European Commission

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Assessing the effectiveness of state aid

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State aid modernisation (SAM)

- Reform programme 2012-2014
- Key objectives:
  - o Enhance effectiveness of aid and limit distortions of trade and competition
  - o Prioritise enforcement on cases/schemes that have a significant impact on the internal market
  - o Simplification of rules

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Prioritisation and streamlining

- GBER: broadening and simplification
    - Less stringent ex ante requirements, but greater reliance on monitoring and, for larger schemes (annual budget > EUR 150 million), ex-post evaluation

- Notified cases/schemes: improved scrutiny
    - Ex ante assessment of the need for aid (rationale of aid, incentive effect, proportionality) and distortions of competition and trade
    - Ex post evaluation (for certain schemes)

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Methodological Guidance Paper

- To provide guidance to Member States as to how to evaluate the impact of their subsidy programmes

    à Purpose: to obtain more evidence on the effects (direct and indirect) of the aid programme

- Draft (for public consultation) published 22.11.2013

    http://ec.europa.eu/competition/consultations/2013_state_aid_modernisation/index_en.html
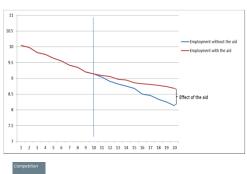
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Assessing the effectiveness of aid

- Simple "before-after" comparison not enough
- Central issue: what would the companies have done without aid?

à assessment of the counterfactual

Assessing the effectiveness of aid (2)

- Simple comparison of "beneficiaries" with "non-beneficiaries" is problematic
  - o Reason: the two groups may display different performance even if no aid were given
    - Role of other factors that impact firms in different ways (e.g. SMEs vs. large firms, sectoral differences, local differences)
    - Targeting of aid beneficiaries by the aid scheme
    - Self-selection into the program: e.g. firms which have a "project" vs. firms which do not have a "project"

à Important to find good "control group"
  - Once found, relatively simple (econometric) methods can be used to infer effects

Finding a control group

- Control group may differ from the treatment group, but must be sufficiently similar as to be considered a good comparator

- In order to avoid selection effect, we need something "exogenous" that determines whether firm is beneficiary or not
  - o Randomisation
  - o Quasi-experimental methods (natural experiments)

Example 1: Creative Credits (UK)

- Innovative scheme to foster collaboration between SMEs and creative firms
- Pilot project in the Manchester City Region (UK), started in 2009
- Distinctive feature: random allocation of vouchers to SMEs (worth £ 4000 each)
  - o 672 SMEs made an application (out of 4200 eligible SMEs in the region)
  - o 150 Creative Credits distributed

Creative Credits (cont'd)

- Random allocation allowed for simple (and quick) ex-post evaluation: control group 'statistically identical' to treatment group
- Creative credits increased likelihood of SMEs linking up with a creative business by 84%-point (input additionality)

Variable	Coefficient	Std. Err.	t-statistic	Signif.
Creative Credit	0.840	0.028	29.11***	0.000
Constant term	0.119	0.017	7.18***	0.000

Simple OLS treatment model regression. Number of observations: 451. Source: Nesta (2013), Table 4.1

Creative Credits (cont'd)

- In the 6 months following completion of Creative Credits project, SMEs who received voucher significantly more likely to have innovated and expanded sales (output additionality). Effect less pronounced after 12 months.

- Quantitative analysis enriched by interviews ("RCT+")

» Source: Nesta (2013)   http://www.nesta.org.uk/publications/guide-creative-credits

Example 2:   Investment grants Italy

- Law 488/92: investment aid scheme Italy
  - Aid awarded on the basis of competitions. Projects were given a score and ranked. Budgetary limit implied cut-off
- Evaluated: competitions held in 2000-2004
  - EUR 2.6 billion aid spent on approx. 6000 projects
- Methods used: Comparison with rejected comparable applicants/Regression Discontinuity Design (RDD)
  - RDD: compare firms that were just good enough to get the aid with those that nearly made it but remained below the threshold (good comparators)

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Investment grants Italy (cont'd)

- Main insights: Law 488 led to average increase of about 12 000 jobs. However, effect limited to SMEs.
- Implications for the design of schemes (evaluation perspective)
  - It may be good to have a limited budget
  - Score applications
  - Keep the rejected applications, the scores carry important information for evaluation!

» Source: Martini and Bondonio (2012)
http://ec.europa.eu/regional_policy/information/evaluations/impact_evaluation_en.cfm#1

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Example 3: R&D subsidies Finland

- Ex post evaluation of main Finnish R&D subsidy program (Tekes)
- Focus: effects of subsidies on company R&D expenditure in 2000-2005
- Identification: (exogenous) differences in eligibility for aid due to differences in regional status (ERDF)
- Findings: subsidies led to additionality (1.4)

» Source: Einiö (2013) http://personal.lse.ac.uk/einio/

Design and process of evaluation

The 'evaluation plan'
A good evaluation plan should contain at least the following minimum set of elements:
1. Objective of the scheme, key assumptions, objective of evaluation, identifying the relevant result indicators (direct and indirect effects of aid)
2. Methodology (counterfactual impact evaluation)
3. Monitoring, data gathering and availability
4. Timeline
5. The body conducting the evaluation (or the selection principles)
6. Review of the evaluation / evaluation plan
7. Use of the results

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Conclusion

- Reform objective: prioritise enforcement on cases/schemes that have a significant impact on the internal market

- Important new element: greater emphasis on ex post evaluation of aid schemes

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