementing measures being required, individual aid awards may be made to undertakings defined within the act in a general and abstract manner and any act on the basis of which aid which is not linked to a specific project may be granted to one or several undertakings for an indefinite period of time and/or for an indefinite amount (Article 2(15) GBER).

allow the direct incentive effect of the aid on the beneficiary to be assessed (i.e. whether the aid has caused the beneficiary to take a different course of action, and how significant the impact of the aid has been). It should also provide an indication of the general positive and negative effects of the aid scheme on the attainment of the desired policy objective and on competition and trade, and could examine the proportionality and appropriateness of the chosen aid instrument.[7]

(24) In the light of these considerations, Article 2(16) of the GBER defines as evaluation plan "a document containing at least the following minimum elements: the objectives of the aid scheme to be evaluated, the evaluation questions, the result indicators, the envisaged methodology to conduct the evaluation, the data collection requirements, the proposed timing of the evaluation including the date of submission of the final evaluation report, the description of the independent body conducting the evaluation or the criteria that will be used for its selection and the modalities for ensuring the publicity of the evaluation."[8]

(25) The Commission considers that, as described in section 2 of this decision, the notified evaluation plan contains these minimum elements and was notified within 20 working days after Hungary increased the budget of this the aid scheme above EUR 150 million annually.

(26) The evaluation plan gives a concise description of the key objectives of the scheme concerned, and provides sufficient information to understand the underlying 'intervention logic'. The scope of the evaluation is defined in an appropriate way. It also identifies and justifies pertinent result indicators that integrate the evaluation questions and explains the data collection requirements and availabilities necessary in this context.

(27) The evaluation plan sets out and explains the main methods that will be used in order to identify the impacts of the scheme, and discusses why these methods are likely to be appropriate for the scheme in question. The proposed evaluation methodology sufficiently allows identifying the causal impact of the scheme itself.

(28) The proposed timeline of the evaluation is reasonable in view of the characteristics of the scheme concerned and the relevant implementation periods for projects supported under the scheme.

(29) The selected evaluation body meets the independence and skills criteria.

(30) The proposed modalities for the publication of the evaluation results are appropriate and ensure transparency. In particular, the Commission takes note of the commitment to make publicly available the evaluation report to stimulate research and assessment of the functioning of the Scheme.

(31) In view of the above, the Commission considers that the evaluation plan meets all requirements laid down in the GBER, is established in line with the common methodology proposed in the Staff Working Document, and is suitable given the specificities of the large aid scheme to be evaluated.

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[7] See the Staff Working Document cited in footnote 2 (footnote 3, section 2, second paragraph).

[8] Further guidance on evaluation plans is given in the Staff Working Document cited in footnote 2.

(32) The Commission notes the commitment made by the Hungarian authorities to conduct the evaluation according to the plan described in the present decision and to inform the Commission of any element that might seriously compromise the implementation of the plan. The Commission also notes the commitment by the Hungarian authorities to fulfil the obligation to submit the final evaluation report by 30 June 2020.

(33) Therefore, pursuant to Article 1(2)(a) of the GBER, the Commission decides that the exemption for the aid scheme for which the evaluation plan was submitted is prolonged beyond the initial six months until 31 December 2020.

(34) Alterations to this scheme, other than modifications which cannot affect the compatibility of the scheme under the GBER or cannot significantly affect the content of the approved evaluation plan, are pursuant to Article 1(2)(b) of the GBER excluded from the scope of the GBER.

4. CONCLUSION

The Commission has accordingly decided:

- to prolong the exemption of the scheme under the GBER until 31 December 2020.
- to publish this decision.

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Your request should be sent electronically to the following address:

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Yours faithfully
For the Commission

Margrethe VESTAGER
Member of the Commission