TOWARDS A CLIMATE NEUTRAL EU:
EFFICIENT ALLOCATION OF EU FUNDS

Evaluating EU funding mechanisms 2021-2027: Hungary

An assessment of the EU Partnership Agreement and Operational Programmes for Hungary, 2021-2027

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Disclaimer

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The opinions put forward in this document are the sole responsibility of the project partners and do not necessarily reflect the views of BMWK.

1. Comments on the draft Hungarian Partnership Agreement on EU Funds from an environmental perspective

Introduction

The comments set out below are in line with the Regulation of the European Parliament and the European Council regarding the laying down of common provisions and financial rules (or, CPR) for the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the European Maritime and Fisheries Fund, the Asylum and Migration Fund, the Internal Security Fund, and the Border Management and Visa Instrument.[1]

In August 2021, we made comments on the basis of the draft Partnership Agreement on EU Funds (or, draft PA), dated on 12 May 2021, which was published on the website of the Hungarian government. As of 8 October 2021, a new version of the Partnership Agreement was published on the social consultation site. The previous 52-page draft had been expanded to 77 pages. We made detailed comments on this version in December 2021. A subsequent version of the Partnership Agreement submitted to the European Commission (or, PA) was also published on the official website, dated 30 December 2021, with the text expanded to 86 pages.[2] We have updated our previous comments based on the latest version.

General remarks

The draft PA describes most of the main challenges faced by Hungary, but generally fails to meaningfully respond to the country-specific issues highlighted in the recommendations. It mainly contains the Hungarian government's plans, relationships to other EU funds, and a description of the support structure, which remains largely unchanged. At the same time, the draft fails to prescribe specific eligibility conditions and special minimum requirements, which could make the processes related to the funds more transparent and more effective.

We also consider it highly relevant that the objectives and programs chosen by the PA are too general: a more specific and detailed analysis is needed. The overly general nature of the text makes it impossible to judge whether the requirements of the CPR are met under the draft PA. There is not even one case in which a concrete numerical figure demonstrates what targets would be achieved in a given period of time. Generally, we consider it indispensable to include concrete and ambitious targets to the policy objectives (see p. 4 of this paper).

The draft PA is guided entirely by an economic policy prerogative by which development is ensured through forced, rapid implementation of publicly financed investments (see p. 56). This idea is often criticised and considered dangerous by non-governmental organisations, renowned economists, and even the President of the Hungarian National Bank,[3] as it involves mainly greenfield investments that are dubious in terms of sustainability and cause significant natural losses. They also increase demand for raw materials, leading to further environmental destruction. The forced investments will only improve economic performance in the short term, but will be even more damaging in the longer term. In the case of several objectives (e.g., tourism, increasing the employment capacity of companies), we believe that financing should be provided primarily from private sources instead of the funds. This was also noted in comments from the European Commission concerning the Partnership Agreement for the 2014-2020 period (point 1 (5), or 2 (15).[4]

The draft PA aims to spend 50% of all resources on the four Hungarian NUTS2 regions, which are among the 20 poorest 20 regions. However, the practical implementation of this commitment is not sufficiently clarified in the draft. It would also be important to rule out the well-known phenomenon of de facto linking resources in these poorer regions to implementing companies in other regions.

The 'Vision of Hungary' chapter is no longer included in the version of the PA submitted to the European Commission, meaning that environmental and climate protection are no longer included as long-term guidelines. At the same time, there are still several conflicting goals in the draft, such as expanding transport links for environmentally harmful transport modes versus greening the transportation sector. We believe that more social, economic and attitudinal change is needed to avoid a climate catastrophe and use natural resources sustainably, and the PA should clearly reflect this.

Shortcomings of the draft Partnership Agreement explained in more detail

Chapter 1.1: Justification for the choice of policy objectives

Table 1 contains contradictory findings, such as the need for expressway construction or the need to increase the immersion depth of the Danube in the face of the deteriorating state of our natural areas.

The Balaton area has been designated as a priority development area, which is similarly worrying. In practice, this already means the EU and Hungarian taxpayers would partly finance investments that are environmentally and economically unsustainable, far exceeding the tolerance of the area and often with enormous natural devastation. The short-term profit of these investments will go to private actors, while the burden of provide necessary public services, managing environmental damage and operate unsustainable facilities will fall on the community.

Moreover, the water-management and transport system of the region, as well as the ecological balance of Lake Balaton, can no longer serve new large-scale development and more intensive tourism. Experts and scientists working on issues concerning Lake Balaton and its surroundings have long been saying that the ongoing investments threaten an ecological disaster, so further significant investments would violate the environmental and nature-protection goals of the EU and Hungary. Instead of further supporting the already developed region, resources should be spent on recovery measures and making the lagging areas more liveable.

In many places, it is also advisable to update the statistical data used to explain the situation, as they are already obsolete and, in several cases, new data are available (e.g., in the case of digitisation).

It is forward-looking that the draft PA submitted to the European Commission already presents the need to close the lignite mines in Hungary for reasons of air quality and climate protection. The draft also recognises that the fight against energy poverty is of paramount importance, but the key intervention plans still do not appear to be effective enough.

Policy Objective 1: Smart Europe

The draft PA states the following at Point 2.1.1 (Policy Objective 1: Smart Europe): "The competitiveness of the Hungarian economy can be improved by increasing electrification and automation and moving towards higher value-added products."

We consider this to be only partially true. The draft recognises and states that economic restructuring is needed to improve competitiveness, but if this will continue to focus on strengthening large-scale industrial investments and improving integration into international value chains and automation, then it might lead to further degradation of the natural environment and cause additional environmental impacts. In the context of economic restructuring, we would prefer to develop local, small-scale production and to produce high-quality, traditional handmade and organic products, as well as to promote high intellectual value-added services.

Compliance with Article 6(1)

The draft PA does not fully comply with Article 6 (1) of the CPR, which states the following: "Member States shall provide information on the support for environment and climate objectives using a methodology based on types of intervention for each of the Funds. That methodology shall consist of assigning a specific weighting to the support provided at a level which reflects the extent to which such support makes a contribution to environmental objectives and to climate objectives. In the case of the ERDF, the ESF+ and the Cohesion Fund weightings shall be attached to dimensions and codes for the types of intervention established in Annex I."

Policy Objective 2: A greener, low-carbon and resilient Europe

The description of Policy Objective 2: A greener, low-carbon and resilient Europe (point 2.1.2 of the draft PA) is incomplete. In all cases, the draft aims for some kind of infrastructure development that could increase the deterioration of the environment due to its demand for raw materials and energy. In addition, the part on energy does not focus sufficiently on improving energy efficiency and energy-saving renovation of buildings. The section on air quality lacks steps to reduce emissions from residential heating and focuses too much on new infrastructure elements. It puts the main blame for air pollution on "coal-fired stoves" but does not mention that the coal used is of the worst quality (lignite), and that its sale for residential heating could and should have been banned years ago. It also fails to mention that the air pollution which is most dangerous to human health results from the widespread burning of household waste,[5] and it is first of all the lack of sufficient action by the government that makes it possible to continue these illegal activities.

Another shortcoming is that there is not a single mention in the draft about the possibilities of wind energy in Hungary. It would be worth clarifying whether we would also support this source, and if not, it would be necessary to work out a justification for this.

Concerning transport, the PA puts emphasis on the electrification of transport which, albeit necessary, will not ensure in itself the greening of transport.[6] On the contrary, the situation will continue to deteriorate: for example, each year more than a 100,000 old, second-hand cars are imported to Hungary, while fewer than 1,000 electric cars (BEV) are sold.

The final, submitted draft stipulates that Hungary undertakes to comply with the principle of 'do no significant harm' and intends to maximise the goals envisaged by the European Green Deal. However, this does not dispel the above concerns, as these obligations apply to Hungary without such an explicit commitment.

Policy Objective 3: A more connected Europe

Concerning Policy Objective 3, 'A more connected Europe' (point 2.1.3), the aim of further development of "convenient road facilities" runs counter to green objectives and to the 'polluter pays principle', as it encourages the proliferation of individual motorised passenger traffic and transport. The stated goals do not include the reconstruction of the existing road network, but emphasises instead the development of the highway network, which is completely unnecessary from the point of view of transport and causes the fragmentation of natural areas and, indirectly, raises levels of air and noise pollution. Similarly, the development of ports on rivers may cause loss of biodiversity and could violate aims of the environmental acquis, especially the Water Framework Directive. The development of port infrastructure has already been left out of the planned interventions in the latest version of the draft PA, but we conclude from other government plans and documents that this direction remains on the agenda. It is possible that these will be funded from non-EU sources in the future, but the associated environmental and biodiversity risks will remain.

Policy Objective 5: A Europe closer to its citizens

There are several expected outcomes related to tourism developments in this chapter. In our view, the focus should be on preserving and renovating our existing cultural heritage, rather than on creating new tourist attractions and facilities, as our built heritage is in a terrible and rapidly deteriorating condition across the country.

Chapter 2.1.6. Fair Transition

The affected regions in need of development are characterised by poor housing conditions and poor energy performance. For this reason, there would be a great need for large-scale, deep energy renovations and, in cases where this is no longer possible, for the construction of modern and energy- efficient social rental housing. This would mean a large-scale programme of building modern, energy- efficient housing that could be used on a social basis, free of charge or for low rent by people deprived of adequate housing in less developed regions. In spite of the above, energy renovations are only included in the draft PA as a supplement, and the rental housing program is not included at all. The draft PA focuses on encouraging renewable energy production. These investments are not efficient enough for housing in poor condition (without undergoing deep renovation), so these subsidies do not help the most deprived families at all.

List of programmes planned under the Funds covered by the Partnership Agreement, with ex-ante financial allocation from each Fund and the related national contribution by category of region Table 9/A

According to the draft PA, a very small part of the resources will go to the "more developed" regions, such as to the capital of Hungary, Budapest. The draft itself correctly acknowledges that some public services in the capital are underfunded and underdeveloped, and thus require serious improvement. Nevertheless, the draft allocated very little EU funding to more developed regions and to the capital. This disproportion may lead to forced, less sustainable investments in some rural regions, while important and efficient developments will be lagging behind in the Budapest, where one-fifth of the total population lives and where 25-30% of the population work or study every day, due to a lack of resources in areas outside of Budapest. It is not clear from the draft that the resources allocated to the capital are so low because the EU cohesion rules do not allow more or is rather the result of another decision. If this is due to the rules, we recommend that the government request derogation from these rules with reference to the special proportions of the Hungarian settlement structure formed for historical reasons.

Distribution of resources

The draft states the following on page 73, justifying the distribution of resources:

> "*In order to improve economic competitiveness, Hungary intends to focus EU funds in the period 2021-2027 primarily on strengthening the economic sphere, enterprises and related R&D, training, infrastructural and labour market developments. This choice is also supported by global economic trends and the experience of the 2014-2020 period.*"

According to Global Competitiveness Reports of the World Economic Forum, Hungary improved only one place in the world competitiveness rankings between 2011 and 2019 (from 48th to 47th place).[7] We draw from this the conclusion that the use of resources from the previous funding period was not efficient enough. We would consider it crucial to make a paradigm shift and spend subsidies on more sustainable activities, focusing on education, health and the conservation of natural resources, rather than investing mainly in infrastructure and material use.

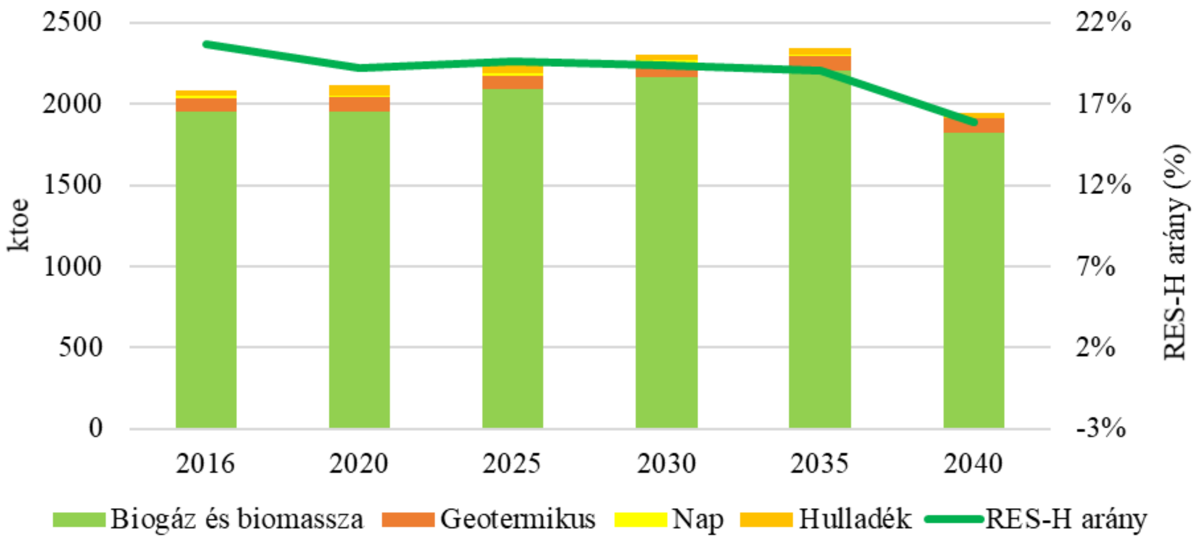
Annex IV of the CPR

There are several shortcomings related to the thematic enabling conditions set forth by Annex IV of the CPR. The non-compliance with these conditions also violates Article 15 of the CPR. The key would be to make progress in the following areas in order to establish compliance with the thematic enabling conditions:

- Annex IV, point 2.1 of the CPR requires a "Strategic policy framework to support energy efficiency renovation of residential and non-residential buildings". Although the government recently adopted the Governmental Decision (no. 1343/2021. (VI. 2.)[8] on the adoption of the national long-term renovation strategy to support the renovation of the national stock of residential and non-residential buildings,[9] neither the Act on the 2022 State Budget, nor any other legislation reflects the aims set forth in the strategy. Just to the contrary, the Hungarian government provides huge support for the construction and renovation of buildings without any meaningful requirements for energy efficiency. (It has been generally characteristic of Hungary that the Parliament, the national government and local governments adopt excellent strategies which are never implemented; even worse, the concrete measures and investments often contradict these strategies.)
- Annex IV, point 2.2 of the CPR requires the following: "The integrated national energy and

climate plan is communicated to the Commission, in accordance with Article 3 of Regulation (EU) 2018/1999 and consistent with the long-term greenhouse-gas emission reduction objectives under the Paris Agreement, which includes: 1. All elements required by the template set out in Annex I to Regulation (EU) 2018/1999. 2. An outline of envisaged financial resources and mechanisms for measures promoting low-carbon energy." According to the Commission's assessment,[10] even the current National Energy and Climate Plan (NECP) of Hungary "shows a very low level of ambition". Among others, a meaningful "outline of envisaged financial resources and mechanisms for measures promoting low-carbon energy" is missing. Moreover, with the new EU target of 55% emission reduction, the NECP must be completely revised. In our opinion, the PA cannot be signed before the adoption of a revised NECP that is fully aligned with the new EU target and contains, among others, concrete annual deadlines and a detailed description of financial instruments.

- Annex IV, point 2.3 of the CPR requires "effective promotion of the use of renewable energy across sectors and across the Union." Hungary will certainly have serious difficulties in complying with this requirement, namely, to increase the share of renewables in the heating and cooling sector by 1 percentage point per year up to 2030. According to the current tendencies and forecasts (see graph below) this share will decrease. Therefore, new measures and a roadmap are necessary to meet with this enabling condition before signing the PA.



Share of renewables in the heating and cooling sector. Source: National Energy and Climate Plan

- Annex IV, point 2.5 of the CPR requires "updated planning for required investments in the water and wastewater sector." The PA does not include detailed measures for ameliorating the quality of the surface and groundwater bodies; instead it emphasises irrigation development projects. In our view, the PA should focus on Nature-Based Water Retention Measures to improve water retention in Hungary in general – which is essential, as the country is facing longer periods of drought, alongside more frequent and more extreme rain and flooding events – and not artificial and unsustainable solutions like irrigation. Furthermore, the PA does not address one of the biggest problems of water management in Hungary, namely the canalisation system, which quickly drains excess water from the country instead of retaining it.

- Annex IV, point 2.7 of the CPR requires a "prioritised action framework for the necessary conservation measures involving Union co-financing." The PA does not include any details regarding better management of protected areas, or on the role that prioritised action frameworks (PAF) may play in this (apart from its specific connection to an ongoing integrated LIFE project). The PAF has an integral role in identifying priority measures and estimating financing needs for nature conservation. We are also concerned that the development directions planned in the funding period will undermine the fulfilment of nature conservation objectives and cause further deterioration by the end of the period.

- Annex IV, point 3 of the CPR requires "developing and enhancing sustainable, climate resilient, intelligent and intermodal national, regional and local mobility…" The current transport system of Hungary is far from being sustainable and climate resilient. The external cost of road transport (according to the Integrated Transport Operational Programme) is equal to 6% of GDP. As long as these external costs are not internalised, transport cannot become sustainable and climate resilient.[11] The PA envisages the construction of new roads, including new motorway sections, which would contradict the 'polluter/user pays principle'. More road traffic would be generated, natural areas would be damaged, there would be less resources for railways and public transport, and more sustainable transport modes would have to face even tougher competition. For these reasons, the draft PA is non-compliant with this enabling condition.

- According to Article 16 of the CPR, the PA should meet the requirements set out in Article 33(3) of the Financial Regulation, which states the following: "Specific, measurable, attainable, relevant and time-bound objectives as referred to in paragraphs 1 and 2 and relevant, accepted, credible, easy and robust indicators shall be defined where relevant." According to paragraph 1, "appropriations shall be used in accordance with the principle of sound financial management." In view of the above assessment, we find that the PA does not comply with the provisions of Article 16 of the CPR.[12]

Proposals to decrease the environmental impacts of future projects

The following amendments should be made in the draft PA in order to fully comply with the objectives of the CPR, particularly the objective to reach “a greener, low-carbon transitioning towards a net zero carbon economy and resilient Europe by promoting clean and fair energy transition, green and blue investment, the circular economy, climate change mitigation and adaptation, risk prevention and management, and sustainable urban mobility” (Article 5 1 (b)).

1. The PA should ensure that the energy efficiency and the reduction of greenhouse gases are important criteria in the selection of every project. Effective steps should be taken in the PA to establish a monitoring system with the help of follow-up measures.
2. It is also necessary to apply the ‘polluter pays principle’ and prescribe steps to ensure this.[13] In line with this principle, the PA should ensure that an external cost analysis is carried out before every decision on the funding of concrete projects requiring a financial contribution of more than EUR 1 million.
3. The PA should explicitly prescribe the improvement of the application of the preventive action principle, as well as the precautionary principle, in particular by the following measures:[14,15]
    a. Take effective steps toward stricter official practice in environmental licensing procedures.
    b. Restore the permit requirement for minor environmental use activities.
    c. Improve the legal framework of the environmental liability system.
4. The text of the PA should include an article that the EU Green public procurement rules must be complied with in projects financed by the European Structural and Investment Funds (ESIF).
5. The PA should also include an explicit prescription to ensure that compliance with the relevant environmental acquis regulation shall be maintained throughout the financial period[16,17] (including project selection criteria to ensure the dissolution of current infringements and avoidance of future infringements). A general revision of the national legislation is also necessary.
6. The PA should include a provision that Hungary shall significantly increase the efficiency of the work of environmental authorities, in particular by the following measures:[18]
    a. Restore the autonomous environmental authorities.
    b. Significantly increase the human and financial resources of the environmental authorities.[i]
    c. Provide necessary training for governmental and local staff in charge of environmental issues. Develop an effective training strategy (training sessions, online training, etc.), with quantitative indicators, where possible. Moreover,

provide appropriate technical assistance (guidelines, guidance documents, external experts) to all the authorities applying EIA/SEA Directives.

d. Introduce stricter sanctions in the event of frequent or serious environmental non-compliance cases. Assess the deterrent effect of current administrative fines, and eliminate the economic benefits of non-compliance.

7. The PA should introduce the following condition: In order to ensure full compliance with the sustainable development principle, any project funding decision exceeding EUR 10 million shall be preceded by obtaining the opinion of the National Council for Sustainable Development on the sustainability of the project.[19]
8. The PA should explicitly prescribe that managing authorities shall ensure the mandatory application of BAT, as well as the compliance with the BAT conclusions, for every project funded with at least EUR 10 million.
9. The PA should envisage establishing a legal framework to ensure that the government conducts preliminary environmental assessments before making any significant changes in the public finance (state budget, taxation system). Ex-post impact assessments (similar to those set forth by the Act CXXX of 2010 on law-making) shall also be properly conducted following any such changes.
10. In order to fully comply with Article 8 of the CPR, the PA should envisage the improvement of the current regime and fully ensure that the public (including relevant NGOs) is given early and effective opportunities to participate in the preparation and modification of the programmes, as well as in every relevant decision-making procedure concerning the ESI Funds.[20] Within the framework of the above, Hungary shall fully ensure:
    a. timely disclosure of and easy access to relevant information;
    b. sufficient time for partners to analyse and comment on preparatory documents and draft programmes;
    c. available channels through which partners may ask questions, provide contributions, and be informed of the way in which their proposals have been taken into consideration;
    d. dissemination of consultation outcomes.
11. The text of the PA should guarantee the significant improvement of the transparency and efficiency of the monitoring committees. In the framework of the above, the Hungarian Government shall ensure that every monitoring committee has a two-thirds majority of members independent from the government.[21] Otherwise, the PA will violate Article 8 of the CPR.
12. Article 8 of the CPR states that the PA should ensure that relevant stakeholders take part in the preparation of the progress reports on PA implementation, in particular concerning the assessment of the role of partners in the PA implementation and the

overview of the opinions given by the partners during the consultation, including, where appropriate, the description of the way in which the opinions of partners have been taken into account.[22] The PA should include this provision.

13. According to Article 8 and 12 of the CPR, the text of the PA should ensure that the partners, within the framework of the monitoring committees and their working groups may assess the performance of the programme, including the conclusions of the performance review, and that they may take part in the preparation of the annual implementation reports on the programmes.[23]
14. The PA should envisage a system that monitors the need of support for the strengthening of the institutional and/or financial capacity of partners. Where such support is needed, the Hungarian Government shall provide the necessary resources in order to enable the partners to effectively practice their participation rights (e.g., in the framework of the Technical Assistance).[24]
15. The PA should ensure that Hungary breaks down all barriers to disclosure procedures for environmental information as soon as possible, particularly the unjustified confidentiality of certain relevant data and the unfounded application of unreasonable costs in connection with data requests.[25]
16. The PA should envisage the establishment of the framework of a system that improves the knowledge of the extent and value of ecosystem services, habitat and soil maps within and outside protected areas. This system shall also continue the online sharing of sectoral data and shall improve the accessibility and communication of information to the public.[26]
17. The PA should address the risk of increased flooding and resulting vulnerability of (urban) infrastructure and the water supply and sanitation systems through improved engineering, water management practices, and establishing early warning systems.
18. The PA should ensure that Hungary shall amend relevant legislation in order to provide the public access (including environmental NGOs) to a review procedure before a court of law to challenge the programmes on environmental grounds. [27]
19. The PA should ensure that Hungary shall not take any legislative or other action that leads to a reduction in the current level of environmental protection.[28] Hungary shall also ensure that national environmental policies and regulations are not reducing the current level of EU environmental protection regulations and standards. The text of the PA should also ensure that the relevant Hungarian regulation and any new pieces of law shall be assessed from this aspect and regulation shall continue to contribute to environmental and health protection, and shall not worsen pollution or lead to loss of biodiversity. The above principle of non-regression should be applied to substantive, procedural and organisational rules.
20. In line with point (11) of the CPR, biodiversity should be mainstreamed in other policies

with adequate funding towards reaching the set EU-level biodiversity objectives, while considering existing overlaps between climate and biodiversity goals. The draft PA does not explicitly link climate and biodiversity objectives and planned activities, apart from stating the aim to harmonise these areas under the KEHOP Plus (Environmental and Energy Operational Programme Plus) funding framework. Hungarian environmental civil society organisations have made more detailed concrete proposals for the PA. In our opinion, these proposals should be included as an Annex to the Partnership Agreement.

21. The PA should provide safeguards and actively build on the principle of partnership with a multi-level governance approach, in accordance with point (14) of the CPR. The active involvement of regional, local, urban, and other authorities, civil society, economic and social partners should be ensured, following the European code of conduct on partnership.

[Budapest 12 February 2022]

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28 Proposals for the Hungarian Partnership Agreement on the European structural and investment funds 2021-2027 and the National Recovery and Resilience Plan for contributing to a climate-neutral EU (by Clean Air Action Group and CEEWeb for Biodiversity). http://levego.hu/sites/default/files/Hungarian%20Partnership%20Agreement%20proposal%20Climate%202021apr21.pdf

2. Comments on the draft Hungarian Environmental and Energy Efficiency Operational Programme (KEHOP Plusz)

The below comments have been made on the basis of the draft Operational Programme on Environmental and Energy Efficiency, dated 8 October 2021.[1]

General remarks

The goals and activities listed as priorities by KEHOP Plusz are fundamentally important and can be supported. However, in many places the target numbers are incomplete or meaningless, so it is difficult to evaluate the effectiveness of the programme. In several places, the programme mentions awareness-raising activities as measures to be supported, yet the indicators do not include the number of actively or passively reached residents. In general, we found that extremely low amounts of funds were allocated to interventions that could truly improve the state of the environment, and that less environmentally beneficial – or even hazardous activities – receive more financial resources. The indicators set forth by the programme reflect extremely low ambition and leave ample scope for practical implementation, which further weakens the evaluability of the draft and jeopardises the achievement of more important environmental objectives.

Chapter 1. Program Strategy: Key Development Challenges and Policy Responses contains an accurate description, which predicts that only a major economic and structural change will lead to significant results. Otherwise, the EU's climate and environmental goals will not be met: "The 2020 country report already includes UN sustainability targets. According to the Third Progress Report of the National Framework Strategy for Sustainable Development, the conservation status of more than 80% of the habitats was unfavourable (60% in 2016). The health of our forests has also deteriorated, with approximately 50% of the country's forested area being severely vulnerable. The amount of drinking water produced increased by 9% by 2017, which is related to the 2014 minimum, may be due to the water demand of growing production and service activities. Compared to 2015, in 2017, 12% more fertilisers were used per hectare. The economic growth of recent years has been accompanied by increasing material use. Although there has been an increase in solar energy use, the increase in final energy consumption is greater than the use of renewable energy. Four-fifths of renewables are agricultural, and two-thirds are power plant and household firewood. GHG emissions increased by 13% between 2013 and 2018, with air pollutants stagnating or increasing".[2]

Chapter 2.1.1 Priority 1: Water management and disaster risk reduction

Chapter 2.1.1.1 Adapting to climate change and preventing disasters and promoting resilience, taking into account ecosystem-based approaches (specific objective SO2.4)

The interventions listed in this chapter could only partly be considered as tools to combat climate change. The title of the sub-chapter is not in accordance with its content. In addition, the majority of the measures proposed do not serve resilience at all; they can make the management of disasters and disaster recovery more effective, but they do not fulfil the goal of preventing or adapting them and reducing the harmful effects of climate change. In contrast with the title of the sub-chapter, the described approaches are not ecosystem-based, but based instead on human interventions and artificial tools and equipment instead of truly nature-based solutions. In our view, the general strengthening of disaster management should not be financed under the operational programme for environmental protection.

Chapter 2.1.1.2 Adapting to climate change and preventing disasters and promoting resilience, taking into account ecosystem-based approaches (specific objective SO2.4)

Concerning the sub-chapter “Water and settlements”:

> Despite the state-of-the-art and close-to-nature water management goals set out several times in the draft, the main priorities listed, and about 80% of the allocated financial resources, still reflect an outdated approach to water management, with the goal of draining water as soon as possible and strengthening defensive lines dominating flood protection, rather than expropriating floodplains, bringing them closer to nature, or compensating for potential agricultural damage. Nevertheless, the eligible activities show significant improvement compared to the previous draft OP. It is therefore recommended that close-to-nature and water- retaining techniques should be preferred during the implementation of the programme, although the main target numbers set out in the ‘Indicators’ chapter show that the focus is still on flood-defence infrastructure investments to support drainage. In this chapter, we also see the failure to coordinate the planning and the implementation of interventions in different sectors. Without it, the planned measures will not be mutually reinforcing, and may even be contradictory.

Concerning the sub-chapter “Water damage, drought damage, water protection”:

> The eligible actions have improved a lot compared to the previous draft, but there is still too much support given to environmentally harmful investments in the description of

activities, such as irrigation systems and waterbed dredging.

Concerning Point 2.1.1.2.2:

The indicators are incomplete, and the level of ambition is low. Based on the above, we propose to formulate additional areas of intervention that can help to achieve the environmental goals more effectively.

Chapter 2.1.2 Priority 2: Circular economic systems and sustainability

Chapter 2.1.2.2 Enhancing the protection and conservation of nature, biodiversity and green infrastructure, including in urban areas, and reducing all forms of pollution (specific objective SO2.7)

Green-blue infrastructure

The indicators include 2.9 hectares of affected area by 2024, and 29 hectares by 2029. This is far from desirable – even from what is absolutely necessary during the eight-year programme period. In addition, we no longer find anything for the result indicators, which is a step backwards even from the previous draft. The low level of ambition is also recognised by the preliminary SEA report (page 67). The financial resources allocated to these activities could also be much higher, as this is an area with a chronic shortage of resources, the support for which would be a significant step forward. It is recommended that funds be reallocated from other areas for these purposes. In addition, according to the table in the draft KEHOP Plusz, only the less-developed regions will benefit from these resources, while the improvement of the urban environment would be most needed in the capital: positive impacts of these interventions would affect most residents in Budapest.

Chapter 2.1.2.3 Promoting the transition to a circular and resource-efficient economy (specific objective SO2.6)

Circular waste management

The planned interventions do not pay any attention to prevention, which is the highest level of the waste management hierarchy. The measures focus only on the treatment of generated waste, apart from minimal-scale awareness-raising activities. In addition, the indicators for these objectives include only the amount of waste to be recycled. Instead of the waste treatment, the priorities – and therefore the indicators – should focus on reducing waste generation, which would also reduce the associated secondary environmental pressures (e.g., transport, soil pollution).

Therefore, the most appropriate indicator would be a reduction in the amount of waste emitted per capita.

Chapter 2.1.2.4 Promoting the transition to a circular and resource-efficient economy (specific objective SO2.6)

Development of a circular economy

In our view, it would be worthwhile to support more measures that prioritise economic restructuring, as well as more sustainable and environmentally friendly production. More emphasis should be placed on local, small-scale production, with a preference for handicrafts, high value-added products and services, as well as development of short supply chains. By 2029, the indicators set forth by the draft OP include the development of 160 and 143 enterprises, respectively. This indicator is meaningless because it does not say anything about the quality and real quantity of improvements, and it indicates a harmful distortion of the economy rather than a contribution to a more efficient economy. The financial resources allocated to this objective are also extremely low, which is unfortunate because these activities would make a greater contribution to the prevention of waste generation and the transition to a more sustainable economic structure

Chapter 2.1.3 Priority 3: Environmental and nature protection

Chapter 2.1.3.1 Enhancing the protection of nature, biodiversity and green infrastructure, including in urban areas, and reducing all forms of pollution (specific objective SO2.6)

Remediation of contaminated industrial and brownfield sites

The narrative description of this target states that, after remediation the affected areas could be used for economic or welfare purposes. From our point of view, these areas (or a part of them) could be also used to restore natural ecosystems and improve their biological diversity by returning them to nature, provided that certain conditions are met, and that further pollution and degradation are ruled out. In addition, we propose to establish a priority project in cooperation with local municipalities to limit brownfield areas and to determine the development and re-use opportunities of brownfield areas. The narrative description surprisingly omits the mention of soils and the significance of soil remediation and restoration for the overall health and functioning of previously contaminated areas. Among the indicators, the size of the rehabilitated area by 2029 is only 9 hectares, which is far from being sufficient or significant. The financial resources allocated for this purpose (EUR 5 million and 24 million from the ERDF and Cohesion Fund respectively) seems to be too small even to achieve symbolic results, and should be raised by at least one, and preferably two, orders of magnitude.

Measures to protect the environment and modern technologies

We recommend that the illustrative list of eligible activities be expanded to include, for example, the following:

- Awareness-raising activities to prevent residential air, water and soil pollution
- Capacity-building, laboratory development and equipment procurement for more effective detection of illegal waste burning
- Indoor air-quality research and prevention activities
- Ecosystem service-focused assessment of to-be-remediated brownfield areas in order to estimate the potential benefits gained from giving a remediated area back to nature.

In addition, the allocated financial resources should be raised by reallocation from other, less important purposes (such as from surface water drainage infrastructure or waste landfill/recycling support).

Creating ecological and infrastructural conditions for the conservation and management of Natura 2000 sites and green infrastructure

We recommend much more ambitious indicators, since currently we find only the size of Natura 2000 sites managed with protection and restoration measures, which is not sufficient.

Creating the conditions for the sustainable use of biodiversity and the cultural and recreational ecosystem services provided by the Natura 2000 network

These objectives support measures which mainly include infrastructural developments (visitor centres, hiking trails, line facilities, etc.). We believe that these activities do not serve nature conservation and the protection of biodiversity. Priority should rather be given to activities that restore the natural environment, improve its resilience, and eliminate habitat fragmentation. In our opinion, these are interventions which serve primarily the interests of tourism development rather than nature conservation. If, however, the conservation of biodiversity is effectively promoted by these measures, the proposed interventions need to be justified. Awareness-raising and communications activities should also aim to increase visitors' knowledge and awareness of other forms of ecosystem services (provisioning, regulating) that biodiversity and the Natura 2000 network provides, potentially contributing to citizens' enhanced appreciation and care for natural ecosystems.

Developing the information systems required for the conservation of biological diversity, sustainable use of ecosystem services, and development of green infrastructure

The listed activities, proposed to be eligible for support, are all relevant and integral tools to serve the targeted objectives. In order to make investments more efficient, as a first step, existing information systems (databases, tools etc.) should be clearly mapped, assessed and, if feasible, be further developed, before resources are spent on developing new systems. Achieving the set objectives will be impossible without the systemic involvement and consultation of diverse sectoral actors.

We recommend that the illustrative list of eligible activities be expanded to include:

- Investigating and developing tools and guidance to support citizen science as an innovative and participatory method in the service of biodiversity conservation
- Awareness-raising and capacity-building activities to advocate the use of citizen science
- Developing and establishing inclusive, participatory processes with relevant sectoral actors in order to map existing and develop new information systems

Chapter 2.1.4 Priority 4: Renewable energy economy

Chapter 2.1.4.1 Promoting energy efficiency and reducing greenhouse gas emissions (specific objectve SO2.1)

Promoting energy efficiency measures and raising awareness

There are several shortcomings among these indicators: the number of properties affected by energy- efficient renovation and the area of public buildings would need to be increased in order to have a significant impact by the programme. This is necessary even if the resources available under the Energy Efficiency Obligation Schemes will be available during the grant period. There are 4 million households in Hungary, at least half of which are in urgent need of energy renovation. In comparison, the draft OP plans to renovate only 27,000 properties. Measures would also be needed to eradicate energy poverty, implement social fuel programmes, and build energy-efficient social rental housing.

Chapter 2.1.4.1 Promotion of renewable energy in accordance with EU Directive 2018/2001 and the sustainability criteria set out therein (specific objective SO2.2)

Promotion of renewable energies in electricity generation and heating and cooling

The planned measures provide special encouragement to convert district heating and cooling systems to biomass bases. In our opinion, this is a dead end and in direct contrast with national climate-mitigation objectives: on the one hand, biomass can only be considered as a partially renewable energy source, and on the other hand, a significant part of it could be used more efficiently and with less environmental impact. In addition, the burning of biomass contributes to air pollution. The preliminary SEA report also draws attention to these shortcomings. We therefore recommend that EU subsidies do not support biomass-based systems at all. The planned indicators seem unacceptably low in the case of renewables (82MW by 2024, 860MW by 2029) as well, especially considering that the intervention aims to modernise district heating systems, which means that large investments are also proposed to be carried out.

Providing renewable bases for hydrogen production

In our view, hydrogen only offers an effective solution for storing energy from the surplus of renewable energy production. Although the draft partly refers to this, it would be important to make it clear that neither fossil fuels nor directly usable renewable energy should be used to gain support for hydrogen production.

Chapter 2.1.4.3 Development of intelligent energy systems, networks, and storage outside the Trans-European Energy Network (TEN-E) (specific objective SO2.3)

Promoting the widespread use of hydrogen as an energy carrier and storage

Activities to be supported by this objective include hydrogen production. As mentioned above, this is only considered to be forward-looking if the hydrogen is produced using only surplus energy from renewable energy that cannot be used elsewhere, so we recommend subsidising it only with this condition – otherwise its production will result in net energy loss.

Chapter 2.1.4.4 Adapting to climate change, preventing disasters and promoting resilience, taking into account ecosystem-based approaches (specific objective SO2.4)

Climate change mitigation and adaptation, risk management

This sub-chapter does not deal with climate change mitigation; it includes some minor proposals to support climate adaptation, but refers mainly to the acquisition of technical equipment for heat protection – which is of course an important goal in some healthcare and social institutions, but has little to do with environmental and climate protection. These measures would either have to be described in other operational programmes, or a more detailed justification would be necessary. No indicators have been developed for such measures in this chapter.

Chapter 2.1.5 Priority 5: Fair Transition Fund

We consider the emission reduction of the three counties concerned a very important sub-programme, which could lead to the reduction of energy-poverty and therefore contribute to reducing air pollution. However, the intervention plans are overly vague and involve intangible commitments, even though achieving this priority requires precise and firm wording to curb significant greenhouse-gas emissions and air pollution. Currently, the support for biomass-based heating systems is also planned, which could have the opposite impact on the set goals, worsen air quality, and further reduce the viability of the affected counties. The preliminary SEA report also draws attention to this (on page 68). In addition, the number of residential buildings with better energy efficiency should be increased to at least 10 times the number specified in the indicators (3518 buildings until 2029). Nor do we consider it effective that the draft would provide the same amount of financial support for larger businesses as what would be spent on the energy renovation of the housing stock. This is not in line with the 'polluter pays principle', therefore the former should be deleted from the OP.

Priorities for technical assistance

This part of the draft is completely empty.

Chapter 3: Financing plan

Most of the tables in this section are blank.

Enabling conditions

- Annex IV, point 2.1 of the CPR requires a "strategic policy framework to support energy-efficiency renovation of residential and non-residential buildings." Although the government adopted a Governmental Decision (no. 1343/2021. (VI. 2.)[3] on the adoption of the national long-term renovation strategy to support the renovation of the national stock of residential and non-residential buildings,[4] neither the Act on the 2022 State Budget, nor any other legislation reflects the aims set forth in the strategy. To the contrary, the Hungarian government provides huge support for the construction and renovation of buildings without any meaningful requirements for energy efficiency. (It has been generally characteristic of Hungary that the Parliament, national government and local governments adopt excellent strategies that are never implemented; even worse, the concrete measures and investments often contradict these strategies.)

- Annex IV, point 2.2 of the CPR requires the following: “The integrated national energy and climate plan is communicated to the Commission in accordance with Article 3 of Regulation (EU) 2018/1999 and consistent with the long-term greenhouse-gas emission reduction objectives under the Paris Agreement, which includes: 1) all elements required by the template set out in Annex I to Regulation (EU) 2018/1999; and 2) an outline of envisaged financial resources and mechanisms for measures promoting low-carbon energy.”

- According to the Commission’s assessment,[5] even the current National Energy and Climate Plan (NECP) of Hungary “shows a very low level of ambition”. Among others, a meaningful “outline of envisaged financial resources and mechanisms for measures promoting low-carbon energy” is missing. Moreover, with the new EU target of 55% emission reduction, the NECP must be completely revised.

- Annex IV, point 2.3 of the CPR requires “effective promotion of the use of renewable energy across sectors and across the Union.” Hungary will certainly have serious difficulties in complying with this requirement, namely, to increase the share of renewables in the heating and cooling sector by 1 percentage point per year up to 2030. According to the current tendencies and forecasts, this share will decrease. Therefore, new measures and a roadmap are necessary to meet this enabling condition. The Home Renovation Programme mentioned in the draft does not specifically provide support for energy efficiency or household renewable-energy investments: there are no such requirements for this kind of support, and no special benefits are provided for such investments. This means that even investments contradicting the aims of reducing (fossil fuel) energy use can be supported (e.g., expansion of buildings, paving soil surfaces).

The Strategic Environmental Assessment (SEA) of KEHOP Plusz

We make the following comments on the findings of the preliminary report on the Strategic Environmental Assessment (SEA) for the KEHOP Plusz project (19.04.2021).

- The SEA was prepared for the 8 March 2021 version of KEHOP-Plusz. The draft has changed a great deal since then, so the SEA should be revised.

- The SEA also points out that the distribution of resources between priorities indicates that the protection of the environment and nature, including the remediation of contaminated industrial and brownfield sites, is given extremely low priority (below 3.5%).

- The SEA claims the merits of the KEHOP Plusz project that new, horizontal interventions are present, compared to the previously supported measures. However, the SEA does not sufficiently analyse how much they actually improve the environmental performance of KEHOP Plusz, given the lack of sufficient resources allocated to these areas.

- In several places, the SEA fails to assess the potential negative environmental impacts of interventions. For example, the transition to renewable energy sources is clearly positive for the environment, although most of it Hungary would be specifically biomass, with negative effects on the environment. Contrary to this point, elsewhere the SEA refers to these hazards several times. It is difficult to understand why this priority axis received an overall positive assessment.

- We consider it a shortcoming of the SEA evaluation criteria that they only examine what changes in the state of the environment are expected after the implementation of KEHOP Plusz, compared to the current situation. In our view, the opportunity to benefit is fundamentally expected for such an environmental programme with such a huge budget, but the SEA should also refer to missed opportunities and cost-effectiveness, as well as to the difference between potentially achievable results and expected results from the programme drafted by the government.

- Concerning strengthening sustainability values, the SEA correctly states that “there is no explicitly related goal in KEHOP Plusz. There are smaller, soft interventions, related to each measure that will not bring a breakthrough, but may achieve results locally in the context of a particular intervention.”

- The statement on air quality in point 4.1.1 is misleading. It claims that “Hungary's average air quality is medium by international standards.” On the one hand, ‘average air quality’ cannot be interpreted without an indicated period, and it would be worthwhile to limit the international comparison to the EU, in which Hungary is among those countries with the *worst* air quality.

- In Section 4.1.2, the SEA states that Hungary's greenhouse gas emissions are clearly on a declining trend. This statement does not take into account the trend reversal that took place in 2015, which is clearly described by the draft KEHOP Plusz itself.

- The SEA mainly examines the objectives in the draft KEHOP Plusz in terms of environmental impacts, and does not pay enough attention to the adequacy of the financial resources and indicators allocated to the individual objectives and interventions. The low level of ambition of the indicators is briefly mentioned in the SEA in general, but it should express a much stronger opinion and be more critical in order to fulfil its role.

- The SEA evaluates certain programmes and goals (green-blue infrastructure, brownfield investments etc.) as leading to the improvement of the state of the environment. However, if properly implemented, these measures can only reduce the rate of environmental degradation, but not really improve it.

- As the SEA analyses the previous KEHOP Plusz draft without financial allocations, it considers its approach to water retention to be encouraging. Unfortunately, in the light of the subsidy budget plans, it can already be seen that the old-fashioned approach to water management still dominates.

- We fully agree with the following statement of the SEA (page 80): “In relation to the circular economy, the investment incentive effect of tenders should be mentioned – that is, that investments may or may not be made without a call for tenders due to low real demand for the activity. At the same time, due to high support intensity, potential applicants still decide to apply. In this case, resources and raw materials are used unnecessarily.”

- We consider the proposals described in Chapters 6, 7 and 8 of the SEA to be forward-looking. These should be included in the final version of KEHOP-Plusz.

Some of the plans and strategies listed in Annex 1 to the SEA that have been taken into account in the analysis have been renewed over time, or new ones have been developed (e.g., National Air Pollution Control Programme, new National Waste Management Act).

[Budapest, 12 January 2022]

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3. Comments on the draft Hungarian Economic Development and Innovation Operational Programme (GINOP Plusz) for the programming period 2021-2027

The following is based on an evaluation of the draft Economic Development and Innovation Operational Programme (GINOP Plusz) uploaded by the Hungarian government to the website palyazat.gov.hu on 20.01.2021.[1]

Introductory remarks on GINOP 2014-2020

Clean Air Action Group had formulated its assessment of the predecessor of the GINOP Plusz programme, pertaining to the 2014-2020 GINOP programme[2]. Much of the concerns about public procurement, clientelism, shortcomings of monitoring, as well as the code of conduct of administrative behaviour remain effective for the 2021-27 programming period as well.

The analysis of past projects is made impossible by a lack of access to relevant data on the dedicated official website “palyazat.gov.hu”.

Program Strategy

The overall strategy is very brief and is not formulated in a clear and comprehensive way. Instead, there are references to Hungarian domestic strategies and general EU goals.

The detailed situational analysis is also rather brief, and often does not contain enough analysis and evidence in order to justify the proposed interventions.

Employment

While Hungary’s employment trends have indeed been positive in the recent decade, it would have been worthwhile exploring some of the causes of these trends. This would have revealed that Hungary was in an employment trough a decade ago due to the economic crisis. A major cause of improvement has been free movement of labour within the EU, mainly to Austria, Germany, and ex member state United Kingdom (Figure 1.). This is estimated to be around 300 000 persons. Another major form of improvement has been due to unsustainable and highly problematic public works programmes, involving some 230 000 persons at the peak (Figure 2.). According to a KPMG study,[3] some 172 000 jobs have been created by the EU financed development programmes themselves. The number is likely to be in this magnitude as long as EU cohesion fund resources remain but is likely to drop precipitously once they are discontinued. The picture is further complicated by the fact that, according to the official methodology, a person is considered to be employed if he or she has worked for pay for at least one hour in the week preceding the interview or has had a job but has been temporarily absent from work due to illness, leave, including maternity leave.

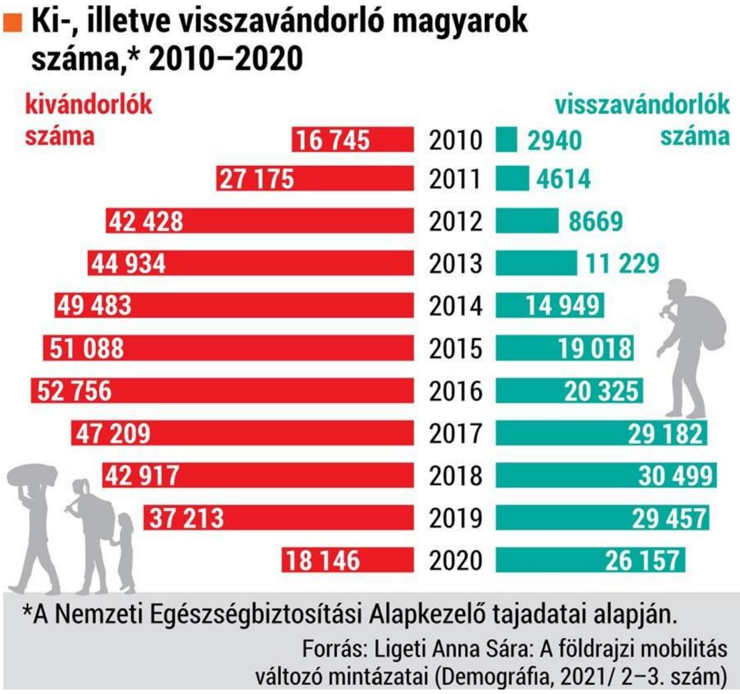

Figure 1: The net of outward (red) and inward (green) migration has contributed significantly to the improvement of the labor market in Hungary.

Figure 2: Number of citizens involved in public works programmes (Source: Central Statistical Office, Portfolio).

This still leaves an improvement of around 100-150 000 compared to the trough. However, as the document admits, many of these jobs were created in the low value-added sectors (such as car manufacturing), and often in environmentally problematic areas (e.g., the development of a sizeable battery industry).[4]

Unemployment as a measure is problematic in Hungary, since unemployment benefits have been reduced to a mere 3 months, as opposed to a multiple (3x-4x) of this in most EU member states. Many citizens who would be classified in other countries as jobseekers fall in Hungary into the category of long term discouraged, or passive.

The analysis is correct to point out that the more developed areas of the country experience labour shortage, whereas the less developed areas a shortage of jobs. There is a policy trade- off at this point between supporting on the one hand the citizens living in the areas which have demonstrated no human, material, or natural capital to develop, or on the other hand supporting the outward mobility of the same people towards more dynamic labour markets. The proposals do not elaborate on these wider strategic considerations.

The analysis is correct to point out that the greatest drawback for productivity improvement reported by SMEs is the shortage of a trained workforce. However, the analysis fails to outline how this problem is created by an underfinanced and undermanaged educational system.

Also, it is correct to point out that educational dropout rates are high, but it fails to mention that the incumbent government has reduced the upper limit of compulsory education, which strengthens this trend and goes directly against the lifelong learning aims of the EU.

Technological processes

The analysis correctly identifies the fact that domestically owned firms and especially SMEs demonstrate low productivity and low levels of innovation. However, the analysis presents no explanation for this phenomenon. It is impossible to formulate a policy response in the absence of such an explanation.

The analysis also correctly identifies the problem of extremely low R&D expenditure on the state side as opposed to the business side (GERD as opposed to BERD). However, it fails to expose how and when the government plans to remedy this situation. It is also important to note that the size of the R&D expenditure in itself can be a very misleading indicator. It does not say anything about the quality and efficiency of the use of the R&D funding.[5] Among others, it is well known that R&D is one of the sectors most affected by corruption: it is so widespread that a special word has been created to describe it: *elkutatták,* meaning they have “researched the funds away”.[6] Therefore, output indicators, such as the Innovation Scoreboard[7], should also be used to assess the progress of R&D.

The analysis part, for an unexplained reason, describes the situation of the tourism separately. It highlights the significant local multiplier effect of this sector but fails to describe what forms of tourism can and should be financed from private resources, and what other forms require public (including EU) financing, and why. This is a serious shortcoming, especially given that the financing of tourism is known to be a key area of clientelism in Hungary. A substantial amount of EU money has already been spent to support the construction of new hotels. This has led to an undesirable competition: while quite a number of new hotels were built with EU money, many existing hotels went bankrupt, and one of the main reasons was the fact that they could not compete with hotels built with public money.[8] Such a support can rightly be interpreted by all persons and companies which had invested into the hotel business earlier with their own money and their own risk, that they made a mistake: it is not worth competing on the market for the costumers by better products and services, but they should vie for public funds instead. Thus, such funding results in unnecessary spending of taxpayers' money. Even the Hungarian Hotel Association has expressed strong criticism of public subsidies for hotel construction, emphasising that existing hotels are often struggling for survival. Moreover, the newly built hotels in many cases have contributed to serious destruction of the environment.[9]

Private versus public financing

The analysis part, very relevantly, discusses the alternative of private financing, including from own capital, bank loans and commercial loans. This part identifies serious shortcomings in the availability of private financing of SME development in Hungary, as experienced by SMEs. However, the analysis fails to elaborate the reasons for these shortcomings, as well as plans to remedy them. This is indeed a very serious weakness, as public financing is often provided to firms unnecessarily, whereby they should really be supported from private resources.

The Hungarian National Bank has been running a very generous funding for lending programme[10] in the last decade, which has enabled SMEs to borrow at an internationally competitive rate. During the Covid crisis, further generous supported lending schemes were introduced to keep SMEs afloat. It would require detailed justification why enterprises would need to be financed from public (EU and domestic) resources to the extent they are in Hungary.

This is even more of an issue given a recent analysis[11] which has revealed that 9% of EU support to SMEs went to firms where the volume of the support has been greater than the overall revenue of the firm. There have even been a number of firms where this ratio was as high as 1000%! It is hard to see how such investments are rational for the public sector to implement. Most of the firms supported in such a way are not start-ups, but enterprises that have been operating for a longer time period.

Most EU financed support has a significant distortionary effect on the market, vis-á-vis competitors. No more than 48% of support has gone to firms where the overall level of support is less than 10% of revenues. Many of these firms have been developing to the detriment of their non-supported competitors, which means that there was no overall benefit to the economy as a whole.

Astoundingly, support has been granted in 1085 cases to enterprises which did not employ a single person in the 2010-2020 time period. There have been 320 enterprises who have received altogether 26.6 billion HUF support who have never had a market revenue. (213 had neither employees nor revenues.)

34% of all support has been taken by firms with more than 10 supported projects, raising further concerns about rent seeking. This poses a systemic risk for the Hungarian economy, raising the question of what would happen to these firms if the EU support would suddenly be withdrawn.

In the last 11 years net transfers from Hungary to the EU have amounted to HUF 9200 billion, resulting in an annual transfer intensity of around 3.3% of GDP (Figure 3). Then gross inflow of funds into the Hungarian economy, that is without Hungarian national contribution into the common European budget, was around 4,7% per GDP per annum. This has resulted in a real annual GDP increase of 2.3% in the same period. This begs the question of what would have happened to the Hungarian economy without the transfers? Either the Hungarian economy would have collapsed, or Hungarian enterprises and the government would have implemented serious steps to improve the competitiveness of their businesses and the country as a whole. However, instead of this, they have become addicted to EU money and have become less competitive!

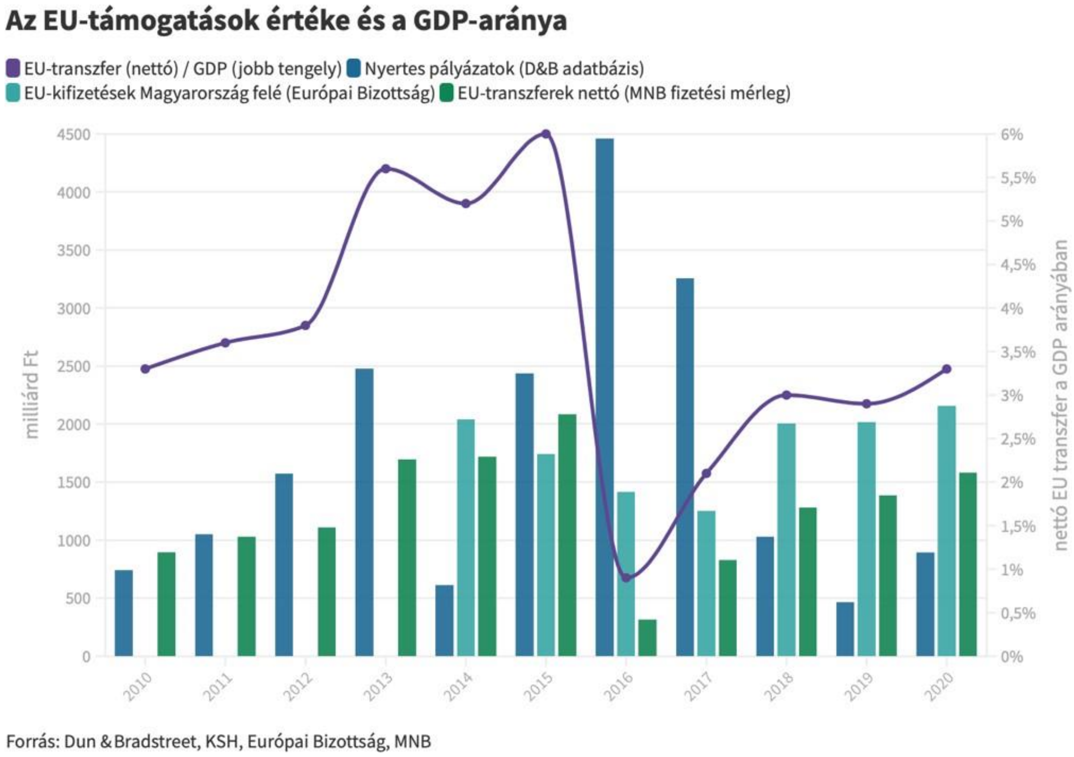

Figure 3: EU transfers to Hungary (dark blue – winners, azur – payments, green – net EU transfers, LFS) as well as their proportion to GDP (line, RHS). [Source: Bucsky G7 ibid.]

Enterprises have received 53% of all funding in this past period, as opposed to 29% for the state and just 20 for local municipalities. Civic organisations have been the recipients of no more than 1.7% of the support, churches 1%. It is clear from this figure that the private sector is by far the main recipient of EU support in Hungary, raising concerns about bias and corruption. There would need to be much greater transparency in monitoring if Hungary was to justify such a high degree of funding for enterprises. Unfortunately, the existing level of transparency is minimal. More than half of the funding to enterprises has gone to large state enterprises, where we are left in the dark about which subcontractors they have passed these amounts onto. The media frequently reports heavy clientelism in this area.

Enterprises in this period have received twice as much EU support than the amount of corporate tax they have paid into the national budget! The amount of EU support these firms have been paid is equal to around half the amount of dividends paid by them in the same period (i.e. EU money has been used to a large extent to fill the pockets of private persons). The same primary analysis has also found that enterprises that have received EU funding have in fact grown *slower* than enterprises that have not!

Priority axes

2.1. Enterprise development

2.1.1. Support to SMEs

This measure aims to support SMEs in purchasing high value-added, cutting-edge technology. The justification is that the financial sector does not possess the necessary know how in evaluating the market value of cutting-edge investments (unique robots, artificial intelligence, 5G, nanotechnology, biotechnology, big data, etc.). This claim appears to be spurious. Can this be backed up by harder evidence than anecdotal? How are these areas financed privately in other countries? Why is the solution (if the problem exists at all) not capacity building in the financial sector, which would be significantly cheaper overall from a public perspective?

There is a general lack of justification in this measure about why these SMEs should be supported from public as opposed to private resources.

The measure also aims to finance public enterprise facilitation services. There is, however, a long history of such services in Hungary (clusters, industrial parks, enterprise promotion agencies, etc.). The measure does not reflect upon the past experiences of these entities in shaping future strategy.

The measure expresses a preference for green and circular economy, but this is in no way elaborated or reflected in the indicators listed.

2.2. Research, Development, Innovation

2.2.1. Strengthening Research and Development Capacities, introducing advanced technologies

This measure aims to facilitate innovation and innovative cooperation between state research institutes and private firms.

In the case of state research institutes and universities this would be a welcome form of support, if otherwise the functioning of these entities would be secure. Unfortunately, this is not the case. These institutions are heavily underfinanced in terms of wages, as well as operation, including publication. One important shortcoming is the underfinancing of basic research, in the absence of which it is an illusion to expect these entities to engage meaningfully in applied researching, “serving market needs”. In no country is this the practice. Even in the United States, the most market-oriented example, the state is responsible for the overwhelming proportion of financing for basic research, which enables the attractiveness of these institutions for private firms to engage with them in innovative cooperation.[12] As long as these forms of underlying operational financing are not secured, the effect of EU financing is questionable.

Another additional issue is the recent privatisation of most of the higher educational sector into foundations owned by large enterprises. Will these now private entities be eligible for support? If so, under what justification?

As for direct R&D support to enterprises, the same question of the lack of background analysis arises. Since the analysis part of the Operational Programme fails to identify the underlying reasons for the poor productivity figures of Hungarian SMEs, one cannot tell for certain that the best form of intervention is direct support for innovative infrastructure. In fact, it is not even certain that this support is really necessary. Why is the financial sector not willing or able to finance these improvements, if the arising elevated potential of the firm is indeed guaranteed? Or, to put his in another perspective, if the financial sector is not willing to finance it, what form of superior knowledge does the public sector possess which justifies it financing these projects *en masse*?

2.2.2. Intelligent specialisation and industrial transition

This measure aims to facilitate specialisation and innovation in the Hungarian economy. It refers explicitly but without elaboration to the “quadruple helix”, which is an innovation theory term for the four major stakeholders: science, policy, industry, and society. This division is logical, even if it does not add too much to our conceptualisation of the area. However, the measure falls short of elaborating the role played by each actor, as well as their interests. Especially missing is the discussion of societal interests in innovation and industry. This would reveal that societal interests are significantly broader than the narrow definition of science serving the needs of industry, on which the plan appears to be based.

A central role is assigned in the measure to the National Office for Research, Development and Innovation, which the text claims has accumulated significant experience in the field. It is not made explicit, however, what this experience suggests as a strategy. Why are Hungarian SMEs lagging behind in research, innovation and specialisation? Is it simply a case of missing state support, which can be filled by this Operation Program? Why is the private sector and the financial system not financing this activity? Are there other structural issues, especially ones related to industrial position and knowledge management, which hinder such activities? The local coordination of innovation would be coordinated by a network of so-called Territorial Innovation Platforms (TIPs), which would play a key role in this measure. The decentralisation of innovation management is a welcome direction in a country that is extremely centralised in terms of governance and policy. It remains to be seen whether these TIPs will receive the necessary funding, competencies and policy autonomy to have meaningful impact at the local level. There have been several attempts at creating institutions of knowledge transfer, incubation, and acceleration, as well as industrial parks in the past, but few have been able to mobilise their immediate surrounding because they remained minor players in a policy space that was dominated by much more impactful parallel processes.

2.3. Sustainable labour market

2.3.1. Access to employment

Most of the active employment measures are welcome and well-constructed.

Direct wage support for the least easily employable groups makes little sense if the flat rate personal income tax (PIT) remains in place. A zero or close to zero lower rate would go a long way towards facilitating employment in this category, without the administrative cost of direct wage support.

Facilitating exit to the primary labour market from public works programmes makes little sense as long as the monitoring of the functioning and efficiency public works programmes is not guaranteed in an open and transparent manner. Media reports and external academic studies have indicated serious systemic inefficiencies, and even abuse of the system for private gain.[13]

The measure mentions that its goals will be achieved “primarily with the help of the Youth Guarantee program”. This makes it ambiguous why there is a separate priority 2.4., or why this measure is not part of 2.4.

2.3.1. Various labour market measures

This measure supports a wide number of different areas in the field of employment policy, without reflecting on the current status of these areas.

Strengthening social partners is a questionable goal as long as the government does not negotiate with the same social partners in a meaningful sense, according to accounts of these very partners.[14]

Extending employment support to hired workers is also problematic as long as there is no strict regulation of the equal rights of the very same workers.[15]

Boosting the operational potential of employment services is a welcome goal. However, this would be more efficient if there was an account in the text about what the current status of these institutions is, their efficiency, and the challenges they face. In absence of these, the planned interventions are vague.

2.4. Youth Employment Guarantee Programme

This is a very important EU-wide programme. It would be better complemented by raising the compulsory educational minimum age rather than lowering it. It would be important to define the policy coherence of the government policy of giving PIT exemption to young employees, with the youth employment guarantee programme.

2.5. Higher education and vocational training

Landslide changes have taken place in higher education in recent years, with the privatisation of most of public higher education to private foundations run by large corporations. This reform has been touted by the government as a solution to the long running problems of Hungarian higher education. In spite of this dramatic and much disputed transformation, this process is not referred to in the Operational Programme. Such an important policy direction would surely have to feature somewhere organically in a long-term strategy like GINOP Plusz.

2.5.1. Access to the educational system, internationalisation of higher education (lifelong learning, online learning, resilience)

While these are worthwhile goals, it is not clear how these two very different aims come into a single measure.

Access to the educational system is definitely an important issue, especially given the data the Operational Programme quotes: that only 11% from a disadvantaged family background enter higher education, while 70% from the most advantaged families. However, it is not clear whether there is a wider strategy here to increase social mobility. Experts in the territorial development of the most disadvantaged settlements report that the Hungarian state (schools, healthcare, social policy, transport, often law enforcement, etc.) has in recent decades removed itself from these settlements, abandoning them to their fate.[16] Without a wider strategy to ensure territorial development and social mobility, these measures become spot like. Such a strategy is formulated in the RRP, but also not in a comprehensive manner. The OP does not expound on linkages between this measure and the RRP.

As for the totally unrelated issue of the internationalisation of higher education, this is a much needed intervention. However, how does this relate to Erasmus, to Stipendium Hungaricum and other similar programmes? Does it apply to recently privatised universities?

2.5.2. Developing the quality and efficiency of the educational and training system

There are many positive initiatives under this heading. However, some of these should already be routine in the management in the educational system (such as various test schemes, as well as continuous curriculum development), and should be financed in a secure and sustained way from national resources.

The digitalisation component is at least partially duplicated in the Recovery and Resilience Plan (RRP).

The weakest link in the Hungarian educational and training system is the ageing and rapid erosion of staff, especially teachers, as well as the extreme shortage of non-subject specialist staff to carry out much needed personal skills development. This already dramatic situation will not be remedied without a drastic increase in wages in order to restore the attractiveness of these positions.

2.6. Tourism and heritage protection

2.6.1. Integrated, community based local development

As far as heritage protection is concerned, it must be stressed that Hungary once had a relatively advanced level of heritage protection regulation, with a nationwide institution to enforce it. This nation-wide system has been all but abolished in the recent decade, opening opportunities for construction that has been very disadvantageous for both natural and built heritage.[17] The Office for National Cultural Heritage was abolished in 2012. This situation would need to be remedied for heritage protection interventions to be effective. It must also be stressed that the status of both natural and built heritage is eroding nationwide. This has especially been a problem at the major lakes of the country, which have witnessed environmentally unsustainable developments at a destructive scale, which have also led to social exclusion.[18] The title of the measure suggests an integrated development plan for the regions supported but guarantees for such integrative long-term thinking are missing from the description. It also refers to being community based, but past experience shows that too many such developments have been exclusive rather than inclusive and have "upgraded" developed areas to an upper-middle-class status to the exclusion of others, often resulting in physical barriers, at other times exclusionary pricing. There should be guarantees against such processes, as well as against public development passing into private hands at understated prices.

As far as tourism is concerned, this is an area which should be able to function on a market basis. The measure highlights the importance of thermal baths, which attract 70% of tourists outside of Budapest. Most of these thermal baths operate on a market basis, as private enterprises. The measure is intended to finance the renovation and technological upgrading of these thermal baths. Many of them had been built with generous state support from the so called Széchenyi Plan. There is no reason why entrance fees should not cover the sustained operation of these baths, including the maintenance of the technical facilities, especially in the case of market-based private operators. In the case of cooperative or municipal operators (rare), these costs should be born from local taxes. The description of the measure describes the multiplier effect of these baths on the local economy. This would justify local taxes contributing to their maintenance in order to achieve sustainability.

As far as palaces and castles are concerned, most of the measure is intended at their reconstruction. The concern here is that this should take place in accordance with their historical style, not to distort it and create novel constructions that do not reflect real heritage from the past. There are numerous examples of the latter in Hungary in recent years.[19] Another concern here is ownership, access, and price. Guarantees must be provided that these buildings remain in the public domain, and do not become private property, or serve restricted private business interests, with high end prices that exclude the majority of potential visitors. While the measure explicitly refers to the usual EU equal opportunities aims (gender, disability, etc.), it does not address wider concerns of ownership and use.

It is also unclear what sort of local government or national level support scheme Hungary is planning to institute for the upkeeping of residential or municipal buildings of historical value, which are deteriorating at a rapid place across the country. In the absence of adequate wages in the case of citizens, and adequate operational costs in the case of public institutions, the sustainability of such cultural heritage is not guaranteed.

Compliance with the Common Provision Regulation

While in many ways the Operational Programme does comply with the Common Provision Regulation for the financial period 2021-2027 (CPR)[20], we have identified the following issues of concern:

Art. 7) The OP should comply with Article 67 of the Financial Regulation[21] which stipulates, among others, that "Member States shall respect the principles of sound financial management, transparency and non-discrimination and shall ensure the visibility of the Union action when they manage Union funds. … When executing tasks relating to budget implementation, Member States shall take all the necessary measures, including legislative, regulatory and administrative measures, to protect the financial interests of the Union..." In view of the situation described about there are serious concerns on whether this provision of the CPR can be implemented in the current Hungarian circumstances.

Art. 10) The OP should outline its contribution to the goals of the Paris Agreement, as well as the European Union's common goals of contributing towards the global reduction of greenhouse gases. As this is Hungary's main economic OP, it would be expected to contain reflections on its contributions towards this aim. With the exception of minor allusions to the circular economy and green products, themselves left rather vague, this is missing from the larger picture. Given that Hungary's CO_2 emissions have not decreased in the recent decade, and even increased by 13% between 2013 and 2018, such reflections would be expected both in the analysis and in the measures.

Art. 11) Similarly, it would be expected that the OP should reflect on the issue of biodiversity in relation to the measures. This is especially pertinent to the measures related to tourism, where in light of developments during the previous programming period, we do not see it guaranteed that the development of tourism always preserves biodiversity.

Art. 14) EU funds should be disbursed based on the principles of multilevel governance and partnership with socio-economic actors. The operation of the Hungarian state today is so extremely centralised, that these principles are not guaranteed. The competencies and the budgets of local governments are completely dependent on the central government, as is financing for their local developmental goals, which have to be directly negotiated with the Prime Minister's Office, as opposed to possessing strategic autonomy.[22] Partnership with trade unions, employers' associations, academia and NGOs is not guaranteed, highly politicised, and extremely asymmetrical.[23]

Art. 16) The OP should meet the requirements set out in Article 33(3) of the Financial Regulation which states the following: "Specific, measurable, attainable, relevant and time-bound objectives as referred to in paragraphs 1 and 2 and relevant, accepted, credible, easy and robust indicators shall be defined where relevant." According to paragraph 1, "Appropriations shall be used in accordance with the principle of sound financial management". In view of the situation described above, it is highly questionable whether it is possible to fulfil these requirements in Hungary today.

Arts. 23), **37**), **40**) Member states should establish an efficient system of monitoring, evaluating and reporting on the Operational Programmes. This provision is not fulfilled in the case of Hungary. It is almost impossible to gain meaningful data from the central database, which does not enable an assessment of past performance. Since the measures are supposed to be built on the basis of past experiences, this component would be crucial. This is especially pertinent to the issue of enterprise financing (more than half of all EU funding in Hungary), where, as we have elaborated, there is great danger of extreme inefficiencies in financing.

As per **Art. 49**), the OP should make clear its coherence with the RRP. In the present version of the OP, this is missing. There seem to be partial duplications in the area of digitalisation.

Art 74) on identifying beneficial owners would imply, in the strictest sense, identifying the end owners of firms whose at least partial ownership is in offshore jurisdictions.

The preliminary Strategic Environmental Assessment of the Operational Programme

We have also analysed the preliminary Strategic Environmental Assessment (SEA) of the GINOP Plusz Operational Programme.[24]

One important observation of the SEA is that beneficiaries often perceive the fulfilment of horizontal goals (environmental, equal opportunities, etc.) as an extra bureaucratic burden. The assessment calls for a general campaign of proactive information campaign by the government to allow the potentially impacted population to better understand the significance of these overarching priorities. It also calls for special trainings in this domain for civil servants in the administration of the operational programmes, as well as final beneficiaries. We consider these to be useful recommendations.

The basic questions related to GINOP Plusz are well identified by the SEA. It also calls attention to issues of concern that must be in the focus:

Can it result in a shift towards sustainable development and a low carbon economy?

The SEA expects that GINOP Plusz will mostly support brownfield investments rather than greenfield ones. It is not clear what this expectation is based on.

Can it lower harmful emissions related to production, harmful land use trends?

Support to small and medium sized enterprises is likely to result in higher water usage, increased energy consumption and increased land use.

Support from the Operational Programme is likely to lead to increased transport requirements, both during the implementation of the developments supported, and during actual operation afterwards.

The development of SMEs, especially in tourism, might result in increased noise and light pollution, as well as vibration.

Can the developments and innovations achieve more environmentally responsible entrepreneurship?

Innovation must focus on lower water intensity processes.

Innovation must focus on energy efficiency.

Final products should be repairable.

Innovation in the area of waste management might have a positive impact on material management and the circular economy.

How can higher education and vocational training contribute to these goals?

The integration of ecological thinking can have a positive impact on attitude formation. The elaboration of a more sustainable economic model, climate risks and climate adaptation, as well as the modelling of decoupling would have positive spill overs in the economy.

Sustainability as a horizontal principle should be omnipresent in higher education.

A concentration of ecotourism in tourism management studies in higher education and vocational training might have a positive impact.

How can we make sure that young people and the inactive will be able to find jobs in the green economy?

Distance work and flexible work can have a positive effect in commuting related emissions if coupled with appropriate other measures.

Are environmental concerns consistent with tourism in general, and thermal tourism in particular?

In the case of thermal tourism, increased capacity might result in contamination of thermal load. (It is unclear whether this implies depletion or not.)

Most of these are well identified effects, but the SEA fails to demonstrate how these will actually be implemented or enforced in the OP. Presently, at best, they are in the category of implicit assumptions. At worst, they can be said to be absent from the plan.

Chapter 6 of the SEA makes some very useful suggestions for specific conditions, definitions and further goals that could and should be incorporated into the text to reflect the importance of and apply the climate and environmental dimension better.

As the SEA correctly points out, since around 2013 Hungary has had negative environmental tendencies, in terms of increased overall material usage, stagnating resource productivity, increased per capita water consumption, increased natural gas usage per household and stagnating electricity usage per household. The protection of water bases has stagnated, the diversity of species has slightly deteriorated, the situation of natural habitats has deteriorated.

The emission of gases causing acidification has increased. The emission of particulate matter (PM) has stagnated. CO_2 emission has increased, especially due to transport related emissions. Overall waste has also increased.

In light of the above, mostly negative tendencies, it would be imperative to include more specific wording related to climate-related and environmental goals in the text of the OP, which are by and large absent in the present version. The SEA evaluates the future potential of the measures rather optimistically, which stands in sharp contrast both with the macro trends summarised above, as well as with specific disadvantageous case studies we have already touched up in our present comments.

The SEA also stresses, correctly, the need for collecting environmental indicators at the enterprise level. The use of EU EMAS Environmentally Focused Enterprise Management Systems should be a bonus in the evaluation of support to enterprises.

The SEA makes marked statements about the negative consequences of the alternative scenario of the programme not being implemented but does not back these up with factual descriptions of why these negative alternatives constitute the only possible alternative. We believe more would be needed to substantiate the claim, laying out exactly what socio- economic and environmental processes such alternative scenarios would entail.

[Budapest, 19 March 2022]

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4. Comments on the draft Hungarian Territorial and Settlement Development Operational Programme Plus regarding its compliance with the Common Provisions Regulation and environmental policy objectives

Scope

The aim of the study is to assess whether the Hungarian government's draft Territorial and Settlement Development Operational Programme Plus (TOP Plusz),[1] published on 01.12.2021, complies with the provisions of the Common Provisions Regulation (hereinafter: CPR)[2], and in particular how the horizontal principles and enabling conditions have been implemented, and whether it meets environmental policy objectives.

The General description of the Territorial and Settlement Development Operational Programme Plus (TOP Plusz)

The draft Territorial and Settlement Development Operational Programme Plus (hereinafter: TOP) is a development plan for territorially based interventions in Hungary. The regional and local development measures of TOP are aiming to achieve the following objectives: economic recovery, job preservation and job creation; improving the liveability of settlements, reducing urban-rural disparities; strengthening the population retention capacity of regional areas and settlements, family protection and improving the quality of life. The specificity of TOP compared to the other Operational Programmes is that it is primarily implemented through the national County Integrated Territorial Programmes (ITPs) with the involvement of county governments and finances the implementation of complex local sustainable urban development strategies. This particularity would, we believe, require a specialized approach. In the case of the TOP, a specific set of requirements should be defined by the government in close cooperation with all stakeholders which, with the approval of the European Commission, would give concrete guidance and requirements to the national implementing bodies on how TOP should be implemented. Unfortunately, there are no such provisions in the currently available version of the TOP, the formulation is too general and does not provide sufficient information on concrete measures and requirements for the implementation.

Enabling conditions

In **Annex IV** of the CPR, amongst the thematic enabling conditions applicable to ERDF, ESF+ and the Cohesion Fund (Article 15(1)), the **policy objective 2**[3] contains 7 enabling conditions with defined fulfilment criteria. **Policy objective 3**[4] has 6 enabling conditions with detailed fulfilment criteria. When preparing a programme:

"*the Member State shall assess whether the enabling conditions linked to the selected specific objective are fulfilled. An enabling condition is fulfilled where all the related criteria are met. The Member State shall identify in each programme or in the programme amendment the fulfilled and non-fulfilled enabling conditions and shall provide a justification where it considers that an enabling condition has been fulfilled.*"[5]

If the enabling conditions are not met, the Member States and the Commission shall follow the procedure set out in Article 15 of the CPR.

Non-compliance with enabling conditions: missing involvement of civil society partnerships

According to Article 8(1) of the CPR, for the preparation of each programme, each Member State shall organise and implement a comprehensive partnership in accordance with its institutional and legal framework and taking into account the specificities of the Funds, including representatives of bodies of the civil society, NGOs, environmental partners. Furthermore, this established partnership must be part of not only the preparation, but the implementation and evaluation of the programmes. This article of the CPR also requires Member States to allocate an appropriate percentage of the resources from the Funds for the administrative capacity building of social partners and civil society organisations.

In our opinion, this provision **is not fulfilled** in Hungary today. While the Hungarian government published the text of the planned programmes in a process called national consultation, it can hardly be considered a partner-like involvement, since the Hungarian government has not ensured that the comments made by NGOs and other organisations are considered and discussed. Moreover, the Hungarian government not only fails to provide any financial resources for this kind of cooperation with civil society organisations, but also does everything it can to make it impossible for them to operate in general.[6]

According to Article 9(4) of the CPR[7], the objectives of the Funds shall be implemented by the Member States in accordance with the UN Sustainable Development Goals and the Paris Agreement as well as with the "Do No Significant Harm" principle. Furthermore, the funds can only be used in accordance with EU environmental legislation.[8]

As stated in the Preliminary Strategic Environmental Assessment (SEA)[9] of TOP, it is not enough to protect environmental and sustainability values and interests in a single sectoral OP, it must have a **horizontal impact** on the entire system of objectives and interventions. As the SEA repeatedly points out, it is important that horizontal principles, and therefore environmental protection and sustainability are taken into account in the decisions made at local level.

We agree with the concern (repeatedly expressed in the SEA) that the OP's objective of **economic development** implies an increase in greenhouse gas emissions. We therefore believe it is important that sustainability requirements are applied to all investments. We also agree with the detailing of the difficulties of environmental compliance and environmental conflicts in point 4.2 of the SEA. The inclusion of these comments and suggestions in the TOP would be particularly important.

As regards the implementation of the **horizontal principles**, we consider the continuation of the practice of the previous programming period (2014-2020), as described in the SEA (pages 14-15), to be insufficient and inadequate. A set of requirements for the implementation of the horizontal principles in operational programmes should be developed that effectively ensures environmental protection and sustainability. We believe that these requirements should become part of the OPs and should be mandatory for managing authorities to implement. Any additional requirements that this may entail at the applicant level should not be used as a pretext to avoid the application of horizontal principles. Instead, the institutional system must be prepared and must be able to prepare the applicants. We agree with the SEA's statement that the practical implementation of the horizontal principles should be made visible in sufficient depth in the requirements and, in addition to defining the indicators and the appropriate elements of the measures, it is necessary to monitor, collect, analyse and evaluate them in practice.

During the planning and implementation of TOP, territorial and municipal plans (spatial development concepts and programmes, settlement development strategies) play a key role, as they provide the basis for integrated territorial programmes and, with their environmental aspects, form the territorial, local planning framework for the implementation of environmental aspects. The Integrated Territorial Programmes set out the specific development ideas for the use of the resources available under TOP, and the departments draw up the selection criteria on the basis of the methodology published by the Managing Authority and approved by the TOP Monitoring Committee. Precisely for this reason, and because of the different procedural process from the other OPs, we consider it particularly important that TOP itself should set out the principles and **requirements for the implementation of the horizontal principles that are binding on the Managing Authorities in advance**, in particular the application of environmental and sustainability principles. The Managing Authorities have a key role to play in this, but it is also recommended that relevant NGOs should be involved in the development of the requirements of implementation and be empowered to carry out their task in a meaningful way.

Furthermore, we would like to point out that in many cases, investments by the Hungarian government from the national budget, and by oligarchs in the proximity of the government have an effect that is counterproductive to EU development objectives, especially in terms of environmental impact. We see an urgent need for legal provisions to ensure that all government investments must comply with EU environmental legislation.

Key development challenges and policy responses (Chapter 1, Programme strategy)

Article 22(3) of the CPR sets out the requirements for the content of the programme, e.g., justification of the policy objectives selected, appropriate priorities, specific objectives and forms of assistance, specific objectives. In our opinion, TOP does not elaborate these requirements comprehensively. The current version of TOP hardly refers to any challenges identified in relevant **country-specific recommendations**, and although it does refer to regional strategies and national energy and climate plan, but only in general terms, without addressing specific challenges.

In the context of **territorial challenges**, the document rightly mentions, among others, the infrastructural backwardness of rural areas in relation to urban areas, and, in economic terms, the competitiveness gap. While we agree with these observations, we believe that the document fails to address this complex problem in a comprehensive manner, in line with the other operational programmes and in accordance with the fundamental principles of environmental protection and sustainability.

The **construction of new roads** and related developments, envisaged in TOP, usually lead to an increase in traffic, creating harmful environmental impacts. In view of the fact that in Hungary, motorised road users pay (in the form of transport-related taxes and fees) only about 30% of the costs they cause[10], no public money should be provided for road construction as long as all external costs of road transport are not internalised.[11] Namely, the non-internalisation of external costs result in excess demand and thus a wasteful use of resources. Furthermore, as SEA rightly points out, in any infrastructure development, particular attention should be paid to transport infrastructure and urban sprawl which cause powerful disturbances to the ecosystem. Under the heading of the main objectives of TOP (page 14), we find it particularly problematic that in the context of improvements for economic recovery, job preservation and job creation, only the **improvement of the local road network** is mentioned, while the improvement of local public transport and non- motorised transport modes, which would be a much more environmentally friendly solution, is not addressed. In addition, TOP should guarantee the prevention of infrastructure investments that reduce green areas or cut off habitats since these would lead to significant harms.

In the assessment of regional and county-level territorial challenges, no fundamental assumptions are made about public transport in the context of **regional accessibility**. This is also problematic because the development of local mobility by public transport can play a significant role in reducing greenhouse gas emissions and can also play an important role in territorial development by addressing the challenges of settlement structure in rural Hungary.

The development of public transport could play a key role not only in rural towns and cities, but also in connections between small towns.

In the context of municipal infrastructure, **green and blue infrastructure**, the document mentions the need to increase adaptation to climate change in the context of improving municipal water management but does not focus enough on the details of this, nor on awareness raising in local communities. We miss the explicit ban on investments which eliminate in green areas, and encouragement of brownfield investments, instead. In addition, the programme fails to define the 'term' brownfield and, as the SEA also points out several times, fails to indicate that brownfield developments should be given priority in all investments under the program. We believe that such basic principles should be given due emphasis.

Regarding the priority areas for **regional development**, we find it problematic that the document does not mention that the development of the Lake Balaton region would require the protection of the region's natural values and resources, the curbing of tourism development and the protection of the biodiversity of the living environment. The so-called developments (partly with EU money) which have taken place in the previous years have caused substantial deterioration of the lake's ecosystem, and we are very concerned that TOP investments would further worsen the situation.[12]

It is also problematic that the justification for the regional development of the **Tokaj Wine Region** does not include sustainability and environmental protection at all. Sustainable tourism cannot be identified with eco-tourism (according to the practice so far, eco-tourism is generally applied in a way that the number of tourists and tourist infrastructure are increasing in a natural area) and it is important to stress that from now on development should mean restoration and maintenance of good ecosystems, improving the state of the environment.

In the areas mentioned above, not only is overbuilding taking place in the legal sense, but aggressive building substantially exceeding the carrying capacity of the natural environment which, in a growing number of cases, also causes social and economic conflicts.

We also criticise the lack of analysis of mobility and its challenges in the context of **suburbanisation** processes in the **Budapest** area. The process raises serious problems in terms of environmental protection and air quality, but TOP does not address these problems at all.

Priority areas (Chapter 2)

A competitive county (2.1.)

In the case of local **economic development** and other related developments (transport and tourism), it can generally be said that the current version of TOP does not adequately focus on the mitigation of negative environmental impacts of these developments and on ensuring that the environmental and sustainability horizontal principles are guaranteed during the implementation of TOP. It would be important to ensure that these activities do not damage natural values, do not eliminate green spaces, and that investments are made in an economically and environmentally sustainable way. Otherwise, they do not comply with the 'do no significant harm' principle. In addition, we do not consider individual support for different businesses to be effective, neither in terms of economic-environmental sustainability nor in terms of free competition. Such subsidies thus distort the market in an undesirable way. This way of funding also increases the risk of corruption. Therefore, we are convinced that indicators which refer to the number of supported businesses are inadequate.

The ideas described in the context of **smart city** developments are welcome, but it is also important to note that local residents need to be involved and engaged in these developments, which can also be a tool for shaping attitudes (e.g., development of community care systems, self-sufficiency, purchasing communities).

Unfortunately, in recent years, there has been an enormous political discrimination of local municipalities by the national government, which is a gross violation of EU and national legislation and results also in the inefficient use of EU funds. TOP must be approved only if this discrimination is completely eliminated.

The development of local (municipal) **green and blue infrastructure**, climate adaptation, local environmental infrastructure and circular economy are welcome elements of TOP, but the draft version still lacks awareness raising activities and nature-based solutions. Although the SEA refers to the application of the ecosystem approach, TOP does not apply this principle to green and blue infrastructure and active and sustainable tourism developments. In the context of road investments, it is particularly important to minimise investments that increase land cover and to design biodiversity-friendly measures. In addition, we find that in the case of renovated or built green infrastructure, the target indicators (eg. 87 hectares and 41 hectares by 2029) are not ambitious enough.

In the context of the TOP (and KEHOP) delimitation principles, we miss the envisaged measures for synergies between regional and local **waste management** tasks. A complex and cross-territorial approach is needed to unlock the full potential of the circular economy.

A further concern regarding this chapter is that the draft does not place sufficient emphasis on the energy-efficient implementation criteria for the renovation of infrastructure of **community spaces** and related equipment procurements.

The involvement of local residents and partners in social urban regeneration is welcome, but there is no mention of the concept of awareness raising or mindset building, which we believe are key elements of long-term solutions and thus sustainability.

We agree with the SEA's statement that developments in municipal rainwater management will only be able to effectively promote adaptation to increasingly extreme climate conditions if, in addition to water damage prevention, the issue of water retention and storage is given equal importance. However, this aspect is completely absent from TOP.

2.1.2 (PO5-i) Promotion of integrated and inclusive social, economic and environmental development, culture, natural heritage, sustainable tourism and security in urban areas

In this priority, the use of resources is based on a local urban development strategy, the Sustainable Urban Development Strategy (SUDS), which is integrated with the city's Integrated Settlement Strategy (ITS).

Regarding this section, our biggest concern is that there is very little focus on defining the requirements of these developments ensuring sustainability and green investment. This part of the document also makes many references to urban development plans, but does not set out any specifics about developments, nor objectives.

We also think that the process of designating cities for sustainable urban planning described by TOP is not transparent and does not sufficiently guarantee objectivity.

In the case of activities that require natural resources and are likely to have an environmental impact, it is particularly important to ensure that the implementation of developments is environmentally conscious. We therefore recommend that the expected environmental stresses or pressures of an identifiable direction or magnitude, as detailed in point 5.2.1 of the SEA, should also be explicitly reflected in TOP.

Climate-friendly county (2.2.)

2.2.1. (PO2-i) Promoting energy efficiency and reducing greenhouse gas emissions

The section on energy efficiency and renewable energy use by local and municipal authorities is also too general, does not mention specific measures and does not mention at all the reduction of energy demand, which should be a priority, alongside with energy efficiency. Furthermore, natural solutions are not mentioned, although investments with low environmental impacts should be given preference. The installation or use of renewable energy sources (e.g., solar power plants) should also take into account the need to mitigate potential environmental pressures, especially on biodiversity.

On the other hand, given the importance and long-term effects of the objectives set out in this priority, a significantly higher amount of funding would be needed, especially compared to other priorities (e.g. we can find a much larger amount under chapter 2.3 Caring County).

Caring county (2.3.)

This chapter emphasises the social aspects, but completely ignores the environmental and horizontal sustainability principles and does not create the necessary synergies with the other parts of TOP. Although the chapter refers to awareness-raising, there is no mention of any environmental principles or objectives.

2.3.2. (PO4-i) Promote the social inclusion of those at risk of poverty or social exclusion, including the most vulnerable and children

We strongly agree with the aim of the intervention and consider it of the utmost importance to stop the reproduction of poverty and social inequalities and to create conditions for social inclusion for people living in disadvantaged neighbourhoods and settlements. At the same time, we believe that this intervention must also pay due attention to environmental and sustainability aspects. We also consider this important because the consequences of climate change may affect these vulnerable social groups more, and it is also important to raise awareness among the poor (see the negative environmental and health impacts of the use of waste as domestic fuel). However, many of the measures introduced by the Hungarian government during recent years have greatly contributed to the growth of social disparities. The implementation of this part of TOP (or, for that matter, whole of the TOP) will not have any meaningful effect on the reduction of social disparities which is increasing constantly due to the government's policies. Therefore, TOP must be approved only if the government takes the necessary measures to reduce social disparities on national level and thus ceases to finance purposes which contradict the aims of EU funding.

Increasing housing security and improving the infrastructural conditions of housing are important objectives, but from a climate protection point of view, it would be justified to support the energy modernisation of the entire municipal housing portfolio (only the social housing stock in the context of this measure). The technical condition of these buildings is typically in a state of disrepair, and the savings that could be made through energy renovation would also be of considerable financial benefit to the mostly low-income population living in these rented housing.

2.3.3. (PO4-ii and PO4-v): Improve equal access to inclusive and quality services in education, training and lifelong learning through the development of accessible infrastructures, including by increasing the responsiveness of distance and online education and training; Ensure equitable access to health care and increase the resilience of health systems, including primary care, and promote the shift from institutionalised to family and community-based care

One of the objectives of the TOP is to provide cost-effective, sustainable, and high quality municipal public services and creating the appropriate infrastructural conditions for service provision. In this case, it would also be important to emphasise that these infrastructure investments must also comply with energy efficiency and environmental protection criteria.

The energy efficiency of buildings in institutions providing services should be ensured, as well as the environmental efficiency of service-related procurement (green public procurement).

Budapest infrastructure developments (2.4.)

While we agree with the description of the environmental problems in the Budapest region in the chapter, we believe that more drastic measures should be taken to address the traffic aspects, especially traffic restrictions, otherwise air quality and other serious environmental problems caused by road transport will not show an improving trend.[13] Involving and engaging the local community is crucial to achieve the right goals, so awareness-raising must also play a greater role. In addition, the amount allocated to these otherwise important and good activities is found to be quite small to make a difference.

Conclusions

The current conditions in Hungary do not guarantee an efficient and environment-friendly implementation of TOP, and thus TOP does not comply with EU legislation. The European Commission should approve TOP only if the Hungarian government takes appropriate measures to comply with EU law. Some of the most important such measures are the following:

- Creation of a legal and institutional system that substantially reduces the risks of corruption.[14]
- Full elimination of political discrimination, including the discrimination of municipalities on party political grounds.[15]
- Strict implementation of environmental legislation. Ensuring the necessary capacity and

independence of environmental authorities.[16] Abolition of the legislation on priority investments.[17]

- Withdrawal of all measures introduced during the last 20 years which have increased social disparities.
- Approval of a concrete plan for eliminating environmentally harmful subsidies, including external costs. In case of non-implementation of the plan, funding for TOP must be immediately suspended.

[Budapest, 9 May 2022]

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3 Policy objective 2: *“A greener, low-carbon transitioning towards a net zero carbon economy and resilient Europe by promoting clean and fair energy transition, green and blue investment, the circular economy, climate change mitigation and adaptation, risk prevention and management, and sustainable urban mobility”*

4 Policy objective 3: *“A more connected Europe by enhancing mobility”*

5 CPR Article 15.2.

6 See, for example:
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7 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1060

8 CPR Article 9.4 ”The objectives of the Funds shall be pursued in line with the objective of promoting sustainable development as set out in Article 11 TFEU, taking into account the UN Sustainable Development Goals, the Paris Agreement and the "do no significant harm" principle. The objectives of the Funds shall be pursued in full respect of the Union environmental acquis.”

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