Amendment No. 1 to the Administration Agreement between the European Commission and the International Bank for Reconstruction and Development concerning the Part II Europe 2020 Programmatic Single-Donor Trust Fund

Trust Fund (No. TF073124)
(EC Contract No. SRSS/S2018/020)

1. The European Union, represented by the EUROPEAN COMMISSION (the “Donor”), which is represented for the purposes of signing this amendment by Mr. Maarten Verwey, Director General, SRSS, of the one part, and

2. The INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the “Bank”), represented for the purposes of the signature of this amendment by Mr. Arup Banerji, Regional Director, European Union on the other part,

Having regard to the above-mentioned Administration Agreement signed on July 30, 2018, as amended.

Whereas the Donor has informed the Bank of its intention to amend the above-mentioned Administration Agreement for the following reasons: the need to extend the activities and thus revise accordingly the indicative outputs and timeline table, the End Disbursement Date, the indicative Results Indicators and the allocation of the indicative budget for the activities.

HAVE AGREED AS FOLLOWS:

Article 1

Annex 1 “Part II Europe 2020 Trust Fund Description” to the Administration Agreement is replaced by the Annex 1 attached to this Administration Agreement Amendment.

Article 2

Section 6.1 of Annex 2 “Standard Provisions” to the Administration Agreement is modified to read as follows:

“6.1 It is expected that the funds deposited in the Trust Fund will be fully disbursed by the Bank by July 31, 2020 (the “End Disbursement Date”). The Bank shall only disburse funds deposited in the Trust Fund for the purposes of this Administration Agreement (other than returns to Donor) after such date to the extent such date is changed in accordance with amendments made to the Administration Agreement(s) of the Donor. Following the End Disbursement Date, the Bank shall return any remaining balance of the Trust Fund to the Donor in the Holding Currency in the manner specified in its respective Administration Agreement on a pro rata basis with regard to the total funds deposited in the Trust Fund by such Donor relative to the total funds deposited in the Trust Fund by the Donor, all calculated as Holding Currency amounts.”
Article 3

Annex 4 “Indicative Results Indicators for the Activities set forth in Section 2.1 of Annex 1 to this Administration Agreement” to the Administration Agreement is replaced by the Annex 2 attached to this Administration Agreement Amendment.

Article 4

Annex 5 “Indicative Budget for the Activities set forth in Section 2.1 of Annex 1 to this Administration Agreement” is replaced by Annex 3 attached to this Administration Agreement Amendment.

Article 5

All other provisions of the Administration Agreement shall remain unchanged.

Article 6

The present amendment shall form an integral part of the Administration Agreement. It shall enter into force on the date on which it is signed by the last party.
ANNEX 1

PART II EUROPE 2020 PROGRAMMATIC SINGLE-DONOR TRUST FUND

DESCRIPTION

This Annex shall be applicable to and form an integral part of the Administration Agreement for the Trust Fund between the Bank and the Donor.

1. Objectives

The objectives of the Trust Fund are:

The European Commission and the Bank share a common objective of building competitive and sustainable economies and reducing poverty and social exclusion – goals of the Europe 2020 Agenda which is built on three pillars of smart, sustainable and inclusive growth. The European Commission and the Bank concur that direct interaction is beneficial to both institutions and through them to the beneficiary countries. This applies particularly to the provision of analytical, advisory and knowledge services and technical assistance.

The European Commission has expressed an interest in ensuring that the Bank continues to provide technical assistance in the framework of the Trust Fund in furtherance of the common objective set forth above.

2. Activities

The Romanian Competition Council (RCC) has expressed interest in receiving technical assistance from the Bank, in the framework of this Trust Fund, to: (i) conduct ex-post state aid impact evaluation of selected state aid schemes, (ii) use lessons learned from these evaluations to improve the ex-ante design of new state aid, (iii) update the state aid assessment guide elaborated under the previous Reimbursable Advisory Agreement between the World Bank and the RCC dated June 4, 2012, and (iv) receive capacity building to improve the RCC’s and line ministries (Grantors’) capacity to assess state aid impact in the markets so as to evaluate the competition distortions and to help designing better aid schemes in the future.

Overall, despite recent sustained income growth, there is a perception that Romania’s competitiveness lags behind, as indicated by the overall ranking of the country in the World Economic Forum (WEF)’s Global Competitiveness Ranking 2017-2018. To speed up convergence with the rest of the EU, Romania needs to more rapidly increase productivity to catch up with other countries in Eastern and Central Europe. Effective implementation of competition policies can help boost productivity and private investment. RCC is charged with guaranteeing market competition and effectively implementing competition policy to level the playing field for all market players and to tackle market distortions resulting from anticompetitive behaviour of firms and/or Government interventions and regulations. It enforces competition law, ensures that state aid meets rigorous EU criteria without creating significant market distortions, and promotes a broader understanding of competition rules and benefits. RCC has made good progress toward its goal of meeting EU competition standards and compares favorably with other

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EU competition agencies. RCC is also the national point of contact between the European Commission and the national authorities and public institutions, other suppliers of state aid and the beneficiaries of state aid. In addition, it assists the authorities, the suppliers and beneficiaries of state aid with specialized advice including in the process of elaborating administrative acts which establish measures for state aid or de minimis aid.

RCC developed the Register of State Aid in Romania (RegAS), a database which allows the monitoring of granting state aid to better ensure the compliance of norms and regulation regarding the implementation of state aid. The activities carried out under this Trust Fund will support RCC strengthen further its strategic focus and prioritization capacities to enhance its effectiveness in deterring the most harmful anticompetitive practices, tackle regulations that stifle competition and minimizing the distortive effects of state aid and improve its capacity by promoting evidence-based decisions in a transparent manner.

In the EU, ex-post evaluation has been relatively recently introduced as a requirement for selected state aid schemes in the context of state aid modernization process and, as explained in the EC working paper on the common methodology for the evaluation of state aid (2014), it is essential for decision makers both at the member state and EU level to consider the measurable results of state aid granted in the past, and the lessons learnt. This would help ensure that schemes financed by state aid are more effective and create less distortion in markets, and would also improve the efficiency of future schemes and, possibly, of future rules for granting state aid.

In this context, the Bank will provide hands-on support to RCC in conducting ex-post state aid impact evaluation to understand state aid effects, to better inform the national decision makers on the results of state aid granted in the past, the lessons learnt, to optimise the design of future state aid schemes and to update the existing state aid assessment methodological guide in line with the methodology and requirements of the EC for state aid evaluation.

Additionally, the Bank will provide capacity building activities to improve the RCC’s and Grantors’ capacity to conduct ex-ante assessment and ex-post state aid evaluations in line with the EC methodology and requirements for state aid evaluation.

The Bank will carry out the following activities:

**Component A – Support to evaluate state aid effectiveness in spurring competitiveness and growth, while minimizing competition distortions**

**A. 1. a. Evaluation of selected state aid schemes**

The Bank will carry out an ex-post evaluation into the direct effects of three state aid schemes on the performance of (beneficiary) firms and competition outcomes, eventually compared to that of a control group. This analysis will use both quantitative (firm level data will be required and firm beneficiaries would need to be identified) and qualitative methods. This analysis will build evidence about potential distortions of selected state aid scheme on specific markets.

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4 “Methodological guide for assessing the impact of granted state aid under current state aid legislation” was prepared in 2014 as part of a project for the General Secretariat of the Romanian Government, and in partnership with the RCC, and financed through the Social European Fund.

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4
The proposed schemes for such an evaluation are: (i) a state aid scheme to support investment for regional development by using new technologies and aiming at supporting job creation (Government Decree 1680/2008); (ii) a state aid scheme aiming to upgrade and modernize Research, Development and Innovation (R&D&I) (Order no.3388/November 17, 2008) and (iii) de minimis scheme to incentivize access to finance for SMEs (Romanian Counter-Guarantee Fund, Implementing measure no. 2/2012). The proposed aid schemes involve some of the largest Grantors in Romania, notably the Ministry of Public Finance, the Ministry for European Funds and the Romanian Counter-Guarantee Fund. Depending on data availability, these schemes may be changed to ensure alignment with the EU methodological requirements for an ex-post impact evaluation.

On the quantitative front, the analysis will aim at estimating the causal impact of an aid program on certain outcome which constitute the objectives pursued by those aid measures (e.g. employment, investment, competition outcomes, such as prices/output/market shares, etc). The exact econometric technique to be applied by the analysis (e.g. difference in difference, instrumental variables, regression discontinuity design, etc) will be decided once there is more clarity about data availability and in line with the methodology suggested by the EC.

On the qualitative front, the analysis will draw on field interviews with both demand (firm side) and supply actors (regional agencies, etc) to assess incentive design, functioning, and results to help identify existing weaknesses and avenues for potential improvements. The Bank will build the capacity of the RCC staff in applying the identified econometric technique/s for the ex-post impact evaluation in order to facilitate transfer of knowledge for similar impact evaluations to be carried out by RCC in the future.

A.1.b. Assessing the determinants of firm mark-up performance (including state aid allocation) across Romanian product markets

The Bank will assess the key determinants of firm mark-up performance across Romanian product markets including state aid allocation, and estimate the potential for productivity growth from increased competition pressure to, among others, raise awareness across the state aid Grantors and the RCC about the effects of state aid allocation on firm performance across multiple product markets.

The Bank will support RCC: (1) explore the determinants of firm pricing power; and (2) assess the potential for productivity growth accruing from fiercer competition in Romanian product markets within manufacturing industry.

Depending on the extent of data available, the methodology for this analysis could follow a four-pronged approach. First, firm-level mark-up in each product market (as a proxy of pricing power) will be estimated. Second, productivity at firm level will be computed. Third, the analysis will explore how firm characteristics – as state aid (recipients vs. non-recipients), ownership (SOEs vs. non-SOEs), size, age, productivity level, exporting status, location, etc. – influence the mark-up behavior in a product market. Fourth, the economic effect of increasing competition pressure on productivity growth in the Romanian manufacturing sector will be estimated.

A.2. Updated guide on the state aid evaluation

The Bank will support RCC update the “Methodological guide for assessing the impact of granted state aid under current state aid legislation” (2014). The lessons learnt from the ex-post analysis
on state aid (in sub-component A.1) will be used to update the guide for the assessment of the impact of granted state aid on competition and market outcomes for RCC and Grantors. The updated methodological guide will also provide guidance on: (i) simplified ex-post assessment methodology, (e.g., for schemes with low budget / reduced number of beneficiaries / low volume of allocations, estimation of direct effects only of the aid granted, limited available data, etc.), which can be applied also by Grantors with limited resources; (ii) criteria for designing the most appropriate state aid instrument to minimize competition distortions (e.g., grants vs. guarantees, counter-guarantees, subsidized loans, capital increases, etc.); and (iii) market economy operator test (MEO).

Component B – Capacity building for impact evaluation of state aid

B.1. Training sessions for a selected number of experts from RCC and Grantors

The Bank will provide capacity building activities RCC to improve its capacity for evidence-based analysis and its ability to consult and train Grantors on how to better implement ex-ante assessments and to design state aid schemes that minimize competition distortions.

The Bank in consultation with RCC will identify up to 60 experts in state aid schemes during four training sessions and will identify a subset of participants to join a training of trainers’ (ToT) module. The trainings will include hands-on practical case studies and applications. The training will be provided to the same RCC staff while the staff of the Grantors can be different depending on the topic. The ToT module could be included as part of each of the four training sessions or alternatively in the last training session only if dedicated to the ToT. The ToT module will request the selected staff to demonstrate the skills acquired during all the training sessions.

Topics will include:

- The concept of state aid:
  - guidance on the application of the "market economy operator" test;
  - assessment of state aid elements in relation to the Services of General Economic Interest (also in the context of Article 107 (1) TFEU and in line with the EU practice); and
  - design of state aid, including de minimis aid, by using specific financial instruments (guarantees and counter-guarantees) to minimize competition distortions.

- The compatibility and evaluation of state aid measures:
  - evaluation methods of state aid to minimize competition distortions;
  - lessons learned from the analysis performed in Component A of the project;
  - regional aid for investments;
  - state aid for R&D&I; and
  - EU good practices in conducting state aid assessments.

The training sessions will also share good practices in conducting ex-post assessment in other EU Member States. The trainings delivered will form the basis for a training manual for staff of RCC and Grantors, with the training topics mentioned above featured as distinct chapters.
Data requirements

In order to facilitate the carrying out the activities described under Component A of this Annex, RCC will provide to the Bank with the following data:

- a detailed firm level dataset with information on firm characteristics (size, region, origin of capital) and performance (sales, output, employment); and
- the Structural Business Survey (SBS) of Romania, provided by National Institute of Statistics.

Indicative Timeline of Outputs table*

<table>
<thead>
<tr>
<th>Indicative Timeline</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Support to evaluate State aid effectiveness in spurring competitiveness and growth, while minimizing competition distortions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.a. Evaluation of three state aid schemes</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>1.b. Paper assessing the determinants of firm mark-up performance and the potential for productivity growth, including state aid across Romanian product markets</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>2. Updated guide on the state aid evaluation</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>B. Capacity building for impact evaluation of state aid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Training sessions (four) for a selected number of experts from RCC and grantors</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>2. Training manual</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

* The timeline may be adjusted depending on the availability of the data to be provided to the Bank in order to carry out the activities.

3. Eligible Expenditures

3.1 For Bank-executed activities, the Trust Fund funds may be used to finance:

(a) Staff and individual consultant services;
(b) Cost of travel;
(c) Cost of training and workshop; and
(d) Other services including translation.

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5 This timeline is considered for 18 months starting from the signing of the project (July 30, 2018).
4. **Taxes**

4.1 The foregoing activities and categories of expenditures may include the financing of taxes in accordance with the Bank's applicable policies and procedures.

5. **Program Criteria**

Activities are to be financed in accordance with the following program criteria:

The Trust Fund is established to enable the European Commission and the Bank to continue to collaborate and exchange experience and expertise on a number of themes under all three pillars of the Europe 2020 Agenda of smart, sustainable and inclusive growth. The express purpose of this Trust Fund is to allow the European Commission to avail itself of the Bank's technical assistance and analytical and policy capacity for the purpose of pursuing the goals of Europe 2020. The three pillars of Europe 2020 are broadly in line with the objectives and strategies adopted in the Europe and Central Asia Region of the World Bank Group. All activities that are in pursuance of these three pillars are eligible to be financed and implemented under this Trust Fund.
<table>
<thead>
<tr>
<th>Expected Results (logic of intervention)</th>
<th>Indicators</th>
<th>Baselines</th>
<th>Result goals</th>
<th>Sources of data</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact</td>
<td>Price cost margins, Price mark-up, Observed Labor Productivity, Estimated Total Factor Productivity, Investment, Employment</td>
<td>To be determined by empirical analysis and ex-post evaluation</td>
<td>To be determined based on observed data</td>
<td>Firm level panel data from the Structural Business Survey (INS)</td>
<td>Data availability</td>
</tr>
<tr>
<td>Outcome(s)</td>
<td>Additional state aid impact evaluations</td>
<td>0</td>
<td>To be determined</td>
<td>Firm level panel data from the Structural Business Survey (INS) and state aid by beneficiary firm</td>
<td>Data availability</td>
</tr>
<tr>
<td>Enhanced ability of the RCC to conduct state aid impact evaluations and advise on state aid design</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output(s)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1.a. Evaluation of selected state aid schemes (Outputs 1, 2 and 3)</td>
<td>1) Analysis completed containing: • Evaluation of each of the state aid scheme selected • Adaptation of methodology for every instrument of state aid used • The exact econometric technique to be applied by the analysis • Field interviews with demand and supply side actors • Lessons learned</td>
<td>0</td>
<td>3 evaluations</td>
<td>INS State aid grantors Beneficiaries</td>
<td>INS shares data with RCC, Grantors and beneficiaries share data with RCC</td>
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<tr>
<td><strong>A.1. Assessment of the potential for productivity growth (Output 4)</strong></td>
<td>2) Assessing the determinants of firm mark-up performance (including state aid allocation) across Romanian product markets</td>
<td>0</td>
<td>1 Paper on assessing the determinants of firm mark-up performance (including state aid allocation) across Romanian product markets (analysis using firm level data)</td>
<td>INS Firm level panel data from the Structural Business Survey</td>
<td>INS shares data with RCC</td>
</tr>
<tr>
<td><strong>A.2. Updated guide on the state aid evaluation (Output 5)</strong></td>
<td>Updated methodology on state aid evaluation based on empirical data and lessons learned in component A1</td>
<td>0</td>
<td>1 Report on the update of the state aid evaluation guideline</td>
<td>EU specialists World Bank’s Markets and Competition team</td>
<td>The current state aid evaluation guide provides for basic elements for ex ante and ex post state aid impact evaluation</td>
</tr>
<tr>
<td><strong>B.1. Training sessions for a selected number of experts from RCC and grantors (Outputs 6, 7, 8 and 9)</strong></td>
<td>1) Number of trainings delivered on ex ante and ex post evaluation</td>
<td>0</td>
<td>4 Training sessions delivered</td>
<td>EU specialists World Bank’s Markets and Competition team</td>
<td>The current state aid evaluation guide provides for basic elements for ex ante and ex post state aid impact evaluation; RCC knowledge of state aid control in the EU context</td>
</tr>
<tr>
<td><strong>B.2. Training manual (Output 10)</strong></td>
<td>Training manual elaborated</td>
<td>1 Training manual prepared</td>
<td></td>
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</tr>
</tbody>
</table>
**INDICATIVE BUDGET**

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Average Number</th>
<th>Amount in euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff and individual consultant services</td>
<td>8</td>
<td>243,000</td>
</tr>
<tr>
<td>Cost of travel</td>
<td>4</td>
<td>90,000</td>
</tr>
<tr>
<td>Cost of training and workshop</td>
<td>4</td>
<td>33,000</td>
</tr>
<tr>
<td>Other services including translation</td>
<td></td>
<td>14,000</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td><strong>380,000</strong></td>
</tr>
<tr>
<td>Administration fee (5%)</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>400,000</strong></td>
</tr>
</tbody>
</table>

The amount estimated for personnel is calculated taking into account different levels of expertise estimated to be required for carrying out the activities described in Annex 1.

The World Bank Group entity may transfer amounts between categories of the indicative budget. This does not require an amendment of the Administration Agreement if the Action is carried out as described in the Annex 1.