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Subject: State aid SA.38751 (2014/N) – Czech Republic – Evaluation plan for the block exempted large aid scheme "Law on Investment Incentives"

Sir,

1. PROCEDURE

- (1) By electronic notification of 29 July 2014 the Czech Republic 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 the Article 107 and 108 of the Treaty¹ (hereinafter "GBER") on the aid scheme Investment Incentives which it had put into effect on 1 July 2014 in application of the Article 1 (2) (a) on the Scope of the GBER and Article 14 (1) on Regional investment aid of the GBER and plans to implement until the end of 2020. This submission was registered as SA.39205 (2014/X).
- (2) This 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 their entry into force, unless

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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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, the Czech Republic notified an evaluation plan for the scheme on 29 July 2014 which was registered by the Commission under SA.38751 (2014/N).

- (3) By communication of 9 October 2014, the Czech Republic replied to information request issued by the Commission on 1 September 2014. The notification was also the subject of a meeting which took place on 18 September 2014. The Czech authorities submitted the revised version of the evaluation plan on 9 October 2014 which was registered under 2014/101537.

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 recalled in the Commission Staff Working Document on Common methodology for State aid evaluation² (hereinafter: "Staff Working Document"), the notified plan contains the description of 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 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.

i) Objectives of the aid scheme to be evaluated

- (5) This scheme is the most important Czech scheme for regional investment aid which provides for incentives in the form of income tax relief, transfer of land and associated infrastructure at favoured prices, financial support for the creation of new jobs, financial support for the training or retraining of employees, financial support for the acquisition of tangible and intangible assets for strategic investments. The main types of beneficiaries are companies, both large and SMEs, operating in the manufacturing industry. Other types of beneficiaries are for technology centres, technological centres of strategic services centres and data centres. General objectives of the investment incentives are the creation of new jobs and economic growth. Specific objectives of the investment incentives are:
- Elimination of differences between developed and less developed regions of the country;
 - Reduction of differences in unemployment rates across regions through the creation of new jobs;

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

- Promotion of the creation of higher-skilled new jobs;
- Promotion of the economic development in the Czech Republic by supporting investment projects focused on advanced technologies and activities with high added value and high export potential; and
- Increase the international competitiveness of the Czech Republic in the area of innovation, information technology and strategic services.

ii) Evaluation questions

- (6) The evaluation plan provides sets of evaluation questions for the annual, mid-term and final evaluations. The main questions designed to capture the impact and appropriateness of the measure are:
- a) How did the assisted companies develop in comparison to a control group in terms of result indicators?
 - b) Did amendments of the scheme implemented on the basis of findings of the mid-term evaluation report contribute to better achieve the objectives of the scheme?
 - c) What are the lessons learnt for future aid schemes?

These questions cover the dimensions relevant to the evaluation and will be answered quantitatively, relying on seven result indicators (see subsequent paragraph), and with the necessary supporting evidence.

iii) Result indicators

- (7) For the purpose of evaluation of the Investment Incentives Scheme, output, result and impact indicators will be used. Output indicators are needed to get a basic idea on the functioning of the scheme and shall include number of projects assisted, amounts of state aid granted and drawn, amount of investments incurred by the scheme, and leverage effect of aid. The seven result indicators (net jobs created; increase in value added; increase in labour productivity; increase in sales; total amount of investment; average increase in total investment and cost of per unit of labour) will be used as a key tool for assessment of effectiveness of the aid scheme. Impact indicators will be employed to assess the impact of the scheme on general economic outcomes such as employment, contribution of the supported companies to gross domestic product (in current prices) growth in the Czech Republic, contribution of the supported companies to labor productivity growth in the Czech Republic and the contribution of the supported companies to R&D expenditure growth in the Czech Republic.

iv) Envisaged methodology to conduct the evaluation

- (8) The evaluation plan states that the envisaged methodology is to be read in accordance with methodologies described in the Staff Working Document.³ The methodology

³ See footnote 2 above.

foresees the comparison of result indicators registered for the group of beneficiaries with result indicators registered for a control group, including non-assisted firms with similar key features to the group of beneficiaries, with preference to eligible non-assisted companies including rejected applicants. Non-assisted firms will be chosen to be as similar as possible to beneficiary firms according to the following characteristics: region, company size, industry, average investment on sales and being beneficiary of other aid. The comparison will be analysed using the difference-in-differences approach to make sure that the only difference between the beneficiaries and the control group will be the aid.

In addition, discussions with stakeholders will be conducted in order to help the evaluators understand and interpret the results of hard data analysis and also find out some of the possible indirect effects of the aid

v) *Data collection requirements*

- (9) The data will be collected both from the aid beneficiaries of the scheme and from a control group of enterprises. Data on assisted projects will be collected directly from the aid beneficiaries using survey tools on a yearly basis. As regards the control group, the data on result indicators listed in the evaluation plan are at disposal from statistical findings conducted by the Czech Statistical Office.

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

- (10) A milestone is set for 2018, when a mid-term evaluation report is scheduled. This report will provide an in-depth assessment of the impact of the scheme on the basis of data and findings of annual evaluation reports for July 2014-2016. This report could also suggest amendments to the scheme in order to improve its effectiveness to achieve its objectives, using the experience of the first two and a half years of the implementation of the scheme. The Czech authorities committed to share the findings of the mid-term evaluation report informally with the Commission.

The final evaluation report which will assess the whole impact of the scheme implementation under GBER over 2014-2020 shall be submitted to the Commission by 30 June 2020.

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

- (11) The evaluation will be conducted by a Steering group for evaluation, which will be functionally independent from the aid grantor (MIT – Department of Innovation Entrepreneurship and Investments). The Steering group for evaluation will have three or five members and will serve as an independent body in the field of evaluation. The members of the steering group will be representatives of institutions independent from the aid granting authority, the Ministry of Industry and Trade, and will recruit from any or all of the following bodies: universities, research centres, the Czech Statistical Office, the Czech Office for the Protection of Competition or an outsourced commercial

evaluator. The Czech authorities committed to give preference to the members of the Czech Office for the Protection of Competition when recruiting the evaluators, subject to the decision of the Czech Office for the Protection of Competition on taking part in evaluation activities. The members of the Steering group for evaluation will be appointed by the Minister of Industry and Trade following recommendations of the addressed independent institutions.

The Steering group for evaluation will be responsible for: coordination of evaluation activities related to individual evaluation reports; methodological guidance of evaluation activities; and assessing and approving the evaluation reports. The Steering group for evaluation may deploy services of other bodies to perform selected parts of evaluation activities. The Steering group may namely request the Department of Economic Analyses of Ministry of Industry and Trade to process confidential individual data related to beneficiaries and the control group following the needs of the Steering group for the purpose of conducting the evaluation.

viii) Modalities for ensuring the publicity of the evaluation

- (12) The evaluation plan and the results of the annual, mid-term and final evaluations will be published on the website of the Ministry of Industry and Trade: <http://www.mpo.cz>

The anonymised individual and aggregated data will be made available to scholars and researchers upon request to the Ministry of Industry and Trade, notwithstanding any entitlement for access to such data provided under the relevant provisions of the applicable law, including provisions on data protection and protection of business secrets.

The findings of the evaluation will be discussed with relevant stakeholders (business associations, regional representatives, etc.).

3. ASSESSMENT OF THE EVALUATION PLAN

- (13) 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 preclude 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.

- (14) Only such aid schemes in the meaning of Article 2(15) GBER⁴ are subject to evaluation which fall under the provisions of Article 1(2)(a) GBER⁵. The Commission notes that

⁴ 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

the annual average budget of the aid scheme concerned, namely EUR 437 million, exceeds EUR 150 million as set in Article 1(2)(a) GBER, and that together with the Article 14(1) GBER these form the bases for its exemption from the notification requirement of Article 108(3) TFEU.

- (15) As the Commission explained in recital 8 of the GBER, the evaluation of large scheme 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, and could examine the proportionality and appropriateness of the chosen aid instrument.⁶
- (16) 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."⁷
- (17) The Commission considers that, as described in section II of this decision, the notified evaluation plan contains these minimum elements and was notified within 20 working days after the Czech Republic put the aid scheme into effect for in application of the GBER.
- (18) The evaluation plan gives a concise description of 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 pertinent result indicators that integrate the evaluation questions for the

may be granted to one or several undertakings for an indefinite period of time and/or for an indefinite amount";

⁵ 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".

⁶ See the Staff Working Document cited in footnote 2 (footnote 3, section 2, second paragraph).

⁷ Further guidance on evaluation plans is given in the Staff Working Document cited in footnote 2.

individual measures concerned, and explains the data collection requirements and availabilities necessary in this context⁸.

- (19) The evaluation plan sets out the main methods that will be used in order to identify the effect of the aid, and discusses why these methods are likely to be appropriate for the scheme in question⁹. The Commission has raised concerns about the risks of using as control group eligible firms. However, the Commission also acknowledges the inherent difficulty of finding a control group in the present case, where the scheme applies to the whole of the Czech Republic, with the exception of Prague. The variable "average investment on sale" used for matching will in particular help to limit the distortions deriving from the selection bias. Last, the reading of quantitative results jointly with qualitative data collected in interviews with beneficiaries and non-beneficiaries should contribute to obtain an interpretation as undistorted as possible by other variables that may have had an effect on the observed outcome, e.g. general macroeconomic conditions or firm heterogeneity. Against that background and given the specificities of the scheme applying to the whole of the Czech Republic except the capital, Prague, the proposed evaluation methodology sufficiently allows identifying the causal impact of the scheme itself.
- (20) The proposed timeline of the evaluation is reasonable in view of the characteristics of the measures concerned and the relevant implementation periods for projects supported under the scheme. Findings of the annual and mid-term evaluations can serve a very important purpose of informing the early stages of scheme's revision process. Eventually the evaluation will provide useful insight relevant for the assessment that the Commission will carry out for any successor scheme.
- (21) The proposed criteria for the selection of the evaluation body meets the independence criterion, and while there is no explicit mention of the skills criterion, it is the understanding of the Commission that the selection of the members of the Steering group will be predominantly based on the necessary skills and experience.
- (22) 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 organise consultations with relevant stakeholders on the findings of the evaluation.
- (23) 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.
- (24) The Commission notes the commitments made by the Czech authorities to conduct the evaluation according to the plan described in the present decision and to inform the

⁸ See also the Staff Working Document cited in footnote 2 (section 3.2).

⁹ See also the Staff Working Document cited in footnote 2 (section 3.4).

Commission of mid-term findings as well as of its preliminary evidence and any element that might seriously compromise the implementation of the plan. Furthermore, the Commission notes the commitment made by the Czech authorities to fulfil the obligation to transmit the final evaluation report by 30 June 2020. In addition, the Commission reminds the Czech authorities that all plans to modify or prolong this aid scheme have to be notified to the Commission.

- (25) 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.
- (26) 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.

4. CONCLUSION

(27) 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:

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Yours faithfully,
For the Commission

Margrethe Vestager
Member of the Commission