EUROPEAN COMMISSION

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PUBLIC VERSION

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Subject: State Aid SA.62013 (2020/EV) – Hungary
Evaluation plan regarding the aid scheme "Earmarked budgetary appropriations for tourism and for the development of tourism on the basis of Decree No. 2/2018 (XII.28)"

Excellency,

1. PROCEDURE

(1) By electronic notification of 17 December 2020, 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 a prolongation of the aid scheme "Earmarked budgetary appropriations for tourism and for the development of tourism on the basis of Decree No. 2/2018 (XII.28)" (SA.54838), hereinafter "the Scheme". This submission was registered as SA.60399 (2020/X).

(2) The prolongation also entails a higher budget, approximately EUR 160 million, making it a large scheme in the meaning of Article 1(2)(a) of the GBER. Under

[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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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.

(3) In order to obtain the prolongation of the period of exemption, Hungary notified an evaluation plan for the scheme on 19 October 2020 which was registered by the Commission under SA.62013 (2020/EV). Supplementary information was provided by the Hungarian authorities in a meeting on 8 December 2020 and by e-mails of 2 February 2021, 11 February 2021 and 23 March 2021.

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, information on 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) The Scheme is part of an umbrella scheme (the Kisfaludy Tourism Development Program) that has as a goal making Hungary the center of tourism within the CEE region.

(6) Under the Scheme, regional investment aid is provided in less developed regions of Hungary, with the following goals: to enhance the destination-based approach within the Hungarian tourism sector, to reduce the concentration of the sector both over space and time, to create a supply of high-quality experiences that are able to attract new target groups, to improve accessibility and to disseminate innovative practices within the industry.

(7) The aid is provided in the form of direct grants and it is directed towards enterprises of all sizes active in the tourism sector, with a registered office, branch, establishment or subsidiary in Hungary.

(8) The budget is approximately EUR 160 million in 2021.

(9) According to the Hungarian authorities, possible negative effects that could be associated with the Scheme are a potential crowding out effect on private investment from the Hungarian tourism sector, a deadweigh loss resulting from the fact that some investments might have been fully or partially realized without the support scheme, and possible competition distortions in the sector by allowing

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

the group of beneficiaries to carry out investments worth more than their competitors with no subsidies.

2.2. Evaluation questions and result indicators

(10) The evaluation questions address both the direct impact of the aid on the beneficiaries and the indirect impact of the scheme, 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.

(11) Specific evaluation questions were designed to establish the impact of the aid on the financial and employment indicators of the beneficiary enterprises, to assess whether the level of economic development of the microregion influences the impacts of the aid, to evaluate what is the impact of aid on the survival of newly established enterprises, to assess how the aid contributes to the development of tourism on a territorial level, to establish whether the subsidised projects would have been fully or partly realized without the aid and to evaluate whether the objectives, eligible activities and the co-financing rates were in line with the needs of the target group.

2.3. Envisaged methodology to conduct the evaluation

(12) The main methods to be used in the evaluation are:

- Counterfactual impact evaluation (CIE): CIE is used to capture the direct impacts of the program on beneficiary enterprises and territorial units. The validity of the method relies on creating an appropriate control group with propensity score matching (PSM), and then differences in growth (DD) can be used to estimate the impact of the support scheme. Though both PSM and DD are used to alleviate selection bias, the problem of self-selection persists. Thus, if the scoring data allows, RDD will also be used to estimate the impact on the companies around the scoring threshold. This approach mitigates the problem of self-selection, but concerns only those companies that are close to the threshold. This can be especially concerning if the impact varies widely away from the threshold (impact heterogeneity).
- Econometric duration analysis: for calculating the differences in the probability of the survival of the treated and control enterprises, non-parametric (log-rank test for equality of survivor functions) and parametric (exponential regression) tests and Cox and Weibull methods are used. The method only gives a robust result if there is a sufficient number of young companies, both in the supported and in the (potential) control group, and if there is a variation in the survival (i.e. there are companies which didn't survive). As for the DD, the identification of the control group is crucial for the validity of the estimates.
- Expert interviews: conducted in order to examine the intervention logic and to analyse how the support scheme met the needs of the target group, and whether there has been any market distortion.

2.4. Data collection requirements

(13) The evaluation will be based on the following data sources:

- the annual financial reports of the Hungarian enterprises;
- the monthly VAT reports of the enterprises under the VAT rule;
- the daily updated monitoring database of the implementation of EU funds in Hungary (including data on the selection process and scoring and on unsuccessful applicants);
- the list of the less developed districts (based on the government decree 27/2013)
- National Spatial Development and Spatial Planning Information System (TeIR).

(14) No primary data collection is envisaged as part of the evaluation.

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

(15) The final report assessing the 2021 prolongation will be submitted to the Commission by 31 October 2021. This report will provide insights drawn from grant allocation throughout 2021, and it will primarily be based on qualitative tools.

(16) Given that the supported projects are expected to have an impact after more than one year, Hungary has committed to continue the evaluation beyond the duration of the scheme and to submit to the European Commission two additional reports with the results of the impact evaluations carried out in 2023 and 2030.

(17) The impact evaluation evaluating projects near completion or completed by 31 December 2021 is set to commence in June 2023 and will be completed by 31 December 2023.

(18) The evaluation of the 2030 prolongation will assess the impact of the projects completed or near completion by 31 December 2028; it will commence in June 2030 and will be completed by 31 December 2030.

2.6. Independent body selection to conduct the evaluation

(19) The final initial impact evaluation will be conducted by Ernst & Young Advisory Ltd (Hungary). Ernst & Young Advisory Ltd. is independent from the aid grantor, the Hungarian Tourism Agency and was selected to conduct the evaluation through a public procurement procedure.

2.7. Modalities for ensuring the publicity of the evaluation

(20) The Hungarian authorities confirm that the evaluation plan and the final evaluation report will be published through the Hungarian Tourism Agency's website, on www.mtu.gov.hu.

3. ASSESSMENT OF THE EVALUATION PLAN

(21) The correct application of the GBER is the 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[3] in the meaning of Article 2(15) GBER[4], 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 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 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.[5]

(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."[6]

(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 from the entry into force of the aid scheme with an annual budget above EUR 150 million.

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[3] 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)

[4] '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).

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

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

(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.

(32) The Commission notes the commitment by the Hungarian authorities to fulfil the obligation to submit the final evaluation report to the Commission by 31 October 2021 and two additional evaluation reports in 2023 and 2030. The additional evaluation reports of 2023 and 2030 will present the results for the projects completed or near completion by 31 December 2021 and 31 December 2028 respectively.

(33) The Commission notes that the scheme has to be suspended if the evaluation report is not submitted in good time and sufficient quality and that the Commission can apply the procedure concerning existing aid foreseen by the Procedural Regulation.

(34) 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 2021.

(35) 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

After having assessed the evaluation plan notified by Hungary, the Commission has accordingly decided:

- to prolong the exemption of the scheme under the GBER until 31 December 2021.
- to publish this decision.

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Your request should be sent electronically to the following address:

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Directorate-General Competition
State Aid Greffe
B-1049 Brussels
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Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President