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Subject: State Aid SA.52527 (2018/EV) – Hungary
Evaluation Plan for the aid scheme "Aid for regional investment from the Economic Development and Innovation Operational Program (EDIOP)"

Sir,

1. PROCEDURE

(1) By electronic notification of 11 November 2014, 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 Aid scheme “Aid for regional investment from the Economic Development and Innovation Operational Program (EDIOP)” (hereinafter the scheme). This submission was registered as SA.39834 (2014/X). On 4 January 2018, the Hungarian authorities submitted a modification of the scheme registered as SA.50000 (2018/X), following the Commission Regulation (EU) 2017/1084 of 14 June 2017[2] amending the GBER. The average annual budget of the amended 2014 scheme was still below EUR 150 million.

(2) In early 2018, it became clear for the aid grantor that, based upon the actual aid granted in the period 2014-2017, the average annual budget – calculated over the

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.

2 Commission Regulation (EU) 2017/1084 of 14 June 2017 amending Regulation (EU) No 651/2014 as regards aid for port and airport infrastructure, notification thresholds for aid for culture and heritage conservation and for aid for sport and multifunctional recreational infrastructures, and regional operating aid schemes for outermost regions and amending Regulation (EU) No 702/2014 as regards the calculation of eligible costs, OJ L 156 of 20.6.2017.

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whole period of the scheme – would exceed the annual average of EUR 150 million.

(3) In order to still benefit from the GBER exemption, Hungary notified an evaluation plan for the scheme on 24 September 2018 which was initially registered by the Commission under SA.50000 (2018/EV) on the same date. By letter of 15 November 2018 and by electronic letter of 20 December 2018, the Commission asked for supplementary information. By letter of 6 December 2018 and by electronic letters of 21 December 2018 and 3 January 2019, Hungary provided the requested information.

(4) On 26 November 2018, Hungary submitted a new summary information sheet pursuant to Article 11(a) of the GBER on the modification of the scheme. The modification of the scheme consisted of a yearly average budget increase above EUR 150 million, as referred to in Article 1(2)(a) of the GBER, which provides that 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.

(5) The modified scheme and the evaluation plan were both registered by the Commission under SA.52527.

(6) By letter of 21 December 2018, the Hungarian authorities agreed exceptionally to waive the rights deriving from Article 342 TFEU in conjunction with Article 3 of the Council Regulation 1/58 and to have the planned decision adopted and notified pursuant to Article 297 TFEU in the English language, owing to the urgency of the case.

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

(7) 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[3] (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

(8) This scheme is an important regional investment aid scheme in Hungary. The scheme provides investment support in the less developed regions of Hungary- which are eligible for regional aid under Art. 107(3)(a) TFEU according to the

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

Hungarian regional aid map for the period from July 2014 to 2020[4] - within two main priority axes: (1) increasing the competitiveness and productivity of SME's and (2) Research, technological development and innovation.

(9) The objectives related to the first priority axis are: increasing the competitiveness of SME's and the promotion of their growth in Hungary; the development of enterprise networks; establishing long-term competitiveness of SME's and reducing economic duality; development of the production capacities in disadvantaged regions; facilitating modern and competitive productive infrastructure, increased productivity and range of products, lower energy and material intensity of production processes, better integrated SME's into the regional, national and international production chain.

(10) The expected impacts at macro-level are the increase of investment, economic and employment growth and territorial cohesion. At the beneficiary level, the aid is expected to have an effect on the implementation of new, more innovative production methods, capacity extensions and the setting-up of new establishments.

(11) Besides SME's, also large enterprises can be eligible (particularly supply integrators) if that is more beneficial for the SME's than their direct support. Undertakings can be eligible for aid in all industrial sectors not exluded from the GBER but the focus is on manufacturing.

(12) One of the most important objectives related to the second priority axis is to increase the R&D activity since the business enterprise research and development expenditure is relatively low in Hungary's less developed regions, compared to EU average. Other objectives are to increase the cooperation between businesses and between businesses and research organisations and the participation in international excellence cooperation (in particular Horizon 2020). At the level of the enterprises, the objective is the use of knowledge and innovation to reach business success. The Operational Program specifically supports the possibility to go into production with the developed prototypes and therefore the production facilities are supported under regional aid.

(13) The expected impacts at macro-level are the increase of investments in R&D, economic and employment growth and territorial cohesion. At beneficiary level, the expected impacts are long-term cooperation between businesses and between businesses and research organisations, the increase of R&D investments and increased development and production of new products.

(14) Beneficiaries are knowledge and technology-intensive enterprises, ranging from start-ups to large enterprises engaged in research and innovation activities.

(15) The aid takes the form of non-repayable grants, financial instruments and a combination of those.

(16) The average annual budget of the scheme is now estimated at EUR 373 million[5]. The Hungarian authorities explained that the initial average annual budget of the

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[4] SA.37718 – Regional aid map for Hungary (2014-2020), OJ C 172 of 6.6.2014 and SA.46346 - Amendment to the regional aid map for Hungary (2014-2020) for the period 2017-2020, OJ C 4 of 6.1.2017.

scheme was intended to be EUR 138 million[6]. Both the Hungarian Government and the Commission approved the total budget of the Operational Program in the Partnership Agreement in 2014. The Hungarian authorities explained that the scheme itself is a complex scheme from a State aid perspective as it contains measures both within and outside the scope of State aid rules and under different aid categories. It depends on the specific aid application under which aid category the given measure would fall.

(17) The actual awarding of aid proved not to be evenly distributed throughout the duration of the scheme as was expected during the planning phase. The Hungarian authorities, due to policy decisions, decided to award the bulk of the funds of the scheme as early as possible. According to the Hungarian authorities, there was an unexpectly high demand for funds and the actual awards under the scheme reached EUR 1 165[7] million at the end of 2017. The Hungarian authorities became aware of this situation in early 2018 and therefore started the drafting of the evaluation plan.

(18) The evaluation plan covers the whole period of the scheme: from 11 October 2014 to 31 December 2020.

(19) 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, the maximum aid intensity in ‘a’-areas ranges from 25% to 50% for large enterprises, from 35% to 60% for medium-sized enterprises and from 45% to 70% for small enterprises.

(20) There are two types of procedures applied by the Hungarian authorities managing the aid: a standard and a simplified procedure. In the case of the standard procedure, a decision preparatory commission decides on the granted projects, based on the points achieved by the project proposal. The simplified procedure is used if the total eligible cost of a project is below HUF 300 million (EUR 979 000[8]) and in simplified procedure, no decision preparatory commission is used.

(21) Before starting a scoring procedure to rank the projects, the managing authority checks the eligibility criteria which include for example: project objectives in line with program objectives, compliance with State aid rules, formal compliance of the application form.

(22) Using scoring, the managing authority ranks the projects, based on the points scored. Important criteria include: feasibility and viability of the project, potential risks, sustainability, financial and employment data of the applicant, description of planned investment, indicative amount of the applied grant and data related to eligible costs.

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5 HUF 120 391.5 million at the HUF:EUR exchange rate of 323 on 26 November 2018, when the modified summary information sheet was submitted.

6 HUF 42 316 million at the HUF: EUR exchange rate of 306.57 on 11 October 2014, when the scheme was launched.

7 At the HUF: EUR exchange rate of 308.66 for 2014, 309.9 for 2015, 311.46 for 2016 and 309.22 for 2017.

8 At the HUF: EUR exchange rate of 306.57 on 11 October 2014, when the scheme was launched.

(23) According to the Hungarian authorities, possible negative effects that could be associated with the scheme are mainly: potential crowding out effects, displacement of investments and employees across Hungarian counties or dead-weight loss resulting from the fact that some investments might have been fully or partially realized also without the aid.

2.2. Evaluation questions and result indicators

(24) 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.

(25) 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, net sales and operating profit at the level of the beneficiaries and also whether there were any differences of the effects across groups of beneficiaries depending on the level of development of the micro-region the beneficiary operates in. The evaluation will also assess the direct impact of the aid on the probability of survival of the newly established enterprises.

(26) 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 the control group) in several different areas.[9]

(27) The indirect impacts of the aid scheme will be captured by studying the positive multiplier effects of the aid scheme for non-beneficiary enterprises. The evaluation will also study non-intended effects on internal or external competition and assess whether the aid has created reduced activities elsewhere (displacement). Furthermore, the scheme will assess whether there have been any unintended deadweight effects and whether there is evidence of non-viable projects.

(28) A combination of result indicators will be used to assess the positive multiplier effects, the potential displacement and the non-viable projects[10]. The unintended effects on competition will be measured by the comparing gross value added of assisted enterprises with total sectoral gross value added. For the deadweight effect, the indicators will be tangible and intangible assets.

(29) 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 whether the form and volume of the scheme was proportionate to the problem being addressed. In particular, the evaluation will assess whether the

[9] such as number of employees, net sales, tangible assets, intangible assets, operating profits, next export sales, annual per capita electricity consumption at settlement level and survival rate in the third year.

[10] such as number of employees, net sales, tangible assets, intangible assets, operating profits and next export sales.

objectives, the eligible activities and the co-financing rates were in line with the needs of the target group. The result indicator will be the level of satisfaction of the beneficiaries with the scheme.

2.3. Envisaged methodology to conduct the evaluation

(30) The evaluation will be conducted using a combination of different methods. Counterfactual impact evaluation will be used to measure the impacts of the aid on the beneficiaries' economic indicators. Planned methods are propensity score matching and difference-in-differences. Theory based impact evaluation will be used to build the theory of change (i.e. the mechanisms through which the policy reaches its objectives and their contribution to the planned results). Planned methods are qualitative based on focus groups and expert panels. The theory of change will be compared to the intervention logic of the operational program and the priority axis. A contribution analysis will be applied to identify the contribution of the public policy to the planned result and a Bayesian network analysis to quantify the probabilities of the causal chain's elements of the theory of change. Economic duration analysis will be used to measure the impacts of the aid on the three year survival rate of the newly established enterprises that received aid. Finally, a case study analysis will be used to discover the potential negative effects of regional aid on competition. A control group will be built of enterprises that did not receive any assistance from EU funds between 2007 and 2017. The matching of the treated and control enterprises will be based on the size (net sales), the relative intensity of production factors (tangible and intangible assets per employee), sector (based on NACE codes), the time of operation, previous growth trajectory and geographical location (NUTS 2 region) in 2013. To assess the impact of the aid on the survival rate of the beneficiaries, a potential control group will be the newly established enterprises not receiving any assistance from EU funds in the first three years of their operation.

2.4. Data collection requirements

(31) The evaluation will be based upon 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, the list of the less developed settlements (based on the government decree 27/2013[11]), the annual report of the Hungarian Central Statistical Office on electricity consumption, the annual report of the Hungarian Central Statistical Office on sectoral value added and the beneficiary survey. Keeping in mind that the impacts need at least one year to materialize, the evaluation will have a cut-off date of 31 December 2017 regarding the aid and 31 December 2018 regarding the impacts.

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

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

[11] Government decree 27/2013. (II. 12.) on the Establishment of the free enterprise zones and their operation and the rules on the use of the allowances https://net.jogtar.hu/jogszabaly?docid=A1300027.KOR

Task	Deadline
Signing the contract with selected evaluator (T0)	Q2 2019
Inception phase, ending with inception report	T0 + 1 month
Data gathering phase finalised	T0 + 5 months
Data analysis phase finalised	T0 + 6 months
Interim report	T0 + 6 months
Draft final report	T0 + 9 months
Final report, presentation of findings and policy proposals	T0 + 10 months
Follow up of the implementation of policy proposals	T0 + 16 months

The Hungarian authorities committed to submitting the interim report to the Commission by 31 December 2019 and to submitting the final evaluation report to the Commission by 30 June 2020. The evaluation will be conducted in close cooperation with the Commission services in the context of which the Hungarian authorities planned at least two technical discussions.

2.6. Independent body selection to conduct the evaluation

(33) The Hungarian authorities explained that the evaluator has not been selected yet at the time of the notification of the evaluation plan. The EDIOP managing authority will select an external independent evaluator in line with public procurement rules. It is planning to do so by the end of 2018. The selection criteria will be best value for money, respecting the principles of equal treatment, non-discrimination and transparency. The detailed selection criteria will be part of the call for tenders with the following main principles: legal and regulatory capacity, economic and financial capacity, technical and professional capacity in the fields of SME development aid, theory and practice of EU's regional policy and possible other relevant experience that will be detailed in the call for tenders.

(34) During the process of the evaluation, the managing authority involving its competent staff will organise regular meetings with the service provider to monitor and support the evaluation work.

2.7. Modalities for ensuring the publicity of the evaluation

(35) The Hungarian authorities confirm that the evaluation plan and the final evaluation report, along with a summary and the policy proposals will be available through the website of the ministry of finance gazdasagfejlesztes.gov.hu and on the website of the implementation of the European structural investment funds in Hungary, www.palyazat.gov.hu, together with an English language executive summary.

3. ASSESSMENT OF THE EVALUATION PLAN

(36) 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.

(37) Pursuant to Article 1(2)(a) GBER, certain aid schemes[12] , the average annual State aid budget of which exceeds EUR 150 million, should be made subject to evaluation. The Commission notes that the annual average budget of the aid scheme concerned by this decision currently exceeds EUR 150 million.

(38) 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.[13]

(39) In the light of these considerations, Article 2(16) of the GBER defines "evaluation plan" as "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."[14]

(40) The Commission considers that the notified evaluation plan, as described in section 2 of this decision, contains these minimum elements. The Commission regrets that the Hungarian authorities notified the evaluation plan belatedly, outside the 20 working days deadline required by Article 1(2)(a) of the GBER. The Commission considers that the average annual State aid budget, calculated over the entire period of the scheme, already exceeded the annual average of EUR 150 million at some point in 2017 as the aid awarded under the scheme in the period 2014-2017 totalled EUR 1 165 million at the end of 2017.

(41) 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.

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12 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).

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

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

(42) 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.

(43) 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.

(44) The procedure and selection criteria for the selection of the evaluation body are appropriate to meet the independence and skills criteria.

(45) 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 results of the evaluation report and underlying data to stimulate research and assessment of the functioning of the scheme.

(46) 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.

(47) 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.

(48) 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 applicable as of the date of notification of this decision to Hungary.

(49) 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 exempt the scheme under the GBER from the date of notification of this decision to Hungary until 31 December 2020.
- to publish this decision on the Internet site of the Commission.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site: http://ec.europa.eu/competition/elojade/isef/index.cfm.

Your request should be sent electronically to the following address:

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Yours faithfully
For the Commission

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