



EUROPEAN COMMISSION

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Subject: State aid SA.39460 (2014/N) – Germany – Evaluation plan for the block exempted large aid scheme "Bund-Länder-Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur - Gewerbliche Wirtschaft"

Sir,

1. PROCEDURE

- (1) By electronic notification of 4 September 2014 the Federal Republic of Germany 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 Treaty¹ (hereinafter "GBER") on the aid scheme "Improvement of regional economic structure: support to productive investment" (hereinafter: "scheme") which it had put into effect on 3 September 2014 in application of the Article 1 (2) (a) of the GBER (*Scope*) and Article 14 (1) of the GBER (*Regional investment aid*), and which it plans to implement until the end of 2020. This submission (No. 2014/089250) was registered as SA.39460 (2014/X).

¹ 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

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- (2) This State aid scheme has an average annual budget exceeding EUR 585 million, and therefore 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 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. To obtain that prolongation, Germany notified an evaluation plan for the scheme on the same day as the summary information, on 4 September 2014 which was registered by the Commission under SA.39460 (2014/N).
- (3) By communication of 23 October 2014, the German authorities replied to an information request issued by the Commission on 29 September 2014. The notification was also the subject of a meeting which took place on 14 November 2014. Germany submitted the revised version of the evaluation plan on 10 December 2014 (2014/126382). Further requests for information were sent to the German authorities on 17 and 22 December 2014 to which Germany replied by emails of 17 December 2014 and 6 January 2015 and by submissions of 9 January 2015 (2015/001606) and 21 January 2015 (2015/005861).

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

- (4) Following the requirements laid down in Article (2)(16) of the GBER and in line with best practices established by the Commission Staff Working Document on Common methodology for State aid evaluation² (hereinafter: "Staff Working Document"), the German authorities presented in the notified plan its main elements as follows: the description of the objectives of the aid scheme to be evaluated, and the role of the Federal Government and the German *Länder* in the operation of the scheme, the basic principles for promoting the business economy through the scheme, target values for subsidies to the business economy through the scheme, evaluation questions, the result indicators, the envisaged methodologies to be applied by the evaluator, the source data, the proposed timing of the evaluation including the description of the criteria that will be used for the selection of the evaluator, timeline for submission of the final evaluation report, and the modalities for ensuring the publicity of the evaluation.

i) Functioning mechanism and objectives of the aid scheme to be evaluated

- (5) Functioning mechanism of the scheme

The block exempted scheme "Improvement of regional economic structure: support to productive investment" is a central tool in the German regional economic policy which, under the German Constitution, is a shared task of both the Federal level and the

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

Länder. The scheme is designed and financed jointly by the Federal level and the German *Länder*, but it runs under the operational responsibility of the individual *Länder*; the Federal Government has a central coordination function, as described below, whereas the *Länder* have sole competence and responsibility for the scheme implementation, including for prioritising and selecting the projects in their territory. The assisted area and the objectives, principles, priorities and conditions for support are determined in a coordination framework ("Koordinierungsrahmen") adopted by a Committee ("Koordinierungsausschuss") which includes as members representatives of the Federal level and of the individual *Länder* at ministerial level and which is appointed as decision body by law. The provisions of the coordination framework apply nationwide and ensure first that the legal framework for aid is implemented in a binding manner in all *Länder* and second that the competition for funding in Germany is subject to clear rules. The Federal Government's coordination function also includes monitoring and evaluating the support measures under the scheme.

The specific implementation of the scheme is the exclusive responsibility of the *Länder*. *Länder* decide whether to fine-tune the provisions established by the coordination framework and whether to specify certain (factual) priorities for the support. This is generally based on the guidelines ("Richtlinien") issued by the *Länder*, which may only depart from the provisions of the coordination framework insofar as they are more restrictive or, where relevant, they set priorities based on regional requirements. The *Länder* guidelines are frequently adjusted to reflect amended framework conditions. The Federal Government only controls whether the *Länder* guidelines do not exceed the room for manoeuvre given in the coordination framework. Some *Länder* do not issue their own guidelines and provide support based solely on the coordination framework. In view of this the evaluation to the disadvantaged regions of Germany is based only on the coordination framework, which contains binding, generally-applicable rules in Germany. However, where the *Länder* perform their own ex-post evaluations, this outcome will be taken into account in the evaluation.

(6) Objectives of the scheme

The main focus of the scheme is the stimulation of investment activity in structurally weak regions. The assisted areas include, in addition to the East German *Länder*, some West German regions, in particular weak rural areas regions and old industrial regions in the process of structural change, and certain areas of Bavaria bordering the Czech Republic. To achieve its regional development objective, the scheme subsidises, upon request of the aid beneficiary, and following administrative approval, the investment costs incurred by private large undertakings and SMEs for proposed investment projects, either directly or by way of interest rate subsidies.

The fundamental idea behind this support to business by encouraging investment under the scheme is to create additional employment and income within the assisted areas, and hence to increase total income in the areas in question in the long term. Consequently,

the two key result indicators in the evaluation plan, are trend of employment and development of income.

ii) Evaluation questions

(7) The primary goal of the evaluation will be to trace as reliably as possible the effects of subsidising investment in the business economy in general, and on the behaviour of the beneficiaries and on the main target values of the support such as employment and income in particular. The evaluation will address, among others, the following specific questions:

- Did the investment aid effectively act as an incentive to the assisted businesses?
- Did income and employment develop differently in those businesses that were assisted compared with similar businesses that were not?
- Are the assisted businesses more robust?
- Can different effects of the measures be observed (e.g. level of employee qualifications, level of R&D activity in businesses), for example for certain different sizes of business, sectors and regions?
- What was the causal effect of the support on the development of the assisted businesses?
- How can the cost efficiency of the scheme be assessed, i.e. what is the relation between outcome and resources deployed?

iii) Result indicators

(8) The key result indicators in the evaluation project are the trend of employment and development of income. In investigating the development of the assisted businesses and the possible heterogeneous effects of the measures, other appropriate indicators will be analysed, such as, subject to the availability of specific data, the determination of probability of default and employees' qualification levels. The evaluation will be carried out on the basis of existing information collected and published by the Bundesamt für Wirtschaft on structure and type of investments supported, aid amounts and jobs created. Although there is no specific indicator related to investment, it will be also examined to what extent these data sources for the evaluation of the funding can be used with a view of the outcome indicator "investment".

iv) Envisaged methodology to conduct the evaluation

(9) The evaluation plan highlights the need to deal effectively with certain methodological difficulties by using adequate econometric evaluation methods and hence to avoid incorrect interpretation of the causal effect of the aid. The methodology must ensure that *i)* the development of the assisted businesses that would have ensued if they had not

participated in the programme is investigated by simulating the counterfactual situation, and *ii*) that any systematic distortion between the group of beneficiaries and the control group is eliminated.

Considering those methodological challenges, the evaluation plan outlines a specific evaluation strategy with the use of a covariate matching method to analyse the causal effect of the aid.

Based on observable variables of aid beneficiaries (the size of the undertaking, its age, its industry sector, the education structure of its workforce, its activity structure e.g. the proportion of employees in manufacturing, in technical services, the number of researchers and developers), another firm which did not receive aid will be sought, which is most similar to the aid beneficiary in terms of the characteristics influencing the target value(s).

Ideally, the only difference between the two firms would be the presence of the aid. In other words, this analysis strategy will attempt to find ‘statistical twins’ for all the assisted businesses as a basis for working out the effect of the investment aid. If one succeeds in achieving a wide-ranging balance between the two groups in terms of the relevant variables influencing target value(s) and thus in solving the selection problem, the twin businesses will be suitable proxies for the counterfactual situation of the absence of support for the subsidised businesses and hence a suitable means for the evaluation.

To ensure that results are as robust as possible and control for potential distortions, the evaluation will apply various matching techniques³ to assess the average treatment effect of the aid on treated firms. Furthermore, it will include a difference-in-difference estimation, focusing on aided and non-aided and ideally non-eligible firms before and after the intervention. In addition, the evaluation will contain a triple difference estimator to assess among other things the changes of the causal effects of the support for firms in different sectors or regions. The evaluation will also include comparisons of supported firms with firms that are otherwise comparable but for exogenous reasons not eligible for support.⁴

The evaluation will be carried out, on the basis of the methodologies as set out in the evaluation plan, by external researchers who will be commissioned. In addition, the evaluation will remain open for newly developed methodologies. The German authorities have highlighted that if during the evaluation other methods are developed, these will be presented by the independent evaluators and considered for possible use.

³ Covariate Matching, Propensity Score Matching, Nearest Neighbour-, Caliper/Radius-, Kernel-Matching.

⁴ For example by comparing to otherwise similar firms in ineligible sectors or regions.

v) *Data collection requirements*

(10) In order to answer the research questions for the evaluation as comprehensively as possible, different data sources will be merged with each other.

The data available from the statistics on support granted under the scheme ("Förderstatistik")⁵ are taken as a starting point; these comprise both statistics relating to grants given and statistics relating to statements of expenditure. The statistics on grants, introduced in 1972, ('statistics on cases where support has been granted') are based on reports provided by the *Länder* to the Federal Office of Economics and Export Control (BAFA) on a monthly basis. Reports for the statistics on grants must be made:

- when funds are authorised for an investment project for the first time (initial report);
- if changes to the original award are made during the implementation of the investment project before the examination of the evidence of use is finalised, provided these changes have an effect on statistically relevant facts (change report);
- if aid funding by the Land for strengthening the scheme was awarded under the rules of the coordination framework and in addition to scheme funds, or a grant notification has been cancelled after the granting decision has been revoked or retracted.

As the target data collected at the start of the investment for the statistics relating to the grant may differ from the actual data at the end of the investment as a result of any changes of plan in the course of implementing the investment project, the support statistics were supplemented in 1994 by the expenditure statistics. This data source gives the actual values for the investment and scheme funding volumes and operational information about the additional and permanent employment secured subsequent to the investment project. A further element was added to the support statistics in 2007: since then the number of jobs filled in the assisted businesses is also collected five years after the completion of the investment, and thus after the binding period for maintenance of the investment/jobs has ended, by means of a second check on the expenditure statement.

As the support statistics do not include all the relevant indicators, additional data sources will be used, including the Federal Employment Agency's employment statistics. This data source represents a collection of data relating to all employed people in the Federal Republic of Germany liable to pay social security contributions. It includes all the declarations made by employers in the course of a multi-stage reporting process for statutory sickness, pension and unemployment insurance in respect of employees who pay social security contributions in full and those in 'micro-jobs' whose place of work is in Germany. Some categories of workers are not included (e.g. civil servants and self-employed).

⁵ Available at http://www.bafa.de/bafa/de/wirtschaftsfoerderung/ga_statistik/statistik/index.html

The Federal Employment Agency's employment statistics allow for the following personal characteristics, which may be broadly mapped (in aggregated form) at the business level as well:

- Age (date of birth):
- Sex
- Nationality (German/foreign):
- Education (field B2)
- Current occupation (occupation, 3 character code from the BAA (Federal Employment Agency))
- Role at work (field B1)
- Full/part time
- Economic activities (up to 31.12.1997 according to WZ (Classification of economic activities) 73, from 31.03.1998 to 31.03.2003 according to WZ 93, from 30.06.2003 to 31.03.2008 according to WZ 2003 and since 30.06.2008 according to WZ 2008)
- Workplace and domicile (municipality)
- Start and end of insurance case
- Gross annual salary

Differences between the assisted and non-assisted businesses can be observed on the basis of this comprehensive datasets – and hence can be used to construct the counterfactual scenarios.

Possibly, further data sources could be used, taking data protection law provisions into account, to examine further target values for a subsample where applicable.

Depending on the availability, also data on aid granted under the predecessor scheme from 1 January 2007 to 30 June 2014 could be used to improve the quality of the overall evaluation, and especially to test the concrete impact of the changes introduced under the regional aid rules applicable for July 2014 to 2020 compared to the past on the efficiency of the scheme.

vi) Proposed timing of the evaluation, including the date of submission of the final evaluation report

(11) The German authorities committed starting the evaluation project in 2018. The investigation time period covered by the evaluation shall be from the start of the scheme to 30 June 2017 or 30 June 2018. Furthermore, Germany has committed to publish and conduct a public tender in the second quarter of 2017 at the latest. In addition, the German authorities accepted to informally involve the Commission services before the finalisation of the evaluation report and share with them the preliminary evaluation results.

The final evaluation report shall be submitted to the Commission by 30 June 2020.

In order to assess the longer-term effects of the promotion, Germany commits to supplement the final evaluation report by a further report that will be prepared after the

end of the funding period. In this supplementary report, data for the full funding period 2014-2020 should be used. In this report the questions on whether the scheme has contributed to regional growth increase and regional spill-over effects will be taken into account as far as possible.

vii) Independent body selected to conduct the evaluation, or criteria for its selection

- (12) The evaluation body will be chosen after a negotiated procedure preceded by a competitive tendering. The award will be made on a number of different criteria justified on the basis of the subject of the contract, primarily the quality of the bid and competence of the potential contractors, suitability for the purpose of the service and price.

The award will go to the most cost-effective bid, taking all the criteria into account, whereby the lowest price will not be the sole decisive factor. The experts to carry out the study will be selected strictly on the basis of their professional competences. The performance of the evaluation as well as the eligibility to participate in the call for tenders will be subject to fulfilment of additional requirements as defined by the Federal Budgetary Regulations.

viii) Modalities for ensuring the publicity of the evaluation

- (13) The German authorities committed to the publication of the evaluation plan and the findings of the evaluation in a short and a long version on a website of the Federal Ministry for Economics and Energy accessible to the general public without restriction (www.bmwi.de). The short version of the evaluation report will summarise the essential results and recommended actions from the analyses in an easily readable and transparent form. The long version will, in particular, contain all significant information about the methods used, the underlying data and the differentiated empirical findings. In the long version, also the results of the ongoing monitoring and the funding statistics will be included enabling the descriptive statistics concerning the development of the beneficiaries. Germany accepts that the preliminary results of the evaluation may be subject to an informal exchange with the European Commission. In order to allow replication of the results the external researchers will make the evaluation files available to the Federal Ministry for Economics and Energy.

3. ASSESSMENT OF THE EVALUATION PLAN

- (14) 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 orientation 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.

- (15) Only such aid schemes in the meaning of Article 2(15) GBER⁶ are subject to evaluation which fall under the provisions of Article 1(2)(a) GBER⁷. The Commission notes that the annual average budget of the aid scheme concerned, namely EUR 585 million, exceeds the threshold of EUR 150 million set in Article 1(2)(a) GBER. Article 1(2)(a), Article 2(15) and Article 14(1) GBER form the bases for the exemption of the aid scheme concerned from the notification requirement of Article 108(3).
- (16) As the Commission explained in recital 8 of the GBER, the evaluation of large schemes is required *"in view of the greater potential impact of large schemes on trade and competition"*. The required *"evaluation 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, respectively. State aid evaluation examines moreover proportionality and appropriateness of the chosen aid instrument.⁸
- (17) 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

⁶ Under Article 2(15) 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".

⁷ Under Article 1(2)(a) GBER "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, if the average annual State aid budget exceeds EUR 150 million, from six months after their entry into force".

⁸ See the best practices outlined in the Staff Working Document cited in footnote 2 (footnote 3, section 2, second paragraph).

⁹ Further guidance on evaluation plans is given in the Staff Working Document cited in footnote 2.

- (18) The Commission considers that, as described in section II of this decision, the notified evaluation plan contains these minimum elements.
- (19) The evaluation plan provides a concise description of the functioning of the scheme, the key objectives of the measures concerned, and provides sufficient information to understand their "intervention logic". The scope of the evaluation is defined in an appropriate way. It also identifies and justifies main pertinent result indicators that integrate the evaluation questions for the individual measures concerned, and explains the data availability, the collection requirements and possible limitations in this context¹⁰.
- (20) The evaluation plan sets out the main methods that will be used in order to identify the effect of the aid, and explains why these methods are likely to be appropriate for the scheme in question as well as possible difficulties and ways to address them¹¹. The Commission acknowledges the inherent difficulty of establishing a single evaluation methodology in the present case, where the scheme applies to the whole of the Germany, but the various *Länder* apply their own guidelines when granting the aid. However, the Commission expects that the proposed evaluation methodology will allow identifying the causal impact of the scheme itself.
- (21) The proposed timeline of the evaluation is acceptable in view of the characteristics of the measures concerned and the relevant implementation periods for projects supported under the scheme. The fact that Germany committed to an informal exchange of the preliminary results of the evaluation with the Commission provides a possibility for a timely start of the scheme's revision process.
- (22) The proposed criteria for the selection of the evaluation body meet the independence criterion. The principles for the choice of the body require for the assessment of the quality of the bid, the competence of the potential contractors and suitability for the purpose of the service which guarantees the sufficient levels of skills.
- (23) The proposed modalities for the publication of the evaluation results are satisfactory and ensure transparency. In particular, the Commission takes note of the commitment to discuss the preliminary results with the Commission.
- (24) 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.

¹⁰ See also the Staff Working Document cited in footnote 2 (section 3.2).

¹¹ See also the Staff Working Document cited in footnote 2 (section 3.4).

- (25) The Commission notes the commitments made by the German authorities to conduct the evaluation according to the plan described in the present decision and to inform the Commission of preliminary evidence as well as any element that might seriously compromise the implementation of the plan. Furthermore, the Commission notes the commitment made by the German authorities to fulfil the obligation to transmit the final evaluation report by 30 June 2020.
- (26) The evaluation plan was notified to the Commission within 20 working days after the Germany put the aid scheme into effect under the GBER on 3 September 2014.
- (27) 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 2020.
- (28) 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 therefore would have to be notified.

4. CONCLUSION

- (29) The Commission has accordingly decided:
- To prolong the exemption for the above scheme under the GBER until 31 December 2020.
 - To publish this decision.

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 by registered letter or fax to:

European Commission
Directorate-General for Competition
State Aid Registry
B – 1049 Brussels
Belgium
Fax No: 32 2 296 12 42

Yours faithfully,
For the Commission

Margrethe Vestager
Member of the Commission