EUROPEAN COMMISSION

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Subject: State Aid SA.47180 (2017/N) – Italy - Evaluation plan of the SME investment aid scheme for purchase of new machinery and equipment

Sir,

1. PROCEDURE

(1) By electronic notification of 31 December 2014, Italy submitted a summary information sheet pursuant to Article 11(a) of the Commission Regulation (EU) No 651/2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty[1] (hereinafter "GBER") on the SME investment aid scheme for purchase of new machinery and equipment (hereinafter: "the aid scheme"), which it planned to implement until the end of 2016. This submission was registered as SA.40429 (2014/X).

(2) By electronic notification of 23 December 2016, Italy submitted a summary information sheet pursuant to Article 11(a) of the GBER on the prolongation of the aid scheme until 31 December 2018. This submission was registered as SA.47180 (2016/X).

(3) The budget of the aid scheme was increased in December 2016 reaching EUR 870 million for the period 2015-2018. As a result of this last budget increase in December 2016, the average annual budget started exceeding EUR 150 million and therefore the aid scheme became a large scheme in the meaning of Article 1(2)(a) of the GBER. Under this provision, aid schemes are exempted only for a period of six months after their entry into force, unless a longer period of

[1] OJ L 187, 26.6.2014, p. 1.

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exemption is authorised by the Commission following the assessment of an evaluation plan for the scheme to be notified by the Member State concerned.

(4) In order to obtain that prolongation, Italy notified an evaluation plan for the scheme on 27 January 2017, registered by the Commission on 30 January 2017 as State aid case number SA.47180 (2017/N). By letter of 1 March 2017 the Commission asked for supplementary information. A telephone conference between the Italian authorities and the Commission services took place on 24 March 2017. On 18 April 2017 Italy provided the requested information by submitting an amended evaluation plan.

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

(5) As required by Article (2)(16) of the GBER and in line with best practices[2], the notified plan contains the description of the following main elements: the objectives of the aid scheme to be evaluated, the evaluation questions, the result indicators, the envisaged methodology to conduct the evaluation, the data collection requirements, the proposed timing of the evaluation including the date for submission of the final evaluation report, the approach for the selection of the independent body conducting the evaluation, and the modalities for ensuring the publicity of the evaluation.

2.1. Objectives of the aid scheme to be evaluated

(6) The average annual budget for the years 2017 and 2018 amounts to EUR 300 million, while the average annual budget for the years 2015 and 2016 was EUR 135 million. The duration of the aid scheme is from 1 January 2015 to 31 December 2018. Detailed principles for granting public aid within the framework of the aid scheme are specified in Article 2, of Decree Law No 69 of 21 June 2013 as subsequently amended and supplemented [3].

(7) According to the Italian authorities, the scheme's objective is to strengthen the productive and competitive system of micro, small and medium-sized enterprises (SMEs) through support for the purchase or acquisition by financial leasing of tangible (equipment, installations, hardware) and intangible assets (software or digital technologies) for production purposes. The scheme also aims to help the transition of Italy's production system towards digital manufacturing. The scheme intends to facilitate SMEs access to finance, which was particularly affected during the financial crisis.

(8) The scheme is directed at SMEs wanting to make productive investments amounting between EUR 20 000 and EUR 2 million located within Italy. Financial support is given to investments in all sectors with the exception of the financial and insurance activities in Section K of the ATECO 2007 classification

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

[3] Article 1 paragraph 243 of the Law No 190 of 23 December 2014, Article 9 of the Law No 33 of 24 March 2015, Article 1 paragraphs 52 and seq. of the Law No 232 of 11 December 2016.

of economic activities[4]. For the sectors excluded by the GBER[5], separate notifications have been provided to the responsible Commission services. In order to be eligible, the investments must relate to the acquisition of brand new tangible and intangible assets which fulfil the conditions set out in Article 17(3) of the GBER.

(9) The aid element takes the form of a contribution provided to SMEs in respect of investments covered by the aid measure which are financed through ordinary credit. The contribution equals the amount of interest to be paid on a five years loan. The interest rate is set at 2.75% for ordinary investments and 3.575% for investments in digital technology. The aid granting procedure is comprised of different steps: 1) the SME submits an application for aid and applies for funding to a bank or financial intermediary; 2) the bank or financial intermediary takes a decision regarding the financing and informs the Ministry of Economic Development of the level of financing granted and the application submitted by the SME; the financing granted can be backed up by a guarantee from the Guarantee Fund for up to 80% of the credit; 3) the Ministry determines the level of contribution payable to the SME and grants the aid; 4) on the basis of the aid granted, the SME and the bank or financial intermediary sign the loan contract; 5) after the investment, which must be carried out within 12 months after the signature of the loan contract, the Ministry pays the aid in six separate instalments over a period of six years.

(10) The aid granted, calculated on the basis of a percentage of 2.75 % of the loan granted (or 3.575 % for investments in digital technology) for each of the five years of standard duration, is capped within the aid intensity limits laid down in Article 17 of the GBER at 20% of the eligible costs for the micro and small enterprises and 10% for the medium-sized enterprises.

(11) The measure provides for a formal verification of the eligibility requirements for the beneficiaries. The aid is granted following an assessment of the following conditions: (i) whether the beneficiary belongs to the small and medium-sized enterprise category; (ii) whether ordinary financing has been granted by a bank or financial intermediary; (iii) whether the investment relates to a sector eligible under the measure. For the purposes of obtaining a guarantee from the Guarantee Fund, the eligibility requirements laid down by the Fund are checked as part of its own procedures.

(12) As regards potential negative effects of the aid scheme, in certain geographical areas the scheme under evaluation co-exists with the tax credit scheme for regional investment aid in Southern Italy registered as SA.45184 (2016/X) which could, in theory, have a negative impact on its effectiveness. However, examination of the two schemes would appear to show profound differences in their objectives and methods of implementation, meaning that the two measures do not simply overlap (in the regions of southern Italy only), but can be

[4] As of 1 January 2008, Istat (the Italian National Statistic Institute) adopted the classification of economic activities Ateco 2007, which is the national version of the European NACE Rev. 2 Nomenclature.

[5] As provided for in Article 1 of the GBER.

considered complementary. Additionally, at least in theory, the aid scheme could generate unforeseen distortions between sectors of economic activity.

2.2. Evaluation questions and result indicators

(13) The notified plan explains the issues to be addressed by the evaluation.

(14) The evaluation questions address both the direct impact and incentive effect of the aid on the beneficiaries and the scheme's indirect impact (in terms of both positive and negative externalities). The result indicators are linked to the evaluation questions and to the objectives of the scheme.

(15) The direct impact of the aid on the beneficiaries will be addressed by the evaluation questions on the level of investment (tangible and intangible fixed assets), on the level of productivity and on the ability of SMEs to access loans.

(16) With regard to the evaluation questions on the direct effects, the following result indicators will be used: (1) amount of investment in tangible and intangible fixed assets; (2) change in production costs; (3) rate of growth in sales to headcount ratio; (4) average interest rate on debt; (5) total bank debt/equity (6) short-term bank debt/long-term bank debt.

(17) The indirect impacts of the aid scheme (so called "second round" effects) will be captured by studying the performance of the supported companies in terms of enhancing their business performance, the probability of survival, incremental job creation and capacity to innovate. Moreover, the additional effect of the aid scheme will be evaluated by taking the geographical location of the beneficiaries into consideration.

(18) With regard to the evaluation questions on the indirect effects, the following result indicators will be used: (1) return on assets (ROA); (2) return on equity (ROE); (3) return on investment (ROI) (4) added value/turnover (5) probability of survival of beneficiary undertakings relative to non-beneficiary undertakings (6) number of employees; (7) number of patents.

(19) The evaluation will also check for the presence of possible negative effects by reflecting on the coexistence in certain geographical areas of the tax credit scheme for regional investment aid in Southern Italy and on distorting sectoral effects on businesses that do not benefit from the scheme.

(20) Further, the scheme will also consider the distribution of beneficiaries across different economic sectors and whether the impact of the scheme varies across this dimension.

(21) The evaluation plan specifies that the evaluation will consider the proportionality and appropriateness of the aid scheme, in terms of both resources allocated in relation to real market needs, and aid intensity. A last point which the evaluation will cover is how the capacity of the aid to generate additional effects varies according to the differing nature of the investments made (i.e. digital economy).

2.3. Envisaged methodology to conduct the evaluation

(22) The Italian authorities intend to take advantage of quantitative methods to assess the impact of the aid, using both a descriptive and counterfactual analysis. Given the nature of the aid to be measured and the availability of the data, the Italian authorities claim that they will employ the most robust methodology at hand.

(23) Both the direct and indirect causal impact of the aid scheme on the beneficiaries will be identified by employing econometric methods, more specifically a regression analysis of the type "matching - Difference-in-Differences". Using the data selected from the databases mentioned in section 2.4, a robust control group (of non-beneficiaries) will be built.

(24) The selection of the control group will be made using matching techniques. The matching will be performed using different variables observed in the pre-treatment period. It will be carried out using the "nearest neighbour" method on the basis of control variables such as data from the balance sheet (e.g. value-added/turnover, profitability), data on the characteristics and status of companies (e.g. information on the size, sector, location of the company) and financial data (e.g. debt/equity and debt/turnover ratios). The matching algorithm will focus on tracing variables that capture the level and the trend of investments in the period preceding the introduction of the aid measure.

(25) In this setting the *Difference-in-Differences* strategy is the one that, exploiting the longitudinal nature of the data available, is more robust to the presence of unobservable differences between companies benefitting from aid and companies belonging to the control group, provided that these differences remain constant over time. Nonetheless, Italy explains that the estimates will be subject to robustness checks, including placebo tests, use of alternative control groups and analysis of the trends in order to assess any shortcomings in the assumptions underlying the "matching - Difference-in-Differences" method.

(26) As an additional approach, the Italian authorities also plan to implement the *Regression Discontinuity Design* method, in order to estimate the effects generated by the scheme. This methodology will exploit the discontinuity related to the definition of SMEs (as larger firms are not eligible for the scheme). In particular, the analysis would be concentrated on the following discontinuity thresholds ("soglie di discontinuità"): (i) discontinuity between medium and large companies (to estimate the impact of the scheme on beneficiaries); (ii) discontinuity between medium and small companies (to estimate the impact of the variation in aid intensity); (iii) discontinuity generated by the interoperability of the scheme with the Guarantee Fund for SMEs.

(27) The Italian authorities propose the option to supplement the above mentioned counterfactual analysis with a *theory-based methodology* which aims to assess the additional effect brought about by the policy as a whole by reconstructing the causal chain of events to which the scheme has given rise. Rather than basing itself on statistical/econometrical estimates, this method aims to explain the attainment of a particular outcome through the tracing, identification and reporting of the causal process underlying the implementation of the policy. The

information to be used would come from alternative sources, such as questionnaires.

2.4. Data collection requirements

(28) In order to implement the proposed methodology, the following databases will be employed and matched:

a) Databases of Italian limited companies ("società di capitali") (i.e. Cerved, Aida, Istat): contain balance sheet information for all Italian limited companies;

b) Database of the entity managing the measure for the data collection concerning the beneficiaries;

c) Databases of Chambers of Commerce.

(29) In particular, detailed information on the beneficiaries will be collected, such as on the nature and dimension of the company, on the investment projects, the overall and eligible costs, the level of guarantee granted on the loan, the interest rate applying to the loan, the scores achieved for access to the Guarantee Fund for SMEs and financial statements.

(30) On the other hand, the databases of Italian limited companies will allow to collect the data for the control group.

(31) For all databases, the information contained is available at the individual level and is annually updated.

(32) The Italian authorities state that dedicated questionnaires could also be used to obtain information in case it could not be obtained from the official information sources cited above.

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

(33) The limited time frame to implement the evaluation plan will allow for the evaluation of the impact solely with reference to two years: 2015 and 2016. The data collection will be followed by the analysis of the data collected and the production of an intermediate report containing a theoretical analysis on the theory of change produced by the scheme and monitoring the state of implementation of the scheme. This intermediate report will be available by April 2018. A final report will be submitted to the Commission by 31 December 2018.

(34) However, after the submission of the final report, the Italian authorities commit to conduct evaluation exercises with reference to the remaining two years 2017 and 2018.

2.6. Independent body selection to conduct the evaluation, or criteria for its selection

(35) The evaluation body will be selected in accordance with national legislation, Public Procurement Code – Legislative Decree No 50/2016, and EU legislation on the procurement of works, services and supplies. The procurement procedure, which can also be carried out through approved technical services providers ("società di assistenza tecnica convenzionate"), is expected to take some four to five months. The award of the contract to an evaluation body will be based on the technical quality and financial conditions of the bids submitted by September 2017.

(36) In accordance with the provisions in Article 42 of the Public Procurement Code (Legislative Decree No 50/2016), the tender will prevent possible conflicts of interest in the award procedure so as to avoid any distortion of competition and to ensure equal treatment for all bidders.

(37) For the purpose of ensuring the quality and reliability of the evaluation, the body selected will be functionally independent both of the Ministry of Economic Development, which grants the aid, and any entities contracted by the Ministry to provide technical assistance in the management of the aid scheme.

(38) The suitability and skill criteria for the entities invited to take part in the procedure outlined above must include: (i) proven experience in the field of evaluating public policies and national/regional operating programmes, particularly in the area of aid to businesses, demonstrated by a list of services provided in the field over the previous five years; (ii) proven experience in economic-statistical analysis and applied research, demonstrated by a list of services provided in the field over the previous five years; (iii) suitable capacity for the management and processing of data.

(39) Those entities invited to take part in the procurement procedure will be asked to put together a suitable evaluation team with proven experience in the evaluation of public policies and specific skills in economic and statistical/econometric analysis. The skills and experience criteria, along with a breakdown of the responsibilities of team members will be specified over the course of the procurement procedure in order to ensure quality, timeliness and coordination in the evaluation activities.

2.7. Modalities for ensuring the publicity of the evaluation

(40) The outcome of the evaluation of the aid scheme will be made public on the Ministry of Economic Development's website[6]. It may also be published subsequently in other forms, as specific contributions on the findings of the evaluation exercise included in periodicals produced by the Ministry of Economic Development, such as the Report on support measures for economic and productive activities.

[6] http://www.sviluppoeconomico.gov.it/index.php/it/

(41) In addition, the involvement of stakeholders of the scheme will be ensured by the organization of technical panels and other events.

(42) The evaluation results will constitute a solid background for assessing future aid schemes ex ante at national and regional levels. The Ministry of Economic Development will make use of them to highlight potential improvements to consider when developing similar aid measures or a follow-up to the aid scheme.

(43) The collected data will remain at the disposal of the Ministry of Economic Development for future studies and consideration in greater depth. Such data may be made available on request to academic institutions or other authorities granting aid to businesses in order to ensure that the impact of such aid can be measured in a similar and consistent manner.

3. ASSESSMENT OF THE EVALUATION PLAN

(44) The correct application of the GBER is the responsibility of the Member State. The present decision on the evaluation plan does not assess whether the aid scheme to be evaluated was put into effect by the Member State in full respect of all applicable provisions of the GBER. It does therefore neither create legitimate expectations, nor does it prejudge the position the Commission might take regarding the conformity of the aid scheme with the GBER when monitoring it, or assessing complaints against individual aid granted under it.

(45) Pursuant to Article 1(2)(a) GBER, only aid schemes[7] in the meaning of Article 2(15) GBER, if their average annual State aid budget exceeds EUR 150 million, should be made subject to evaluation. The Commission notes that the annual average budget of the aid scheme concerned (i.e. EUR 217.5 million) exceeds EUR 150 million as set in Article 1(2)(a) GBER. Chapter I and section 1 (Article 13), section 4 (Article 28) and section 5 (Article 31) of Chapter III of the GBER constitute the legal basis for the aid scheme to benefit from the exemption from notification provided for in Article 108(3) of the TFEU.

(46) As the Commission explained in recital 8 of the GBER, the evaluation of large schemes is required *"[I]n view of the greater potential impact of large schemes on trade and competition"*. The required *"[E]valuation should aim at verifying whether the assumptions and conditions underlying the compatibility of the scheme have been achieved, as well as the effectiveness of the aid measure in the light of its general and specific objectives and should provide indications on the impact of the scheme on competition and trade."* State aid evaluation should in particular allow the direct incentive effect of the aid on the beneficiary to be assessed (i.e. whether the aid has caused the beneficiary to take a different course of action, and how significant the impact of the aid has been). It should also provide an indication of the general positive and negative effects of the aid scheme on the attainment of the desired policy objective and on competition and

[7] Schemes under Sections 1 (with the exception of Article 15), 2, 3, 4, 7 (with the exception of Article 44), and 10 of Chapter III of this Regulation (Article 1(2)(a) GBER). 'Aid scheme' means any act on the basis of which, without further implementing measures being required, individual aid awards may be made to undertakings defined within the act in a general and abstract manner and any act on the basis of which aid which is not linked to a specific project may be granted to one or several undertakings for an indefinite period of time and/or for an indefinite amount (Article 2(15) GBER).

trade, and could examine the proportionality and appropriateness of the chosen aid instrument.[8]

(47) In the light of these considerations, Article 2(16) of the GBER defines as evaluation *plan "a document containing at least the following minimum elements: the objectives of the aid scheme to be evaluated, the evaluation questions, the result indicators, the envisaged methodology to conduct the evaluation, the data collection requirements, the proposed timing of the evaluation including the date of submission of the final evaluation report, the description of the independent body conducting the evaluation or the criteria that will be used for its selection and the modalities for ensuring the publicity of the evaluation."*[9]

(48) The Commission considers that, as described in section 2 of this decision, the notified evaluation plan contains these minimum elements outlined in Article 2(16) of the GBER.

(49) The evaluation plan gives a concise description of the key objectives of the scheme concerned and provides sufficient information to understand the underlying "intervention logic". The scope of the evaluation is defined in an appropriate way.

(50) The evaluation questions are designed in a way as to assess the direct effect of the scheme on the beneficiaries compared to non-beneficiaries in order to measure the incentive effect of the scheme. The evaluation questions addressing indirect impact are linked to the specificities of the aid scheme, both in terms of objectives and aid instruments. The Commission notes that the evaluation plan includes also suitable analyses focused on the presence of possible negative effects and on proportionality and adequacy.

(51) The evaluation plan identifies and justifies result indicators that integrate the evaluation questions for the aid scheme concerned, and explains the data collection requirements and availabilities necessary in this context. The data sources to be used for the evaluation are described clearly and in detail. The Commission notes that the evaluation body will be able to take advantage of several different databases, gathering a more complete set of information.

(52) The evaluation plan sets out and explains the main methods that will be used in order to identify the impacts of the scheme, and discusses why these methods are likely to be appropriate for the scheme in question. The proposed evaluation methodology sufficiently allows identifying the likely causal impact of the scheme itself.

(53) The proposed timeline of the evaluation is reasonable in view of the characteristics of the scheme concerned and the relevant implementation periods for projects supported under the scheme.

(54) The proposed criteria for the selection of the evaluation body on the basis of an open tender meet the independence and skills criteria.

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8 See Staff Working Document referred to in footnote 2 above.

9 Further guidance is given in the Staff Working Document referred to in footnote 2 above.

(55) The proposed modalities for the publication of the evaluation results are appropriate and ensure transparency. In particular, the Commission takes note of the commitment to disseminate and make publicly available the results of the evaluation report to stimulate policy debate.

(56) In view of the above, the Commission considers that the evaluation plan meets all requirements laid down in the GBER, is established in line with the common methodology proposed in the Staff Working Document, and is suitable given the specificities of the large aid scheme to be evaluated.

(57) The Commission notes the commitment made by the Italian authorities to conduct the evaluation according to the plan described in the present decision and to inform the Commission of any element that might seriously compromise the implementation of the plan. The Commission also notes the commitment by the Italian authorities to fulfil the obligation to submit the final evaluation report for the years 2015 and 2016 by 31 December 2018 (preceded by an intermediate report to be available by April 2018) and to further conduct evaluation exercises with reference to the two remaining years 2017 and 2018.

(58) Therefore, pursuant to Article 1(2)(a) of the GBER, the Commission decides that the exemption for the aid scheme for which the evaluation plan was submitted is prolonged beyond the initial six months until 31 December 2018.

(59) Alterations to this scheme, other than modifications which cannot affect the compatibility of the scheme under the GBER or cannot significantly affect the content of the approved evaluation plan, are, pursuant to Article 1(2)(b) of the GBER, excluded from the scope of the GBER, and must therefore be notified to the Commission.

4. CONCLUSION

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

– Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty will continue to apply to the aid scheme until 31 December 2018.

– This Decision will be published.

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

Your request should be sent electronically to the following address:

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Yours faithfully
For the Commission

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