You can’t improve what you can’t measure: State aid evaluation

1. State aid control 2.0

The Commission is completely overhauling its State aid rules. Following the principle of "trust and verify", the new rules will massively cut red tape for innocuous aid measures. At the same time, measures that may seriously harm competition or fragment the internal market will be assessed, monitored, and evaluated more carefully. In this way, the Member States and the Commission can promote good aid and focus attention on the cases that matter.

In a nutshell

The Commission will require evaluations for a selected number of State aid schemes in order to identify their impact and allow for improvements to the follow-up schemes and, potentially, to future State aid rules. To assist Member States in preparing and conducting successful evaluations of their aid schemes, the Commission has published a user-friendly guidance paper.

Evaluation contributes to better informed decision-making, is a beneficial learning process for all parties involved, facilitates transparency and accountability, and helps allocate scarce resources more efficiently. This makes it an integral part of the policy cycle, at both EU and national levels.

For these reasons, already today State aid measures that are co-financed by the EU Structural Funds are subject to the evaluation requirements established in the relevant regulations.

State aid evaluation is an integral part of the reform package and will contribute to a better understanding of the actual impact State aid has on the markets.

2. Evaluation: A common and important practice

Evaluation is a key tool for evidence-based policy-making and has been part of both the European Commission’s and Member States’ practices for many years, initially with a specific focus on expenditure programmes and subsequently covering a wide range of non-expenditure legislation and policies, from environmental legislation to taxation directives.

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Evaluations in the EU Structural Funds

The EU Structural Funds regulations have included evaluation requirements for several programming periods and most recently have increased their focus on the impact of the interventions. According to the general regulation for the 2014-2020 period, the effectiveness, efficiency and impact of assistance from the Funds will be evaluated in order to improve the quality of design and implementation of programmes.

Impact evaluations of programmes supporting companies and innovation have contributed useful evidence suggesting that while support to SMEs can be effective in leveraging investments and creating jobs, support to large firms might be less effective. Also, there are indications that aid instruments like loans can be as effective as grants. These findings and others have influenced policy priorities in the new programming period and have informed certain provisions of the new Regional Aid Guidelines.

Source: Mouqué, (2012) ‘What are counterfactual impact evaluations teaching us about enterprise and innovation support?’, Regional Focus 02/2012, DG Regional and Urban Policy

In the same vein, several Member States perform evaluations on their business support measures and subsidies. In some cases, these evaluations are carried out by the respective Courts of auditors or are required by national parliaments as part of the budgetary procedures.

In this context, some Member States have developed sophisticated and well-resourced evaluation functions at national or even regional level. The situation is quite varied in different Member States, however, with some mostly focusing on auditing and monitoring of expenditure measures rather than full-fledged impact evaluation.

There is also a large and growing body of academic literature and case work on impact evaluation worldwide, which has brought about significant advances in both the methods and practices of impact evaluation, as described in a large set of publications and handbooks.

In the specific context of State aid control, which – so far – is mostly based on a system of ex ante scrutiny and compatibility assessment, introducing evaluation will “close the circle” of the State aid assessment cycle and ensure that evaluation results can be used in the policy design of future State aid measures, as illustrated in the figure.

![State aid evaluation cycle](image)

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2 The Commission, in the preparatory phase to introducing the new State aid evaluation requirements and the methodological guidance paper, has organised and participated in dedicated workshops and seminars with leading academics and evaluation experts to review the state of the art and best practices in this field. See, for example, the presentations at the April 2013 Workshop on ‘Modernising State Aid through better evaluations’, available here: [http://ec.europa.eu/competition/state_aid/modernisation/evaluation_en.html](http://ec.europa.eu/competition/state_aid/modernisation/evaluation_en.html)

3 The ‘Progresa/Oportunidades’ programme in Mexico, which provides cash directly to low-income families on the condition that children attend school regularly and family members visit health centres, is a good example of how integrating evaluation requirements from the start can improve a programme. Indeed, the programme was implemented in phases and for each one the beneficiary communities were selected randomly, allowing for rigorous comparison of effects with non-beneficiaries. The credibility of the evaluation results contributed to the programme’s continuation under a new administration and to the development of similar programmes in many other countries.


### Two examples of national evaluation practices

In the UK, evaluations of interventions including State aid measures are regularly carried out. The ‘Magenta Book’ sets out overall guidance for the UK Government on evaluation. For example, successive generations of regional aid programmes have been thoroughly evaluated and more recent evaluations apply ‘quasi-experimental’ techniques that, by modelling robust control groups, are designed to estimate the causal impact of the aid on the beneficiaries. Findings from the evaluations have influenced the design of successor schemes.


The Finnish innovation agency TEKES has fully integrated impact evaluation into its activities at all levels, from individual projects to large-scale schemes and initiatives. Recent evaluations show, for example, that for every euro invested by TEKES, companies increase their R&D expenditure by €2, and that the SMES it supports have a 20% greater increase in turnover and 17% greater increase in employment than comparable SMES. The annual growth of turnover in young innovative companies funded by TEKES was 150%.


Both the European Court of Auditors and the Council have highlighted the importance of effective evaluation in State aid. It is in the common interest of the Commission and of Member States to obtain solid evidence on the actual impact of schemes in the markets.

### 3. Which aid schemes will be evaluated?

The new State aid guidelines and frameworks adopted since 2012 foresee the possibility to require evaluations for aid schemes with large aid budgets, containing novel characteristics or when significant market, technology or regulatory changes are foreseen.

5 Cf. Broadband, Regional Aid, Risk finance, Aviation, R&D&I, Environmental and energy.
The Commission has already required evaluations in cases related to broadband investments. For example, the Commission’s approval decision\(^4\) on the national broadband framework scheme of the UK (with a total value of aid estimated at €1.8 billion) includes an explicit commitment to submit an independent evaluation of the scheme to the Commission in due time before the scheme expires, so that the evaluation report can be taken into account for a possible prolongation of the scheme. The evaluation will be looking at the scheme’s effectiveness and its impact on competition.

The new General Block Exemption Regulation also foresees evaluation of large aid schemes in specific fields, in order to ensure that evaluation remains proportionate and limited to a manageable number of aid schemes per year. Specifically, this will concern large aid schemes with an average annual State aid budget of at least €150 million in the fields of regional aid, aid for SMEs and access to finance, aid for research and development and innovation, energy and environmental aid and aid for broadband infrastructures\(^5\).

### 4. What to evaluate and how?

The overall objective of State aid evaluation is to verify the balance between the aid’s public objective and its impact on competition and trade between Member States. An evaluation should explain whether and to what extent the original objectives of the aid scheme have been fulfilled (i.e. assessing the positive effects) and should determine the impact on markets and competition (i.e. possible negative effects).

Evaluation should aim in particular at providing solid evidence useful in answering questions such as whether the aid really changed the behaviour of the beneficiaries, whether the effects differed significantly across beneficiaries, whether the scheme led to spill-over effects on the activity of other firms, whether the scheme contributed to the desired policy objective or whether the chosen aid instrument was the most appropriate one. Evidence collected will help in designing more effective and less distortive future aid schemes.

In general, evaluations are greatly facilitated when they are properly anticipated and prepared, in particular as this allows suitable data collection. Early planning is also likely to reduce significantly the resources required and ultimately increase the quality of the evaluation’s report.

The methodological guidance paper and its annexes\(^6\) describe the most relevant methods for counterfactual impact evaluations, in line with the most recent literature and the best practices at international level. It also describes the key elements of the evaluation plans, in order to assist Member States in preparing and conducting evaluations of their aid schemes, as summarised in the box.

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<th>Content of an evaluation plan</th>
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<td>1. Objectives and intervention logic of the aid scheme</td>
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<td>2. Scope of the evaluation</td>
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Evaluations should be conducted within a reasonable time frame. While the exact duration depends on the type of scheme, evaluation should lead to results within a time frame relevant for policy action to be taken, in case problems are identified. In most cases results should be available within four years from the start of the scheme. In case of prolongations or modifications to evaluated schemes, the Member State should submit the evaluation report in sufficient time to allow the Commission to take these results into account for assessing the follow-up scheme.

To ensure objective, rigorous and impartial evaluation, it is a recognised best practice that evaluators should be independent from the granting authority and should be experts with adequate experience and methodological knowledge. This does not necessarily mean that a new body needs to be set up, or that the evaluation needs to be outsourced to commercial evaluators, as many Member States have developed evaluation capabilities through the years.

It is also key for the transparency of the exercise to make evaluations public and ensure appropriate involvement of stakeholders.

### 5. Conclusion

State aid evaluation should be a learning exercise for both the Commission and Member States. The Commission might organise trainings and workshops for national administrations on evaluation methodologies and results of evaluations. Furthermore, successful experiences and best practices from Member States could be shared and used to design future aid measures more effectively.

The benefits of conducting evaluations will materialise within a few years, when the first reports are ready and their findings and recommendations are made available to improve the design of subsequent aid schemes and rules.

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\(^4\) Commission decision in case SA.33671 Broadband Delivery UK. OJ 2013 C/16.

\(^5\) Large aid schemes in other categories of the GBER, e.g. in the fields of employment and training, natural disasters, sports and culture, are not covered by the evaluation requirement.