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Subject: State Aid SA.101250 (2022/EV) – Italy
Evaluation plan of the aid scheme for large investment projects "Contratti di Sviluppo"

Excellency,

1. PROCEDURE

(1) By electronic notification of 23 December 2021, Italy submitted a summary information sheet pursuant to Article 11(a) of Commission 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[1] (hereinafter "GBER") on the amendment of the aid scheme "Contratti di Sviluppo" (hereinafter: "the scheme") SA.41081 (2015/X)[2]. With the notified amendment, the estimated yearly budget of the scheme is increased to EUR 528 million and its duration is prolonged until 31 December 2023. Apart from this, there have not been any other amendments to the scheme. This submission was registered by the Commission as SA.101250 (2021/X).

(2) As the Italian authorities considered that the exempted measure, with an estimated annual average budget of EUR 528 million, constitutes a large scheme in the

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

[2] The scheme "*Contratti di Sviluppo*" in its current form has been in place since 30 January 2015. It was amended on 22 May 2017 in case SA.48248 (2017/X) only by increasing the budget from EUR 150 million to EUR 450 million, and on 11 January 2018 in case SA.50064 (2018/X).

Onorevole Luigi Di Maio
Ministro degli Affari esteri e della Cooperazione Internazionale
P.le della Farnesina 1
I - 00194 Roma

meaning of Article 1(2)(a) of the GBER, they notified an evaluation plan on 21 April 2022, registered by the Commission as SA.101250 (2022/EV).

(3) The first evaluation plan for the scheme was submitted to the Commission on 26 May 2017 and approved on 12 October 2017 in the decision SA.48248 (2017/EV)3. On 14 April 2021, Italy submitted the final evaluation report on the period 2015-2020 for case SA.48248. On 28 October 2021, the Commission notified to the Italian authorities the comments to the final evaluation report proposed by the Joint Research Center. Italy submitted an amended final evaluation report on 8 March 2022.

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

(4) As required by Article (2)(16) of the GBER, and in line with best practices[4], 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

(5) According to the Italian authorities, the scheme aims at strengthening the national productive system by attracting new investments and by favouring large investment projects, especially in less developed areas in Southern Italy. The scheme supports investment projects in different economic sectors (industry, tourism, commerce) addressing various policy objectives of relevant public interest (such as innovation, infrastructure and territorial development, environmental protection) in order to foster growth and employment in line with a national industrial innovation development plan (*Piano Industria 4.0*).

(6) The scheme supports investments by undertakings, or networks of undertakings ("*reti di imprese*"), for development programmes (*programmi di sviluppo*) in: (i) industrial activities, (ii) environmental protection activities, and (iii) tourism activities, including, within certain limits, also commercial activities. Supported investment projects may also include RD&I activities linked to the development programme, e.g. for industrial research, experimental projects and innovation of processes and organisation. The scheme has therefore multiple objectives: reinforcing the economic and industrial system, as well as strategic entrepreneurial activities in economically less developed areas, improving the innovation capacity of undertakings, the access to financing, and the promotion of environmental protection. On the latter, the scheme aims at improving sustainability and resource efficiency, e.g. by promoting energy saving and/or the use of renewables.

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3 Commission Decision of 12.10.2017 C(2017) 6836 final, OJ C442, 22.12.2017, p. 6.

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

(7) In assisted areas, public support for investments to undertakings of all sizes is granted under the conditions provided under Article 14 of the GBER. In non-assisted areas, public support for these investment projects is limited to SMEs under Article 17 of the GBER. Aid for RD&I and environmental protection projects is available for all types of undertakings under the conditions provided for in Articles 25, 29, 36, 37, 38, 40 and 47 of the GBER. Aid under the scheme is granted in form of subsidized loans, interest subsidies, and direct grants, also combined.

(8) The aid scheme is managed by the national development agency *Invitalia* under the guidance and control of the Ministry for Economic Development. Potential beneficiaries apply for aid under the scheme to *Invitalia* using the dedicated electronic platform at www.invitalia.it. After having verified the project's and beneficiary's eligibility and the availability of the budget, *Invitalia* consults the concerned regional authority. If the regional authority does not issue a negative opinion, *Invitalia* opens a negotiation with the beneficiary/ies on the technical and financial feasibility of the development programme. In case of positive outcome, the development programme is approved and the aid is granted. The granting act is then subscribed by the participants. Aid is paid out in instalments depending on the advancement of works. The final instalment is paid out after the Ministry has verified the final report of the programme.

(9) The Italian authorities exclude, in principle, the existence of constraints or risks likely to affect the implementation of the aid scheme.

2.2. Evaluation questions and result indicators

(10) The evaluation questions address both the direct and indirect impacts (in terms of both positive and negative externalities) of the scheme. The result indicators are linked to the evaluation questions and to the objectives of the scheme. More specifically, the effects of the scheme will be analysed in terms of:

- direct effects of the measure on beneficiary undertakings, on investments (in tangible and intangible assets), on production efficiency, on employment, and on innovation capacity (patents);
- indirect effects (so-called *second round* effects) on beneficiary undertakings in terms of improving their business performance, likelihood of survival, and access to credit. In addition, the additional effects of the aid scheme will be assessed in view of the geo-location of beneficiaries;
- territorial effects in the municipalities where the beneficiary firms operate, notably in terms of employment and local productive units;
- qualitative and quantitative effects of the development programmes in the tourism sector;
- existence of possible negative effects due to the coexistence of different (alternative) support measures in the same geographic area. Does the scheme lead to unintended distortive sectoral effects or to negative effects on businesses that do not benefit from the aid scheme? Does it lead to crowding out effects on neighbouring municipalities and employment areas?

(11) The evaluation will also take into account issues related to the proportionality and appropriateness of the aid scheme, both in terms of volume of resources allocated in relation to the real market needs, and in terms of aid intensities; the additionality created by the aid will be analysed in relation to the different nature of investments (i.e. the three different types of supported investments).

2.3. Envisaged methodology to conduct the evaluation

(12) The Italian authorities intend to use qualitative and quantitative methods to assess the impact of the aid, for both a descriptive and counterfactual analysis. Given the nature of the aid to be measured and the expected limited availability of the data, the Italian authorities intend to apply different counterfactual techniques for the evaluation.

(13) Both the direct and indirect causal impact of the aid scheme will be identified by employing econometric methods, more specifically regression analysis of the type "*matching - Difference-in-Differences*" (M-DID) and of "*Regression Discontinuity Design*" (RDD). Using the data mentioned in the following section 2.4, a robust control group (of non-beneficiaries) will be built.

(14) The selection of the control group will be made using matching techniques. For the identification method based on *matching - Difference-in-Differences* the matching will be performed using different variables observed in the pre-treatment period. It will be carried out using "*nearest neighbour*" methods on the basis of control variables such as data from balance sheets (e.g. value-added/turnover, profitability), data on the characteristics and status of companies (e.g. information on the size, sector, geographic location of the company) and financial data (e.g. debt/equity and debt/turnover ratios).

(15) Once the control group has been selected, the *Difference-in-Differences* method will allow to estimate the effects of the scheme. This technique by exploiting the longitudinal nature of the data available, should allow to account for unobservable differences between companies benefitting from the aid scheme and the (non-beneficiary) companies belonging to the control group, provided that these differences remain constant over time. Italy further explains that estimates will be subject to robustness checks, including the application of the "*geographic nearest neighbour matching*", in order to assess possible shortcomings in the assumptions underlying the method.

(16) 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: (i) the availability of a limited budget for the predecessor scheme in the past programming period, resulting in a group of undertakings which did not benefit of the scheme as the financial resources were exhausted, and in particular analysing those undertakings which did not apply again for aid under the new scheme; and (ii) the different aid intensities for large firms and for SMEs, i.e. exploiting the discontinuity between medium and large companies to estimate the impact of the scheme on beneficiaries.

(17) Moreover, in order to verify the scheme's additional effects also at geographic level, Italy intends to apply the "*Propensity Score Matching*" (PSM) method, using municipalities and local labour systems (*Sistemi Locali del Lavoro*) as

"single analysis units". The aim is to produce an estimate of the differential effect comparing beneficiary and non-beneficiary areas. In this case, the municipality in which a project will be implemented is associated to the closest municipality in terms of geographical distance and of observable features (number of inhabitants, number of enterprises, geographical location, unemployment rate, labour productivity, etc.). The additional effects will therefore be identified taking into account the average differences of each matching. In order to deal with distortions in the selection due to the presence of unobservable characteristics, the evaluation will identify two different control groups, one based on comparable observable characteristics (in terms of number of inhabitants, number of enterprises, geographical location, unemployment rate, labour productivity), and the other based on areas benefitting of the scheme in future.

(18) Concerning the in-depth analysis on projects related to the tourism sector, given their expected limited number, it will be carried out on the basis of case studies, in order to highlight the particularities of those projects and their territorial impact.

(19) Finally, with regard to the assessment of the possible impacts due to the overlap with other aid schemes, the Italian authorities propose to supplement the counterfactual analysis with a theory-based methodology aimed at assessing, through an economic analysis of efficiency and effectiveness, the peculiarities of the scheme's procedures and objectives compared with other aid schemes.

2.4. Data collection requirements

(20) In order to implement the proposed methodologies, multiple information databases (Chambers of Commerce, Istat, balance sheets for incorporated companies) will be used in order to collect the necessary data concerning:

a) Beneficiaries (identification and dimension of the enterprise, legal form, sector of activity, geographic location);

b) Investment projects (total costs, eligible costs, timing and type of project);

c) Balance sheet data of both beneficiaries and non-beneficiaries;

d) Municipalities concerned by the development programmes (extension, number of inhabitants, level of unemployment, number of undertakings, etc.)

(21) Italy declares that this type of information is available at the individual level for undertakings, and at aggregated level for Municipalities, and is annually updated.

(22) 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. Implementation on novelties in the evaluation plan

(23) The notified plan is based on the evaluation plan approved in case SA.48248 (2017/EV).

(24) Given that the notified plan covers a longer period of analysis, it will address the analysis of direct and indirect effects of the measure on a wider sample of beneficiary undertakings.

(25) More specifically, the notified plan will exploit further the panel dimensions of the database (and the different intensity of the treatment) to get more reliable estimates. This approach would allow to:

- control for the evolution of the outcome variable independently by the treatment status, by including time fixed effects;
- control for firm fixed effects (unobservable characteristics specific for each firm that do not vary over time);
- include in the main specification firm-specific linear time trends;
- exploit the staggered take-up of the aid.

(26) Moreover, with the aim to analyse a larger post-treatment period, the notified plan will update the econometric considerations underlying the evaluation and will complete a supplementary number of robustness tests. These tests would namely be:

- replication of the analyses by using a fake treatment year (on the pre-intervention sample only);
- replication of the analyses by including controls at the firm level;
- replication of a pure *Difference-in-Differences* approach on the sample of matched firms;
- provide a graphical inspection of the evolution of the dependent variables used so as to offer a glimpse of whether the common trend assumption holds or not;
- balancing property to validate the GPS exercise.

(27) With a view to carry out a robust analysis of post-treatment effect, the econometric analysis will include also, beyond an integration of the dataset already built and new evidence supporting the reliability of the results, data concerning beneficiaries updated to 2019 (and, if available, to 2020).

(28) Finally, the Italian authorities will conduct a study on the effect of COVID-19 outbreak upon the beneficiaries of the scheme.

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

(29) The Italian authorities will collect data from undertakings that have concluded their investments financed under the measure until 2019 (and, if available, until 2020). In order to increase the critical mass of available data, the data collection

will include information gathered from predecessor schemes[5] and will be followed by an analysis of the collected information and the production of statistical analysis.

(30) The Italian authorities will submit a consolidated evaluation plan by 31 December 2022. The consolidated evaluation plan will integrate the already approved evaluation plan of SA.48248 (2017/EV), the novel analyses proposed for SA.101250 (2022/EV) in section 2.5 above and discuss how the Joint Research Center comments to the final evaluation report of SA.48248 (2017/EV) will be reflected in the final evaluation report of SA.101250 (2022/EV).

(31) An overall evaluation shall be completed, the results of which will be included in the final evaluation report to be submitted to the Commission by 30 June 2023 at the latest.

(32) The evaluation will be carried out by the same entity in charge of the evaluation of SA.48248 (2017/EV).

2.7. Modalities for ensuring the publicity of the evaluation

(33) The outcome of the evaluation of the aid scheme will be made public on the websites of the Agency *Invitalia*, of the National Operational Programme for Undertaking and Competitiveness (*PON Impresa e Competitività*) and of the National Development and Cohesion fund (*Fondo Sviluppo e Coesione*). It may also be published subsequently in other forms, as specific contributions on the findings of the evaluation exercise in publications by the Agency *Invitalia*.

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

(35) The evaluation results will constitute a solid background for assessing ex ante future aid schemes at national and regional levels. The Agency *Invitalia* will inform the Ministry of Economic Development of the outcome of the study, who 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) The collected data will remain at the disposal of the Agency *Invitalia* and 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 NOTIFIED EVALUATION PLAN

(37) 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

[5] See footnote 2 above.

regarding the conformity of the aid scheme with the GBER when monitoring it, or assessing complaints against individual aid granted under it.

(38) Pursuant to Article 1(2)(a) GBER, only aid schemes[6] in the meaning of Article 2(15) GBER, if their average annual State aid budget exceeds EUR 150 million, are subject to evaluation in order to prolong their duration beyond six months after their entry into force. The Commission notes that the annual average budget of the aid scheme concerned for 2022 and 2023 (i.e. EUR 528 million) exceeds EUR 150 million as set in Article 1(2)(a) GBER. Chapter I and section 1 (Articles 14 and 17), section 4 (Articles 25 and 29) and section 7 (Article 36, 37, 38, 40 and 47) 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. However, in the absence of a positive Commission decision on the notifiable evaluation plan, pursuant to the provision in Article 1(2)(b) GBER, the exemption expires six months after the entry into force of the measure, and may continue to apply for a longer period only if the Commission decides to authorise this explicitly by the present decision.

(39) 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.[7]

(40) 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."*[8]

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6 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).

7 See Staff Working Document referred to in footnote 4.

8 Further guidance is given in the Staff Working Document referred to in footnote 4.

(41) 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.

(42) 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 (see recital (4)).

(43) 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 (see recital (10)). The evaluation questions addressing indirect impact are linked to the specificities of the aid scheme, both in terms of objectives and aid instruments (see recital (11)). The Commission notes that the evaluation plan includes also suitable analyses focused on the presence of possible negative effects and on proportionality and appropriateness.

(44) The evaluation plan identifies and justifies result indicators that integrate the evaluation questions for the aid scheme concerned (see recitals (10) to (11)), and explains the data collection requirements and availabilities necessary in this context (see recitals (20) to (22)). 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.

(45) 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 (see recitals (12) to (19)).

(46) 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 (see recitals (29) to (31)).

(47) 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 (see recitals (33) to (36)).

(48) 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.

(49) The Commission notes the commitment made by the Italian authorities to conduct the evaluation according to the plan described in the present decision. The Commission also notes that the Italian authorities will submit a consolidated evaluation plan by 31 December 2022 (see recital (30)) and the final evaluation report by 30 June 2023 (see recital (31)). The Italian authorities are invited to inform the Commission without delay of any element that might seriously compromise the full and timely implementation of the evaluation plan.

(50) Therefore, pursuant to Article 1(2)(a) of the GBER, the Commission decides that the GBER shall continue to apply to the aid scheme for which the evaluation plan was submitted, for a period exceeding the initial six months after the scheme at hand was applied for the first time, until 31 December 2023, and as from the date of the notification of this decision to Italy.

(51) The Commission reminds that alterations to the evaluated 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.

(52) The Commission reminds that the scheme has to be suspended if the final evaluation report is not submitted in good time and sufficient quality.

4. CONCLUSION

The Commission has accordingly decided:

- that the exemption of the aid scheme for which the evaluation plan was submitted, shall continue to apply beyond the initial six-months period, until 31 December 2023.
- 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:

European Commission,
Directorate-General Competition
State Aid Greffe
B-1049 Brussels
Stateaidgreffe@ec.europa.eu

Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President