EUROPEAN COMMISSION

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Subject: State Aid SA.45184 (2016/N) – Italy - Evaluation plan of the tax credit scheme for regional investment aid in Southern Italy

Sir,

1. PROCEDURE

(1) By electronic notification of 20 April 2016, 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 tax credit scheme for regional investment aid in Southern Italy (hereinafter: "the aid scheme"), which it plans to implement until the end of 2019. This submission was registered as SA.45184 (2016/X).

(2) The aid scheme was put into effect on 24 March 2016 pursuant to Article 1(2)(a) concerning the scope of application of the GBER and Chapter III, Section 1, of the same regulation - concerning regional investment aid.

(3) The aid scheme, with an average annual budget exceeding EUR 150 million constitutes 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

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

S.E. On. PAOLO GENTILONI
Ministro degli Affari esteri e della Cooperazione Internazionale
P.le della Farnesina 1
I - 00194 Roma

their entry into force, unless a longer period of exemption is authorised by the Commission following the assessment of an evaluation plan for the scheme to be notified by the Member State concerned.

(4) In order to obtain that prolongation, Italy notified an evaluation plan for the scheme on 3 May 2016, registered by the Commission on the same day as State aid case number SA.45184 (2016/N). By letter of 6 June 2016 the Commission asked for supplementary information. A meeting between the Italian authorities and the Commission services took place on 28 June 2016. On 5 August 2016 Italy provided the requested information by submitting a substantially 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 maximum annual budget of the scheme is EUR 617 million. The proposed duration of the aid scheme is from 1 January 2016 to 31 December 2019. Detailed principles for granting public aid within the framework of the scheme are specified in Article 1, comma 98 of Law No 208 of 28 December 2015 [3] and in the Application form for the tax credit (adopted by the Italian Tax Agency on 24 March 2016) [4].

(7) The scheme provides regional investment aid in certain assisted areas in Italy included in the Italian Regional Aid Map 2014-2020 [5] fulfilling the conditions of Article 107(3)(a) and 107(3)(c) TFEU [6]. The projects to be supported under these objectives must consist in initial investments in new assets, as defined in Article 2(49) of the GBER.

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

3 Law 28 December 2015, n. 208 "*Disposizioni per la formazione del bilancio annuale pluriennale dello Stato (legge di stabilità 2016)*". Published in the Gazzetta Ufficiale della Repubblica Italiana, Supplemento ordinario n. 302 del 30 dicembre 2015 - Serie generale.

4 *Provvedimento di approvazione del modello di comunicazione per la fruizione del credito 'imposta per gli investimenti nel mezzogiorno*, Prot. N. 45080 dell'Agenzia delle Entrate, Roma, 24.03.2016, published on the web site: http://www.agenziaentrate.gov.it/wps/portal/entrate/home

5 Commission decision of 16 September 2014 on State aid case SA.38930 (2014/N) - Regional State aid map for Italy 2014-2020 - OJ C 369, 17.10.2014, p. 6.

6 As provided for in Article 14(3) of the GBER.

(8) According to the Italian authorities, the main focus of the scheme is the stimulation of investment activity in new assets in structurally weaker regions. The scheme applies only to assisted areas in Southern Italy that, according to Article 107(3)(a) and 107(3)(c) of the TFUE, are disadvantaged in a significant manner in terms of GDP and unemployment rate in the regions Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardegna and Sicilia[7]. The main idea behind this support measure to undertakings is to bridge the growth and development gap between these regions and the rest of the country. The specific objective of the scheme is to increase the investment in new instrumental assets, with secondary goals concerning labour demand and productivity growth.

(9) At the beneficiary level, the following impacts are expected:

a) Increase in investments;

b) Increase in the capitalization and development of the undertakings;

c) Increase in productivity;

d) Increase in labour demand.

(10) Financial support is given to investments in all sectors eligible within the scope of the GBER[8]. The following sectors are excluded: Finance, Credit and Insurance, Steel and Coal, Shipbuilding, Synthetic Fibres, Transport, Energy Generation and Distribution.

(11) The scheme provides support to undertakings of all sizes: however, maximum aid intensity differs among sizes. Hence, for each investment project they implement, small enterprises are bound to receive at most 20% of maximum EUR 1.5 million of eligible costs, medium sized enterprises 15% of maximum EUR 5 million and large enterprises 10% of maximum EUR 15 million. In practice, the aid element is capped to take account of the maximum aid intensities according to the Italian Regional Aid Map 2014-2020[9].

(12) The aid scheme is planned to be co-financed by European and National resources of the National Operational Programme ("Programma Operativo Nazionale") "*Imprese e Competitività 2014-2020*" and the Regional Operational Programmes for the period 2014-2020. The remaining part weighs on the national budget. The support takes the form of a tax credit calculated on the basis of the cost of acquired assets.

(13) There is no selection of beneficiaries: due to its fiscal nature, the aid is granted automatically, requiring only a formal application via an electronic form called "*Creditoinvestimentisud*" available on the web site of the Tax Agency[10], without prejudice to the application of ESIF rules by Managing Authorities on beneficiaries that may receive co-financing by ESI funds.

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[7] As identified in the Regional State aid map for Italy 2014-2020, see footnote 6.

[8] As provided for in Articles 13 and 14 of the GBER.

[9] See footnote 6.

[10] www.agenziaentrate.it

(14) The Italian authorities do not expect significant negative effects of the aid scheme on the domestic market.

2.2. Evaluation questions and result indicators

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

(16) 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.

(17) The direct impact of the aid on the beneficiaries will be addressed by the evaluation questions on the increase in investments by the beneficiaries. Moreover, specific attention will be paid to the effects on investments in innovative technologies (R&D, patents and immaterial assets).

(18) With regard to the evaluation questions on the direct effects, the following result indicators will be used: (1) investment growth rate; (2) variation in expenses in R&D / patents.

(19) 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 increased employment, performance and productivity. In addition, the evaluation will investigate the potential effect of the policy on the relationship between banks and enterprises, also taking into account changes in the cost of capital; furthermore, the indirect effects on the beneficiaries' competitors, such as possible displacement effects in local markets or differential effects for different sectors, will be analysed.

(20) With regard to the evaluation questions on the indirect effects, the following result indicators will be used: (1) growth rate of the number of employees, (2) growth rate of the value added per employee ratio, (3) variation in the stock of loans ("*tasso di variazione del credito*").

(21) The evaluation plan specifies that the Bank of Italy will also perform an analysis of the relationship between the fiscal costs and additional investments spurred by the aid, to assess the proportionality of the aid measure, including possible non-linear effects. Moreover, a qualitative analysis of the adequacy of the measure will be executed, through a direct comparison with other state aid measures implemented, in the recent past, in similar contexts. The main focus of this analysis will be on the differences of the effects between automatic aid instruments – like the tax credit – and other instruments where the policy maker selects beneficiaries based on eligibility criteria.

(22) Lastly, the Bank of Italy will also address questions on the heterogeneity of the effects of the aid measure with respect to the size of the beneficiary.

2.3. Envisaged methodology to conduct the evaluation

(23) The Italian authorities intend to take advantage of quantitative methods (i.e. counterfactual analysis) to assess the impact of the aid. 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.

(24) 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 will be built.

(25) 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. The procedure will use anagraphic variables (e.g. information on the sector, location and age of the firm), balance sheet variables (e.g. revenues, profitability ratios) and bank information. 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. Italy informs that the matching procedure will likely be performed in two steps:

a) *Exact matching* on sectorial and dimensional variables;

b) *Nearest neighbour(s) matching* on other qualitative variables.

(26) 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 firms benefitting from aid and firms belonging to the control group, provided that these differences remain constant over time (parallel trend assumption). Nonetheless, Italy explains that the estimates will be subject to robustness checks, including placebo regressions, tests on the parallel trend assumption and the use of alternative control groups.

(27) The Italian authorities plan also to implement *Geographic Regression Discontinuity* methods, particularly suited to address questions on the indirect effects of the aid measure on the beneficiaries' competitors. In this case, the Bank of Italy would exploit the fact that in some regions – specifically, Molise, Sardegna and Abruzzo – the measure will be made available only in some areas, as well as the fact that neighbouring regions – unaffected by the aid measure – may display similar economic characteristics. The aforementioned features of the scheme would theoretically create the kind of discontinuity necessary to implement this econometric technique. However, the use of this method will be conditional on the availability of a sufficiently large number of firms belonging to the control group in the "neighbouring" areas, as well as on the successful outcome of appropriate "local randomness" tests.

2.4. Data collection requirements

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

a) Database of Italian undertakings: integrates the information from the tax declaration, the related F24 and 770 forms, and the expenditure register ("archivio dello spesometro"). This database refers to all Italian firms.

b) Database of Italian limited companies ("società di capitali"): contains balance sheet information for all Italian limited companies.

c) Database of communication forms for the fruition of the tax credit;

d) Database of the Central Credit Register of the Bank of Italy ("Centrale dei Rischi").

(29) In particular, the Database of communication forms for the fruition of the tax credit contains detailed information on the beneficiaries, such as on the nature and dimension of the undertaking, on the investment projects, on the production plants and on the total costs of the assets the aid is based on.

(30) On the other hand, the database of Italian limited companies will allow information on the level and type of investment to be available both for the beneficiaries and 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 explain that the use of different databases, with diverse information, will improve results compared to previous evaluation plans.

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

(33) The Italian authorities have divided the evaluation plan into two phases. Each of them will be made up of three elements: a moment of data collection, followed by the analysis of the data collected and the production of a report.

(34) The first phase is related to the periods 2016-2017, and its report will be delivered by the Bank of Italy to the Italian authorities by 30 June 2019.

(35) The second phase, mirroring the first but referring to the period 2018-2019, will see the final report delivered by 30 June 2021. The final report will also include the evaluation of the overall effects of the program over the course of the period 2016-2019.

(36) The intermediate report will be handed to the Commission by 31 December 2019. Due to its partial and "in itinere" nature, no publicity will be made of this intermediate report, neither by the Commission nor by the Italian authorities.

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

(37) The evaluation will be conducted by a team of economists with experience in the field of public policy evaluation of the Department of Economics and Statistics of the Bank of Italy.

(38) The functional and governance structure of the Bank of Italy reflects the need to shield it from external influence, and the Italian authorities explain that the national and European laws guarantee the necessary autonomy to perform its

duties. In turn, the Bank of Italy is subject to stringent requirements in terms of transparency and publicity. Moreover, the Bank of Italy has often been involved in ex-post evaluation of public policies, advocating for the need of counterfactual-based evaluations.

(39) The researchers involved in the evaluation will perform the necessary analysis in the scope of their usual economic research, without needing additional funding.

2.7. Modalities for ensuring the publicity of the evaluation

(40) The content of the final evaluation report will be published as a Working Paper of the Bank of Italy. Moreover, there is the eventuality that the researchers may submit the report for external publishing in a scientific journal.

(41) In addition, the involvement of stakeholders of the scheme will be ensured by the organization of seminars and technical meetings.

(42) Data collected for the evaluation, shall be used for other studies and analyses, according to national law. The Italian authorities confirm that the evaluation plan itself is not intended to contain confidential information.

3. ASSESSMENT OF THE EVALUATION PLAN

(43) 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.

(44) Pursuant to Article 1(2)(a) GBER, certain aid schemes[11] 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 617 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.

(45) 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

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[11] 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).

light of its general and specific objectives and should provide indications on the impact of the scheme on competition and trade." State aid evaluation should in particular allow the direct incentive effect of the aid on the beneficiary to be assessed (i.e. whether the aid has caused the beneficiary to take a different course of action, and how significant the impact of the aid has been). It should also provide an indication of the general positive and negative effects of the aid scheme on the attainment of the desired policy objective and on competition and trade, and could examine the proportionality and appropriateness of the chosen aid instrument.[12]

(46) 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."[13]

(47) 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.

(48) 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.

(49) 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 performance of beneficiaries' competitors and on proportionality and adequacy.

(50) 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 Bank of Italy will be able to take advantage of several different databases, gathering a more complete set of information.

(51) 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.

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[12] See Staff Working Document referred to in footnote 2 above.

[13] Further guidance is given in the Staff Working Document referred to in footnote 2 above.

(52) 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.

(53) The proposed choice of the Bank of Italy as the evaluation body meets the independence and skills criteria, given the nature, status and experience of the organization in performing similar analyses.

(54) The proposed modalities for the publication of the evaluation results as from 2021 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.

(55) 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.

(56) 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 partial evaluation report by 31 December 2019.

(57) 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 2019.

(58) 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

(59) 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 2019.

- This Decision will be published.

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Your request should be sent electronically to the following address:
European Commission,
Directorate-General Competition
State Aid Registry
B-1049 Brussels

Belgium
Stateaidgreffe@ec.europa.eu

Fax No: + 32 2 296 12 42

Yours faithfully
For the Commission

Margrethe VESTAGER
Member of the Commission