

EVALUATION OF THE FUNDING SUPPORT MADE AVAILABLE TO THE PRIVATE SECTOR IN THE 2014-2020 PROGRAMMING PERIOD

Thematic Evaluation of State Aid Grant Schemes



Executive Summary

The **aim** of this thematic evaluation is to assess the State Aid schemes receiving European Structural and Investment Funds (ESIF) and implemented under Thematic Objective 3 (TO3) - *Enhancing the competitiveness of small and medium enterprises* (SMEs). This includes five Business Enhance Grant Schemes (BEGS), financed by Operational Programme I, and the Investing in Skills Scheme (IIS), financed by Operational Programme II. The BEGS under assessment comprise the following grant schemes: Start-up Investments, SME Growth, SME Diversification and Innovation, SME Consultancy Services, and SME Internationalisation.

The evaluation is based on five **evaluation criteria**: relevance, effectiveness, impact, coherence, and efficiency. The evaluation strategy stems from the Terms of Reference requirement to conduct a theory-based impact evaluation of each State Aid scheme complemented with a counterfactual impact evaluation for some selected schemes. In order to address the evaluation questions, a triangulation process was used combining evidence from a range of sources: a comprehensive document review; the quantitative analysis of monitoring data; a programme of interviews including national stakeholders and SMEs; an online survey; five firm-level case studies; and the counterfactual analysis of two schemes.

Before presenting the main findings, a **caveat** is necessary. Since the full operational cycle of BEGS and IIS spans from 2017 to December 2023, this thematic evaluation is de facto an interim evaluation: it offers an assessment of what happened until 2020 and, whenever possible, until 2021. Even for completed projects, the long-term effects remain difficult to assess because, on the one hand, their materialisation takes time, and, on the other hand, balance sheets data are published with a one-two years delay. Therefore, the study could not capture the full impact generated by the support provided through the State Aid Schemes under evaluation.

Relevance

The intervention logic that led the Maltese authorities to the design and selection of the State Aid schemes under evaluation is sound. Each scheme was designed by national authorities to meet the different needs of Maltese SMEs addressing those gaps identified in previous years among the most relevant in tackling SME competitiveness barriers. Throughout the years covered by the evaluation, it appears that the rationale behind the Managing Authority's decision to fund the schemes remains broadly valid. Especially after the outbreak of the COVID-19 pandemic, the need to finance tangible and intangible investments to diversify products and services, expanding the client base, and upscaling the skills of employees remain crucial for the competitiveness of Maltese SMEs. The only scheme showing limited relevance during the COVID-19 pandemic was the Internationalisation scheme, as physical attendance to international fairs after the almost complete cessation of such international events, was not a central concern for SMEs. In addition, the low number of applications points to its limited interest for the firms even before the pandemic outbreak. This does not mean that supporting internationalisation is not a priority for Maltese SMEs, but the type of support offered by the scheme as presently designed (limited to part-finance costs to participate in international business promotion fairs held outside Malta) was not the most relevant one.

Effectiveness

The uptake of State Aid schemes (except the SME Internationalisation) is good if the awarded amount of funds is compared with the allocated budget. In particular, following a good early absorption of funds, the budget allocation for the SME Growth and SME Consultancy schemes was increased in 2018 and 2021, respectively. In contrast, the SME Internationalisation scheme suffered from displacement effects caused by other schemes

funded at national level, having a broader scope and lower requirements in terms of administrative procedures. The overall good uptake achieved by the schemes under evaluation is also the result of communication campaigns organised by the two intermediate bodies. In particular, those organised by Jobsplus proved very effective in raising awareness among potential beneficiaries and bolstered the uptake, which initially was lower than expected. The role of the professional community in making the schemes known, especially BEGS, is also worth noting. Nevertheless, it appears that more effort is necessary to advertise the website created by MSD among potential beneficiaries and the means with which to access such State Aid schemes

The level of achievement of output indicators (and results, when available) is satisfactory. The IIS has already met the 2023 targets both for output and result indicators. Regarding the BEGS, the achievement of the number of enterprises supported varies from scheme to scheme, but none has as yet reached the target. At an aggregate level, the achievement was nearly 40% at the end of 2021. The same degree of achievement is recorded for the indicator on private investment matching public funds. On the other hand, the target for employment increase in supported enterprises has already been surpassed. It stands to be noted that these schemes are still ongoing and are expected to remain operational till the end of 2023.

While most of the supported projects delivered or are likely to deliver the expected short-term results, the evidence regarding the materialisation of medium to long-term results is more limited and mixed. On the one hand, survey results and interviews with beneficiaries tend to provide a positive picture. Although the long-term consequences of the COVID-19 crisis on investments remains uncertain, the overall perception of beneficiaries for certain projects that experienced delays because of the COVID-19 pandemic - notably in culture and tourism, which sectors were more exposed to the restrictions imposed by the pandemic - is that they will be able to finalise their investments shortly. The counterfactual analysis did not find any net economic effect for the two schemes analysed, i.e. the IIS and the SME Consultancy scheme (see below), however, despite the lack of quantitative evidence, which is also linked to limitations of the counterfactual analysis, the interviewed beneficiaries pointed out that the IIS and the SME Consultancy may have triggered positive behavioural changes. In this respect, the IIS has likely contributed towards making employers aware of the importance of investing in the upskilling of their human resources. Similarly, the SME Consultancy scheme has contributed to the establishment of new relationships between beneficiary SMEs and the companies providing consultancy services.

Impact/additionality

The counterfactual analysis performed on the SME Consultancy grant scheme showed that its net impact on the annual increase of total assets is positive when it is combined with the other investment schemes, i.e., the SME Growth, the SME Diversification, and the Start-up Investment. Nonetheless, the counterfactual analysis performed on these two schemes showed that there is no evidence of a statistically significant net economic impact deriving from the two schemes per se. The limits of the analysis and the nature of the two schemes play a role in explaining this result. The lack of appropriate quantitative outcome variables from balance sheet data prevents studying the IIS impact on employees' productivity. On the other hand, the SME Consultancy scheme is not designed to support SMEs for the direct acquisition of assets, but to help them prepare business plans/feasibility studies/process & systems reviews that may evolve at a later stage in investments. Furthermore, the support granted by these two schemes is particularly small in amount. Hence, it is more difficult to attribute the benefits such schemes may have contributed to the net economic impact of SMEs over the long-term.

Overall, there is evidence of the added value of public support. Indeed, the support received through the grant schemes ensured the immediate implementation of ambitious projects without which, they would have been scaled down or postponed. Such support enabled the release of resources for other activities. Furthermore, some beneficiaries reported that support from the State Aid schemes had a positive signalling effect on other providers of funds, especially banks. In general, it appears that support through the schemes under evaluation provided higher additionality when riskier investment projects were funded, e.g., either including an innovative component (such as under the SME Diversification and Innovation scheme) or implemented by firms associated with a higher risk of default (such as start-ups funded by the Start-up Investment scheme).

Coherence

The mix of State Aid schemes included in the OPs was well designed, and their internal coherence deemed good. However, there is room to improve complementarity with national initiatives and to reduce fragmentation. The schemes were conceived to address the needs of firms at different stages in their life cycle and support complementary activities, ranging from advisory and training to tangible and intangible investments. Based on the needs that emerged during the past programming period, the SME Consultancy scheme was introduced with a view to facilitate the preparation and access to innovative investment schemes. In many cases this intended synergy did materialise, proving that the combination of the two types of schemes is a key driver for effectiveness. However, accessing the SME Consultancy did not automatically ensure access to an investment scheme, as not all beneficiaries of the SME Consultancy scheme applying for an investment support scheme were successful in their application. With regard to external coherence, it was found that various national support schemes are aimed at meeting SMEs' needs similar to those addressed by EU-funded grant schemes. While nationally funded schemes are expected to be complementary to EU ones, some crowding-out effect was observed for the SME Internationalisation scheme, while overlaps were noted for other schemes as well. In general, the indication of the evaluation exercise is that the fragmentation of national and EU funded support measures offered to SMEs could be reduced.

Efficiency

Overall, the costs borne by both implementing bodies are reasonable compared to the volume of transactions processed. The simplifications introduced in the 2014-2020 programming period contributed towards increasing the cost-efficiency of the grant schemes. The selection procedure proved overall efficient. In particular, the open rolling call system ensured an efficient and smooth selection procedure compared to a system of competitive calls and efficiency was even higher when cut-off dates were more frequent (i.e., bi-monthly instead of monthly cut-off dates), such as in the case of the SME Consultancy. The reimbursement phase is also overall efficient. In particular, the introduction of simplified cost options has simplified the documentation required in the reimbursement phase. It stands to be noted that due to the size of Malta and the centralised system applied to the use of EU Funds, staff are mobilised to work simultaneously on different funding instruments ensuring that the work effort and time spent on any one scheme is divided proportionally according to the present workload.

Furthermore, SMEs generally consider the costs, in terms of financial and human resources, borne for preparing an application for funding and managing the envisaged administrative procedures (e.g., financial reporting) as reasonable. Nevertheless, some inefficiencies and scope for improvement were highlighted by SMEs: 1) the documentation required in the selection phase for the investment schemes is deemed excessive and often discourages SMEs from applying; 2) specific requirements can also prevent SMEs from applying, such as the requirement of «autonomy» and «non-profit»

generating» under the Start-up Investment scheme; 3) difficulties, especially for start-ups and micro firms, to find matched funding to help them to support the project upfront; 4) the delays caused by getting the approval from the Intermediate Body for minor changes to the ongoing project; 5) the burden of keeping available the necessary documentation under the IIS for potential checks by different authorities, as no online application system had been developed yet; 6) the burden of providing similar company information when submitting applications under multiple grant schemes.

Recommendations

Based on the above findings, the evaluation makes a number of recommendations, which are further developed in the report.

- Maintain broad-based support instruments, targeting wide-ranging types of beneficiaries, and continue tailoring them depending on company size and life-cycle stage, within the applicable State Aid parameters.
- Allocate more funds to schemes that support diversification and innovation investments, as well as consultancy services for modernisation and organisation/process re-engineering.
- Expand to all EU supported State Aid schemes (regardless of the Intermediate Body) the existing centralised information system used for the BEGS.
- Continue investing in communication campaigns, involving business associations in the promotion activities, especially to promote the funding opportunities for diversification and innovation investments, and create an online platform including all funding possibilities available in the country.
- Adapting and/or re-designing the SME Internationalisation scheme to avoid overlaps with nationally funded schemes.
- Consider widening the scope of services covered by the Consultancy Services scheme to include advisory services to prepare applications for investment support schemes among others.
- Increase the synergy between different streams of assistance, such as financial instruments and grant schemes, to mitigate the difficulties of finding matched funding to support the project upfront as well as the risks and beneficiaries' perception of delays during the reimbursement process of grants.
- Expand the use of SCOs and lump-sum reimbursement for small projects. For instance, small projects could be financed up to a certain threshold based on the quotations submitted for each cost item at the application stage, as it is already possible under the SME Diversification and Innovation scheme.