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Subject: **State Aid SA. .49781 (2019/EV) – Italy**
Evaluation plan for large R&D&I aid scheme under the Fund for Sustainable Growth

Excellency,

1. PROCEDURE

(1) By electronic notification of 7 December 2017, 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 "*Intervento del fondo per la crescita sostenibile a favore di progetti di ricerca e sviluppo realizzati nell'ambito di accordi sottoscritti dal Ministero dello sviluppo economico con le regioni e le altre amministrazioni pubbliche*" (hereinafter: "the aid scheme"), which it plans to implement until the end of 2020. This submission was registered as SA.49781. The aid scheme is a modification of previous scheme SA.42139 (registered on 12 June 2015), and was further modified by scheme SA.51604 (registered on 12 July 2018) and scheme SA.53634 (registered on 5 March 2019).

(2) The aid scheme was initially put into effect, as SA.42139, on 14 April 2015 pursuant to Chapter III, Section 4, of the GBER concerning aid for research and development and innovation.

(3) Italy informed the Commission on 4 March 2019 that, due to a budget increase decided in February 2019, the aid scheme's annual average budget over its lifetime would exceed EUR 150 million in 2020 and therefore the aid scheme would become a large scheme in the meaning of Article 1(2)(a) of the GBER.

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

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(4) In order to comply with its obligations under the GBER, Italy notified a draft evaluation plan, still to be completed, for the scheme on 4 March 2019, registered by the Commission as State aid case number SA.49781 (2019/EV). By email of 24 June 2019, the Commission asked for supplementary information. A telephone conference between the Italian authorities and the Commission services took place on 18 September 2019. On 1 October 2019, Italy notified a complete 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 evaluation 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 annual average budget of the scheme is EUR 165 million. The proposed duration of the aid scheme is from 14 April 2015 to 31 December 2020.

(7) According to the Italian authorities, the main focus of the aid scheme is to promote the implementation of R&D&I projects of strategic importance for the revitalisation of the competitiveness of the Italian productive system. The aid scheme will be implemented through a negotiation process aiming at the conclusion of "Innovation Agreements" between the Ministry of Economic Development, the Regions and the public administrations concerned as well as the undertakings in question. The "Innovation Agreements" aim to provide an incentive for small, medium-sized and large enterprises to invest in the development of new products, services and processes or the significant improvement of existing products, services and processes through the development of technologies set out under the EU's Horizon 2020 Programme[3], the European strategy for KETs[4] and in accordance with the policy areas identified in the National Smart Specialisation Strategy[5].

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

[3] Communication COM (2011) 808 final.

[4] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — COM (2012) 341 final.

[5] EU Cohesion Policy 2014-2020 contributes to the implementation of the Europe 2020 Strategy, translating priorities into concrete development efforts at local and regional level. To this end, the European Commission (EU Regulation 1303/2013) established that national and regional authorities develop research and innovation strategies for smart specialisation, to allow for a more efficient use of the Structural Funds and to increase synergies between different EU, national and regional policies. On 12 April 2016, the European Commission approved the Italian strategy for smart specialisation http://www.agenziacoesione.gov.it/opencms/export/sites/dps/it/documentazione/politiche_e_attivita/Programmazione_2014_2020/Strategie/Strategia_Nazionale_di_Specializzazione_Intelligente_Italia.pdf.

(8) At the beneficiary level, the following outcomes are expected:

a) Increase in private spending in R&D&I;

b) Increase of the transfer of skills and knowledge through the promotion of business partnerships and partnerships with research organisations and universities;

c) Encouragement of innovation in specific sectors of the economy;

d) Increase of national and international competitiveness, including through access to new geographic and product/service markets;

e) Improvement of company performance.

(9) The aid scheme provides support to undertakings of all sizes. The aid is granted up to the maximum aid intensities laid down in Article 25 of Regulation (EC) No 651/2014. Implementing measures may provide for dedicated ceilings for the promotion of R&D&I projects in the “more developed”, “less developed” and “transition” regions or for the co-financing of the projects of Italian companies selected in the calls issued by the ECSEL Joint Undertaking established in accordance with Council Regulation (EU) No 561/2014 of 6 May 2014, published in the Official Journal of the European Union L 169 of 7 June 2014.

(10) The aid scheme is planned to be co-financed by National resources from the Sustainable Growth Fund[6] and by means of European and national regional policies, i.e. the resources of the ERDF National Operational Programme “Enterprises and Competitiveness” (NOP) and the Action and Cohesion Plan.

(11) The selection of projects shall be carried out through two phases: (i) a negotiation phase and (ii) an evaluation of the final R&D&I projects.

(12) According to the Italian authorities, there are no specific constraints or risks that might affect the implementation of the scheme, its expected impacts and the achievement of its objectives apart from general risks such as those related to the economic cycle and its impact on markets and investments.

2.2. Evaluation questions and result indicators

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

(14) The evaluation questions address both the incentive effect of the aid on the beneficiaries and the scheme's indirect effects (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 effects of the aid on the beneficiaries will be addressed by the evaluation questions on (1) the increase in investments in research activities by the beneficiaries, (2) the improvement of the beneficiaries’ innovation capacity, (3) effects in terms of productivity, (4) the improvement of the beneficiaries’

[6] The Sustainable Growth Fund, established by Article 23 of Legislative Decree No 83 of 22 June 2012, is governed by the Decree of the Minister for Economic Development of 8 March 2013 setting out the priorities, forms and maximum aid intensities of aid granted by the Fund.

competitive performance (5) the effect on the beneficiaries' profitability; (6) the effects on employment. Moreover, the evaluation questions may include insights into the presence of any differentiated effects depending on the use of ceilings, co-financing and/or thresholds of different intensities on the basis of the territory, nature or subject size.

(16) With regard to the evaluation questions on the direct effects, the following result indicators will be used, among others: (1) incremental expenditure on R&D&I compared to the turnover; (2) variation in number of patents and/or intangible assets; (3) variation in production costs; (4) turnover from exports; (5) returns on investments; (6) number and type of workers.

(17) The indirect effects of the aid scheme (so called "*second round*" effects) will be captured by studying (1) the ability of beneficiaries to gain access to external sources of financing, (2) the survival rates of the beneficiaries, and (3) positive external effects on economic actors operating in the adjacent areas of the beneficiaries, as well as (4) the appropriateness and proportionality of the scheme.

(18) With regard to the evaluation questions on the indirect effects, the following result indicators will be used among others: (1) Amount of short- and long-term debt to banks; (2) Probability of survival of the beneficiaries compared to non-beneficiaries (3) - Increase of the innovative capacity of the companies located in the territory concerned; (4) relationship between the expenditures and the results.

2.3. Envisaged methodology to conduct the evaluation

(19) The Italian authorities intend to take advantage of quantitative analysis tests and qualitative analysis through the implementation of *ad hoc* questionnaires based on the theory of change to assess the impact of the aid.

(20) Both the direct and indirect effects of the aid scheme on the beneficiaries will be identified by employing econometric methods, in particular a regression analysis of the type "Matching - Difference-in-Differences" (M-DID).

(21) The selection of the control group will be made using matching techniques. Italy informed 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.

(22) 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).

2.4. Data collection requirements

(23) In order to implement the proposed methodology, the following data will be used:

a) Data on beneficiaries;

b) Investment project data;

c) Data on the assessments on the projects which have granted access to the projects;

d) Qualitative and quantitative data on the business structure and project implementation;

e) Quantitative data for patents which can represent the innovation capacity of Italian companies;

f) Data on the balance sheets of the beneficiary and non-beneficiary undertakings on pre-intervention and post-intervention phases.

(24) Data relating to the affected municipalities regarding municipal extension, number of inhabitants, level of unemployment, number of enterprises. In particular, the information regarding the undertakings will be obtained from the databases of the Chamber of Commerce, the balance sheets for incorporated companies and ISTAT data.

(25) For the primary administrative sources, the information contained is available at the individual level and is regularly updated (monthly, bi-monthly or quarterly). Secondary source information is available on a disaggregated level (by undertaking) on an annual basis and on an aggregated level (by municipality) with annual frequency.

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

(26) The Italian authorities have divided the evaluation plan in two phases due to the situation explained in section 1 of this decision. The evaluation of the first phase will be available before the currently foreseen end of the scheme. An additional evaluation will cover the projects not yet completed in the first phase. 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, as described in sections 2.2 to 2.4 above.

(27) The final report for 2020 will refer to the first phase (period 2015-2019). It will describe the theory of change underlying the scheme and analyse the initial evidence collected, including elements of the impact evaluation of the already completed projects to the extent possible. This report will be delivered to the European Commission by the Italian authorities by 31 October 2020.

(28) The additional report foreseen for the second phase is related to the impact evaluation of the operation of the scheme for the years 2015-2020 and, in respect of disbursements, for the years 2021, 2022 and 2023. The draft additional report will be presented and discussed with all stakeholders at an event by 31 October 2024. The additional report will then be delivered to the European Commission by the Italian authorities by 31 December 2024.

(29) Facing a tight timeframe for the implementation of the evaluation plan for large aid schemes, the Italian authorities consider it essential to prolong the implementation of the evaluation plan until 31 December 2024. In order to fully assess the impact of a scheme supporting R&D&I activities, a methodically demanding approach requires for Italian authorities at least 2-3 years from the finalisation of the aided projects.

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

(30) The evaluation entity or entities will be selected in accordance with national legislation and EU legislation on the procurement of works, services and supplies. The award of the contract to an evaluation body will be based on the technical quality and economic conditions of the tender.

(31) For the purpose of ensuring the quality and reliability of the evaluation, the entities selected will be functionally independent of the Ministry of Economic Development, which grants the aid.

(32) 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) the presence of adequate data management and data processing capacity in the bodies, including the guarantees provided in the EU Regulation 2016/679 (GDPR).

(33) 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.

2.7. Modalities for ensuring the publicity of the evaluation

(34) The results of the evaluation of the aid scheme will be made public on the website of the Ministry of Economic Development and the National Operational Programme for Undertaking and Competitiveness (*PON Impresa e Competitività*).

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

(36) In addition, the involvement of stakeholders of the scheme will be ensured by the organisation of seminars and technical meetings during the evaluation as well as when the final report is published.

(37) The collected data will remain at the disposal of the Ministry of Economic Development for future studies and consideration in greater depth. The 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

(38) 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.

(39) Pursuant to Article 1(2)(a) GBER, certain 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 165 million) exceeds EUR 150 million in 2020 as set in Article 1(2)(a) GBER. Chapter I and section 4 (Article 25) 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.

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

(41) 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]

(42) 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.

(43) The evaluation plan gives a concise description of the key objectives of the scheme concerned and provides sufficient information to understand the

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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).

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.

underlying "intervention logic". The scope of the evaluation is defined in an appropriate way.

(44) 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 effects are linked to the specificities of the aid scheme, in terms of both 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.

(45) 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.

(46) The evaluation plan sets out and explains the main methods that will be used in order to identify the effects 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.

(47) 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.

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

(49) 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.

(50) 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.

(51) 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 report by 31 October 2020 and the additional report by 31 December 2024.

(52) 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 applicable as of the date of notification of this decision to Italy.

(53) 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

(54) The Commission has accordingly decided:

- to exempt the scheme under the GBER from the date of notification of this decision to Italy until 31 December 2020.

- to publish this decision on the Internet site of the Commission.

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

Margrethe VESTAGER
Executive Vice-President