

Brussels, 12/04/2013

## **Evaluation in the field of State aid**

### **ISSUES PAPER**

*Disclaimer: This document does not represent an official position of the European Commission. It is a tool to explore the views of interested parties. The suggestions contained in this document do not prejudge the form or content of any future proposal by the European Commission.*

## 1. PURPOSE OF THE ISSUES PAPER

The purpose of this issues paper is to explain the role of evaluation in the field of State aid, to collect information on Member States' existing practice on evaluation of aid schemes and to gather the view of the Member States on the identified issues. This document shall also serve as a basis for discussion in the workshop between the Commission services, Member States and other stakeholders scheduled to 23 April 2013 in Brussels.

## 2. CONTEXT AND RATIONALE FOR EVALUATION

On 8 May 2012, the Commission adopted a Communication<sup>1</sup> setting out a comprehensive plan for the modernisation of EU State aid policy ('SAM'). The modernisation aims at orienting scarce public funds towards growth-enhancing initiatives in a **more efficient and effective** way, addressing genuine market failures. Modernised State aid control will thus promote better quality public finances in order to "*achieve more with less*" in the current budgetary and financial constraints.

The SAM Communication also advocates for re-focusing the Commission's enforcement efforts on larger aid schemes that could have the biggest impact on the market: **prioritisation and stronger scrutiny of the aid with a significant impact on the single market**, such as those measures covering large and potentially distortive aid is proposed. In parallel, the analysis of cases of a more local nature and with little effect on trade will be simplified, *inter alia* by providing more flexibility for Member States in implementing such aid measures (for instance through increased scope of general block exemptions). In order to maintain the overall balance, greater simplification should be combined with greater transparency, effective evaluation and control of compliance with the state aid rules at national and European level, while remaining proportionate and preserving the institutional competences of the Commission and the Member States.

Finally, the SAM Communication also calls for taking into **consideration the overall impact of the aid**,<sup>2</sup> which would allow both the Commission and the Member States to better understand the positive and negative impacts of an aid scheme, and build on subsequent aid measures by having qualitative and quantitative data on the impact of prior, similar schemes. Such information would not only make available a better decision making and more effective and efficient use of public funds, but could pave the way, for instance, to further extension of block exempted measures or to a simplified treatment of certain cases.

**The current State aid set-up focuses little on the actual, measured impact of aid schemes.** Rather, schemes are approved *ex-ante* on the basis of pre-defined criteria on the assumption that their overall balance will be positive, without a proper evaluation of their impact on the markets and over time. Currently, *ex post* review of schemes is limited to monitoring compliance with the pertinent legal provisions in a sample of cases, while annual reports merely provide data related to the on-going implementation of the scheme. Evaluation in contrast has a distinct objective: it provides analysis on the effectiveness and efficiency of an

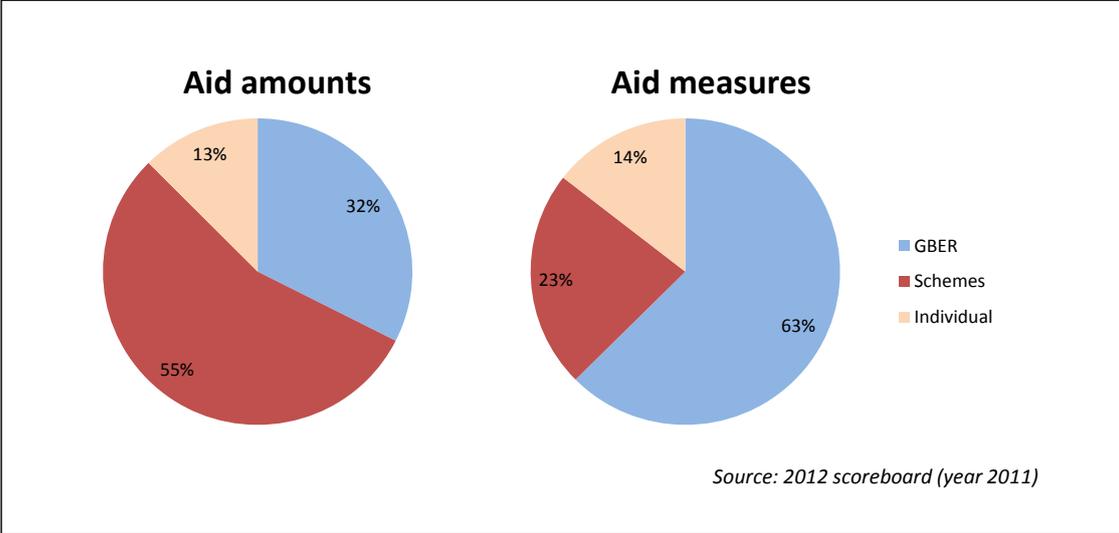
---

<sup>1</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, EU State Aid Modernisation (SAM), 8.5.2012, COM(2012) 209 final..

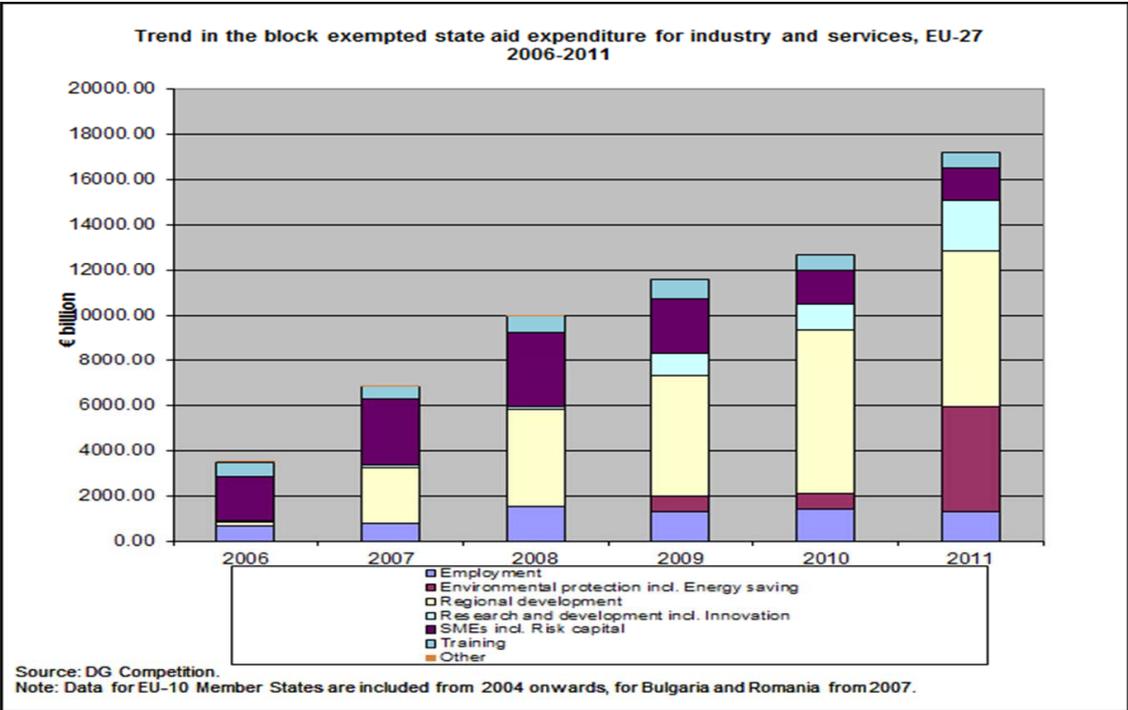
<sup>2</sup> See paragraph 18(a).

aid measure and suggests improvements and lessons to be learnt. However, evaluation is typically carried out rarely and on an ad hoc basis.

The need for evaluation is particularly relevant for aid schemes, which account for the vast majority of all granted aid. Approved aid schemes represent 23% of all aid measures and 55% of aid amounts. A further set of block exempted schemes representing 63% of all aid measures and around 32% of aid amounts are exempted from notification where they fulfil a number of pre-defined criteria.



The proportion of block exempted measures have been increasing continuously, with more and more regional, research, development and innovation and other types of aid measures implemented by the Member States without an *ex ante*, detailed Commission scrutiny.



The Commission's monitoring exercise of 2011/2012 **identified deficiencies in the implementation of a significant number aid schemes**, thus the Member States and the Commission must step-up their efforts to better comply with State aid rules.

Evaluation should help preventing some of these deficiencies. Firstly, it enables to assess the overall impact of the selected aid schemes on the market (both positive and negative impacts) and whether the objectives of the aid measures have been achieved. Secondly, it can help where appropriate to improve the design of the scheme, introduce corrective measures, calibrate interventions to maximise effectiveness and efficiency. Thirdly, the introduction of State aid evaluation makes *ex ante* assessment less necessary opening thus the way for an enlargement of the set of measures that can be exempted from notification or subject to a lighter scrutiny.

On 13 November 2012, the ECOFIN Presidency reached the following conclusions on State aid modernisation:

Conclusions of the ECOFIN Presidency on State aid modernisation, 13 November 2012:

*1. WELCOMES the Commission plan to modernise state aid control to better exploit its potential to support growth, employment and EU competitiveness, while contributing to Member States efforts towards a more efficient use of public finances.*

*2. SUPPORTS objectives of (i) redirecting State aid towards initiatives that can efficiently and effectively support the achievement of the Europe 2020 growth objectives, (ii) prioritising scrutiny of those types of aid which are potentially the most harmful to the internal market and (iii) simplifying the rules and procedures to ensure faster, better informed and more robust decisions based on a clear economic rationale, a common approach and clear obligations.*

*3. EMPHASISES that an effective control of State aid should be based on a clear and predictable framework for Member States policies that ensures a transparent level playing field in the internal market.*

*4. AGREES that instruments allowing for a better prioritisation and greater simplification should go hand in hand with effective evaluation and control of compliance with the State aid rules at the national and European level, while remaining proportionate and preserving the institutional competences of the Commission and the Member States.*

*5. INVITES the Commission to develop its proposals in close consultation with the Member States.*

### **3. EXISTING EXPERIENCE WITH EVALUATION OF SUBSIDY SCHEMES AT NATIONAL AND EU LEVEL**

Evaluation of aid schemes to some extent is already embedded in several Member States' practice: several countries either regularly evaluate their subsidy measures<sup>3</sup>, or put under scrutiny certain (large and/or novel) aid schemes. Independent public bodies (for instance

---

<sup>3</sup> In several Member States national state aid reports conducted for the Court of Auditors or the Parliament already exist.

National Competition Authorities or National Regulatory Authorities) also regularly scrutinise State aid schemes or public expenditures.)<sup>4</sup>. Some Member States have also launched "spending reviews" and are considering the opportunity to review their aid policy so as to maximise its effectiveness in a context of fiscal consolidation<sup>5</sup>.

In the context of the implementation of the EU Temporary Framework for State aid measures, the Commission has invited Member States to report on the use of these measures and their impact, as well as on their effectiveness in order to decide on their prolongation and possible improvement<sup>6</sup>.

In the context of the use of EU Structural Funds, projects are subject to systematic *ex ante* and *ex post* evaluation. Evaluation of EU cohesion policy helps to improve the effectiveness and efficiency of programmes and to provide information about the impacts of cohesion policy. Member States are responsible for *ex ante* evaluation and the European Commission for the *ex post* evaluation. The *ex post* evaluation primarily focuses on the positive impacts of the aid: how much of the change is due to the intervention. The Commission communicates the main achievements of cohesion policy, publishes the evaluations undertaken on its website, provides guidance on the evaluation of EU cohesion policy, coordinates exchanges of experience and best practices on evaluation and publishes an annual evaluation plan on EU regional policy.

Introduction of systematic evaluation in the field of State aid aims to build on the existing practice and on the existing skills and competences and to promote a greater awareness for the quality of public finance in the area of subsidies to businesses. It will help preventing large schemes going un-checked with the risk of overcompensation and distortive side-effects. It will promote a better level playing field across Member States.

As the existing legislative documents are being revised under the umbrella of SAM, the requirement of evaluation is being gradually introduced into those documents. For instance, the new State aid Broadband Guidelines<sup>7</sup> contain provisions for evaluation of national (large budget) aid schemes and schemes containing novel characteristics or when significant market, technology or regulatory changes are foreseen. These provisions are already implemented in the current case practice. For instance, the UK's national broadband support scheme<sup>8</sup> was selected for evaluation due to its very large budget and due to important technological and regulatory changes expected in this area in the near future<sup>9</sup>.

---

<sup>4</sup> As an example, the Spanish competition authority yearly publishes a report on State aid and conducts evaluation on the effectiveness of subsidy schemes, such as in the case of the plan for the purchase of greener automobiles, including recommendations for a better design of the scheme (*Comisión Nacional de la Competencia*, Annual Report on State aid 2009).

<sup>5</sup> Cf. for instance the Report commissioned to Prof F. Giavazzi by the Italian government.

<sup>6</sup> Cf. for instance the consultation on the use of the Temporary Framework and the subsequent report to the European Parliament (*The effects of temporary State aid rules adopted in the context of the financial and economic crisis*, Commission staff working paper, SEC (2011) 1126 final, available at <http://ec.europa.eu/competition/recovery/publications.html> )

<sup>7</sup> Adopted on 12 December 2012 and available at [http://ec.europa.eu/competition/consultations/2012\\_broadband\\_guidelines/en.pdf](http://ec.europa.eu/competition/consultations/2012_broadband_guidelines/en.pdf)

<sup>8</sup> Commission decision in case SA.33671 Broadband Delivery UK, United Kingdom. JOCE C/16/2013.

<sup>9</sup> For instance, the revision of the applicable regulatory framework in the UK, the auction of the 4G licences and the 're-farming' of existing spectrums, etc. – all of which changes could have significant impact on the objectives and design of the scheme.

*Example: SA.33671 Broadband Delivery UK, United Kingdom ('BDUK')*

*The UK and the EU Commission agreed that an evaluation of the scheme will be undertaken by an independent body and submitted to the Commission by 31 March 2015. The evaluation will assess on the one hand the overall effectiveness of the State aid measure in light of the UK Government's objectives (including comparison of different intervention models) and on the other hand the impact of BDUK's NGA State aid intervention on competition (including the assessment of the wholesale access conditions).*

*The results and the recommendation of that evaluation report will be taken into account in case of a new State aid notification following the expiry of the current BDUK scheme on 30 June 2015.*

*Considering the information provided above, the Commission would welcome your views on the following main issues:*

- 1. What is your experience with ex-post evaluation of State aid schemes in your own countries? Do your authorities undertake regular and systematic evaluation of aid schemes?*
- 2. If yes, could you please provide information on which aid schemes are selected, what methodology is applied, and what are the merits and effects for conducting an ex-post evaluation? To what extent was the result of evaluation useful in designing subsequent aid schemes with similar objectives?*

#### **4. POSSIBLE MAIN FEATURES OF EVALUATION IN THE STATE AID FIELD**

##### **4.1. Objectives of evaluation**

In line with its modernisation objectives, the Commission intends to introduce evaluation requirements during the on-going revision of the existing secondary legislation<sup>10</sup>. The main objective of State aid evaluation would be the verification of the balance between the public goal of the aid and its impact on competition and trade between Member States. Such a balancing is first pursued via a proper design of the scheme. However, the impact of the aid on the markets may differ from expectations, due for instance to imprecise or incomplete assumptions or to unforeseen changes in the market conditions. Moreover, the impact of novel schemes may be difficult to anticipate. State aid evaluation will not only help assessing whether and to what extent the original objectives of an aid measure have been fulfilled (i.e. assessing the positive effects), but also the impact on markets and competition (possible negative effects). State aid evaluation should in particular allow:

- to verify that the assumptions underlying the approval of the scheme on the basis of an *ex ante* assessment are still valid;
- to assess whether the scheme is effective in achieving the direct objective for which it was introduced;

---

<sup>10</sup> For more information, see at: [http://ec.europa.eu/competition/state\\_aid/modernisation/index\\_en.html](http://ec.europa.eu/competition/state_aid/modernisation/index_en.html).

- to cater for unforeseeable negative effects, in particular the potential aggregated effect of a large scheme.

For instance, in case of regional aid, based on the existing evaluations in this field, positive impacts might be measured by the number of jobs created, with increase in regional productivity and/or in the gross value added (GVA)<sup>11</sup>, diversification of the regional economy. Negative impacts might be measured by sectoral bias (i.e. aid was predominantly granted to the car industry in a multi-sectoral scheme), by bias towards loss-making firms or firms with low productivity (prevention of exit), by relocation of economic activity from a poorer region to a more developed one.

Based on the assessment, evaluation can help where appropriate to improve the design of the scheme, introduce corrective measures, calibrate interventions to maximise effectiveness and efficiency. Such improvements could vary from adjustments in the project design (such as change in selection criteria, reinforced check on incentive effect), up to more significant options (for instance, promoting the use of an alternative aid instrument, redefined objectives, redefined target beneficiaries).

3. *What should be the main objectives of State aid evaluation? Based on the evaluation practice in your country, is ex-post evaluation pursuing the same/similar objectives or does it aim at establishing different ones?*
4. *With what indicators would you suggest to measure the positive and negative impacts of an aid scheme, considering their objectives?*

#### **4.2. Schemes subject to evaluation**

State aid evaluation should be carried out with respect to schemes that have a potential significant impact and may pose a risk of significant distortions if their implementation is not reviewed in due time. The focus should therefore be on aid schemes which are either (1) large or (2) novel or (3) face the possibility of significant market, technological or regulatory change in the near future that may require the review of the assessment of the scheme.

A scheme can be deemed to be large by relative terms (for instance, compared to the GDP of the country) and/or in absolute terms (the overall budget of the aid scheme). The threshold should be known in advance and be designed so as capture the most significant schemes. Evaluation in the field of State aid shall remain a proportionate exercise and shall focus on the aid schemes with the largest potential distortion on the internal market. One could expect to identify around approximately 30-50 aid measures shall be evaluated per year across all Member States (in comparison with a total of aid measures of 800 on average per year)

Certain aid schemes may still not be subject to evaluation if despite their size they do not entail any specific problematic aspect (routine cases, high number of beneficiaries with small aid amounts, no likelihood of significant changes, or when no serious distortions could arise, for instance, like aid schemes in outermost regions). The Member States and the Commission could decide, during the notification phase of the project, to consider whether the scheme is

---

<sup>11</sup> Gross value added (GVA) is a measure in economics of the value of goods and services produced in an area, industry or sector of an economy.

novel or in areas where there is a possibility of significant market, technological or regulatory change in the near future.

**5. *Would you consider the above criteria (size, novelty, possibility of significant market, technological or regulatory change) appropriate to identify aid schemes to be subject to evaluation? Would you consider any other types of criteria to identify aid schemes for evaluation? Would you consider certain types of aid schemes where evaluation would be particularly useful?***

### **4.3. Timeline**

For conducting a meaningful evaluation, it is necessary to define at least *ex ante* the objective of the aid measure, the timeframe of expected effects and the indicators in order to measure the positive and negative impact of the aid scheme. As regards the timeframe of expected effects, evaluation should be conducted not too close to the introduction of the scheme, to allow for its effects to materialise and be measurable, but not too late to intervene and remedy major flaws. Depending on the type of scheme, such a period can vary from 6 to 12 months (such as for the current review for the state guarantees to banks) to several years (for instance for regional schemes). Evaluation could identify areas to be improved and/or remedies to be implemented to increase the efficiency/effectiveness of the aid measure. A positive outcome should allow the safe prolongation of the scheme and can facilitate the *ex ante* assessment of new schemes.

**6. *What is your experience with the process of evaluation of aid measures: when could the effects be reasonably measured in order to assess the impact of the aid measure? Would you agree with a differentiation according to the objectives and possible impact of the aid? What other factors should be taken into considerations to allow for a speedy processing of the evidence, in view of the prolongation/improvement of the scheme?***

### **4.4. Technical guidance for conducting evaluation**

Proper evaluation should be objective, rigorous, impartial and transparent.<sup>12</sup> Evaluation should be conducted on the basis of a common methodology across Member States, while acknowledging institutional specificities of each Member States, where appropriate. In order to ensure meaningful evaluation reports, a minimum set of methodology requirements shall be set out by DG Competition. This methodological guidance would promote best practices and consistency, would set the minimum methodological standards to carry out *ex post* evaluation to ensure high quality and comparable evaluations across Member States.

#### **Asking the relevant question**

The necessary preliminary step is to ask the relevant question(s) to be evaluated. Those questions should naturally derive from the rationale to implement the scheme, for instance:

- What is the market failure to be addressed?
- How is the State aid scheme expected to address this market failure?

---

<sup>12</sup> World Bank: Independent Evaluation: Principles, Guidelines and Good Practice.

- What are the beneficial effects to be expected? When are those effects likely to materialize?
- What are the distortive effects to be expected? When are those effects likely to materialize?
- Are these effects expected to differ to a large extent between beneficiaries?
- Is the design appropriate to ensure incentive effect, targeted intervention and to control potential distortions?

## **Data collection**

Two types of data are generally necessary.

1. A first data set will generally be collected by the implementer of the scheme. This data will contain information regarding the beneficiary, the way it was selected, its activity, the amount of the aid, the amount of investment, etc.
2. This information will need to be complemented by other information on the beneficiary, as well as on third parties (see methodology). This second source of information will generally have to be gathered from statistical registries. Access to such information will have to be granted to the economic experts and contacts with the statistical offices must be facilitated by the granting authority. Moreover, all the firm or plant identifiers will have to be collected in the first dataset, in order to ensure a proper matching of the two datasets.

## **Methodology**

The choice of the best methodology will depend on the design of the policy itself as well as on the available data. Different methodologies exist and guidance will be provided as to the most appropriate methodology to use in a given case. Some methodologies are preferable to others: a proper evaluation should be built on the analysis of hard, verifiable, evidence by the adequate econometric tools. Qualitative methods, such as interviews, case studies, etc. can also be used as a supportive tool.

This econometric analysis usually requires the comparison of the realized outcome with a so-called counterfactual. This counterfactual is simply the situation that would have occurred in the absence of aid. In practice, the analysis is made by comparing the beneficiary with a control group made of comparable firms, yet not benefiting from aid. It is generally not sufficient to merely compare beneficiaries to non-beneficiaries. Firms who benefit from aid are indeed generally different in many respects. For instance, they may be located in poorer areas, be more or less efficient, etc. The most relevant control group generally depends on the expected effects of the aid and on the available data.

The most favourable case is when beneficiaries are chosen randomly. If this solution is very difficult to implement for large existing schemes or small variations of existing schemes, it should nevertheless not be overlooked, for instance in case of a significant change. Moreover, in case of a very innovative policy, it might be advisable to evaluate a pilot, for which the beneficiaries could easily be chosen randomly. An alternative is not to select the beneficiaries randomly, but to advertise the existence of the scheme to randomly selected potential beneficiaries. A second alternative is to ramp-up a scheme, for instance to 25% of randomly selected firms the first year to respectively 50, 75 and 100% the second, third and fourth year.

Focusing on schemes of wide application, the issue of heterogeneity of impact of aid should also be envisaged. The issue of the impact of multiple aid, either from one scheme, from several schemes or *ad hoc* aid, is also of particular relevance. At last, evaluating the impact of the scheme on non-participants, either directly or indirectly, is very informative for the evaluation of State aid. Ideally, an evaluation should be able to address the general equilibrium impact.

### **Confidentiality, independence, transparency and access to data**

Data used for the evaluation are, partly, confidential. This is particularly the case of statistical registries. This confidentiality should be guaranteed throughout the process of the evaluation. Nevertheless, this confidentiality does not extend to the results of the evaluation as such, which are not confidential. In particular, no confidentiality clause can be included in the contract for the evaluation, apart from non-disclosure obligations of confidential data and obligations to comply with the general provisions of national statistical law and statistical secrecy for the presentation of the results. Additionally, the independence of the evaluation and the absence of interference must be guaranteed by contract. All evaluation reports should be published by the Member States and/or by the Commission on a prominent webpage.

Transparency and access to data for replication is also extremely valuable. Access to data used for the evaluation has to be warranted with no discrimination to academic experts, provided that the academics can show a genuine interest, adequate skills and commit to the same confidentiality clause as the commissioned experts.

### **Body in charge of the evaluation**

Evaluation shall be carried out by a national independent body (independent from the granting authority to limit any potential conflict of interest or the national competition authority) with the necessary expertise. A proper organisation and an open cooperation between the actors is a key to the success of an evaluation. For instance, the cooperation of other parties, such as the implementers of the scheme and statistical institutes (see Data section), is generally required. The quality of the evaluation relies on an efficient cooperation and an open communication between all these actors. It is necessary that the body in charge of evaluation could be associated as early as possible during the design of the policy so as to be able to design the evaluation properly, both in terms of data collection and choice of a methodology.

**7. *What should be in your views the necessary requirements for a solid and homogeneous evaluation across Member States, notably in terms of:***

- (a) data gathering;***
- (b) methodology for the counterfactual evaluation;***
- (c) independent body conducting evaluation.***

## **5. CONCLUSIONS**

State aid evaluation of large schemes can contribute to more effective public policies. It allows learning from each other experiences and improving public interventions, leading to more efficient public spending and less distortions in the market and across Member States. The present paper identifies a number of key issues on which the Commission intends to gather Member States and stakeholders' views in order to design evaluation requirements in State aid in the most effective way.

## **6. COMMENTS OR VIEWS**

This document shall also serve as a basis for discussion in the workshop between the Commission services, Member States and other stakeholders scheduled to 23 April 2013 in Brussels. Any further comments or views on this consultation are welcomed to be sent via e-mail to [Stateaidgreffe@ec.europa.eu](mailto:Stateaidgreffe@ec.europa.eu) with a reference number of HT.3751.

**ANNEX – EXAMPLES OF EXISTING STUDIES RELEVANT FROM EVALUATION POINT OF VIEW IN SELECTED STATE AID AREAS**

Regional aid	RDI aid	Environmental aid	Risk finance	Aid to broadband networks
<ul style="list-style-type: none"> <li>• Report for DG REGIO. A. Martini, D. Bondonio: "Counterfactual impact evaluation of cohesion policy: impact and cost effectiveness of investment subsidies in Italy" (2012).</li> <li>• On the effectiveness of the Regional Selective Assistance (RSA) program in the UK: C. Criscuolo, R. Martin, H. Overman, J. Van Reenen (for NBER) "The causal effects of an industrial policy", NBER working paper (2012).</li> <li>• A. Accetturo, G. De Blasio: "Le politiche per lo sviluppo locale: la valutazione dei patti territoriali". Bank of Italy Report (2007).</li> <li>• R. Bronzini, G. De Blasio, "Evaluating the impact of investment incentives: the case of Italy's law 488/1992" Bank of Italy report (2005).</li> </ul>	<ul style="list-style-type: none"> <li>• B Lokshin and P. Mohnen: "How effective are level-based R&amp;D tax credits? Evidence from the Netherlands", Applied Economics (2011).</li> <li>• For Italy: R. Bronzini and E. Iachini: "Are incentives for R&amp;D effective? Evidence from a regression discontinuity approach", mimeo Bank of Italy (2010).</li> <li>• For Spain X. González, J. Jamandreu, C. Pazó: "Barriers to innovation and subsidy effectiveness", RAND Journal of Economics (2005).</li> </ul>	<ul style="list-style-type: none"> <li>• Juan Luis Jiménez, Jordi Perdiguero, Carmen García: "Evaluation of subsidies programs to sell green cars: impact on prices, quantities and efficiency" (2012).</li> <li>• Report for the European Commission: "Integrating resource efficiency and EU State aid - An evaluation of resource efficiency considerations in the current EU State aid framework" (2012).</li> <li>• M. Mosselman, Y. Prince: "Review of methods to measure the effectiveness of state aid to SMEs." Final report to the European Commission (2004).</li> </ul>	<ul style="list-style-type: none"> <li>• Y. Pierrakis, S. Sage: "From funding gaps to thin markets: UK Government support for early-stage venture capital", NESTA and BVCA research report (2009).</li> <li>• M. Cowling, P. Bates, N. Jagger, G. Murray: "Study of the impact of the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) on company performance", HMRC (2008).</li> <li>• C. Lelarge, D. Sraer, D. Thesmar: "Entrepreneurship and Credit Constraints: Evidence from a French Loan Guarantee Program" (2007).</li> </ul>	<ul style="list-style-type: none"> <li>• J. A. Eisenach, K. W. Caves: "Evaluating the cost-effectiveness of RUS Broadband Subsidies" (2011).</li> <li>• WIK consult, "Study on the implementation of the existing Broadband Guidelines" (2011).</li> <li>• D. Sraer: "Local Loop Unbundling and Broadband Penetration" (2008).</li> <li>• Broadband Stakeholder Group: "The Impact of Public Sector Interventions on Broadband in Rural Areas" (2003).</li> </ul>