

Executive Summary

Ex-post evaluation of the EU Funds 2014-2020 programming period Operational Programme “Growth and Employment” 3rd thematic objective “Competitiveness of small and medium-sized enterprises” is elaborated in accordance with the agreement signed on 12 January, 2023 between the Ministry of Finance of the Republic of Latvia and Ernst & Young Baltic Ltd. The aim of the evaluation is to assess the contribution of the EU funds 2014-2020 programming period Operational Programme “Growth and Employment” 3rd thematic objective measures contribution towards transformation of the economy towards higher value added, productivity and resource efficiency, utility and efficiency, assess the impact of investment towards the competitiveness of the companies. An in-depth analysis of support measures was carried out, including assessing the impact on indicators characterizing the companies, including turnover, profit, number of employees, export, amount of taxes paid, employment created, etc.

The scope of evaluation is formed by four Specific Objectives of the EU Funds 204-2020 programming period Operational Programme “Growth and Employment” 3rd thematic objective and their measures:

- ▶ 3.1.1. Specific Objective “Facilitate establishment and development of SME’s in particular in manufacturing and RIS3 priority industries” and seven its measures,
- ▶ 3.1.2. Specific Objective “To increase export proportion of high value added products and services” and two its measures,
- ▶ 3.2.1. Specific Objective “Supporting the creation and the extension of advanced capacities for product and service development” and two its measures,
- ▶ 3.3.1. Specific Objective “To increase private investments in regions, by making investments for entrepreneurship development according to economic specialization of territories stated in development programmes of municipalities and based on needs of local entrepreneurs”.

The total EU Funds financing in scope of evaluation exceeds 357 million EUR.

Operational Programme “Growth and Employment” adopted by European Commission on 11 November, 2014. Implementation of its 3rd thematic objective has been carried out since 2016 and is not concluded during the elaboration of ex-post evaluation. Eligibility of expenditures for costs of Operational Programme dates to 31 December, 2023.

Research methods used in the ex-post evaluation are as follows:

- ▶ Literature (policy planning documents and other related documents) research and analysis,
- ▶ Qualitative data analysis methods, including case analysis, root-cause analysis,
- ▶ Quantitative data analysis methods, including Kaplan-Meier's survival assessment, leverage effect, statistical data analysis, analysis of reach of the targets,
- ▶ Econometric data analysis methods, including counter-factual analysis method "Difference-in-difference", production function, correlation analysis,
- ▶ Evaluation of the effectiveness of EU funds' investment based on the results obtained in the counterfactual analysis.

Main conclusions of the evaluation are as follows:

Competitiveness and productivity

1. Assessing the changes in the competitiveness of the companies supported, the study concluded that the advantage in respect to the companies' competitiveness is not always be confirmed

because of the EU Funds contribution. Both increase and decrease of the Total Factor Productivity as a composite indicator of the competitiveness of companies could be observed after receiving of the support. The biggest increase refers to 3.2.1.2 measure “International competitiveness” - a measure directly aimed at promoting of export.

2. For supported companies productivity of capital after the intervention increases more frequently compared to labour productivity growth. This indicates a still relevant problem related to the qualification of the workforce and its effective use.
3. When assessing the change in the competitiveness of companies based on various performance indicators, the increase in export is confirmed more frequently as a result of EU funds support than the increase in turnover. This indicates that companies have more successfully expanded into existing or new export markets than increased their turnover. In some cases, after receiving EU funds support, a positive effect on the number of employees can be observed, but this effect is never maintained in the medium term.
4. Assessing the benefitting companies within the 3rd thematic objective based on the NACE2 code for the support they received, the most frequently represented industries are food products production (395 companies), wood, wood and cork products production (357) and computer programming, consulting and related activities (305). None of the 10 most represented industries belong to high knowledge-intensive industries according to the OECD knowledge intensity classification of industries, only two of the industries (computer programming, consulting and related activities and production of chemicals and chemical products) belong to medium high knowledge-intensive industries. Thus, the support of the EU funds has an unused potential for the transformation of the economy towards the sectors of higher value added in the national economy as a whole.

Utility

5. The support of the 3rd thematic objective covered in total of 4,680 companies, which is 4.3% of the number of active companies in Latvia in 2021, thus addressing every twenty-fifth company working in the country. The largest number of supported SMEs refers to 3.2.1.2 measure “International competitiveness” and 3.1.1.6 measure “Business incubators”, thus from the point of view of the target audience, activities of export promotion and business start-up are the most supported.
6. EU Funds financing has supported 1780 newly established SMEs, their viability is comparably higher than on average, however, comparing the situation in 2014 and 2021, the number of economically active companies in the country is similar. Thus, the EU Funds financing as a factor in the medium term has not been strong enough to activate the business environment.
7. Specific Objectives of the 3rd thematic objective have contributed towards the development of fast-growing companies in the country, but this support has not been the main factor in change of the number of fast-growing enterprises in the country.
8. From the point of view of public policy makers, the increase in taxes paid by supported companies can be noted as a positive factor both in the short term and in the medium term, thus providing a higher contribution to state revenues in comparison with the companies not supported by the EU Funds.

Efficiency

9. The implementation of the 3rd thematic objective was launched in 2016, with a time delay since the beginning of the programming period, that has an impact on the reason that at in the middle of 2023, i.e. 6 months before the end of the costs eligibility period, the funding has not been

fully delivered to the target group of SMEs. The biggest deviations from the absorption targets of EU Funds allocation can be observed for financial instrument measures, as a total of 17% of financial instrument funding is not invested in transactions.

10. By applying the cascade implementation model to most of the measures of the 3rd thematic objective, each involved cascade level requires resources for administration. Depending on the content of the support and the type of implementation, it can make up to 20% of the amount of ERDF funding for the measure.
11. Within the framework of this evaluation, the shortcomings of the cascade implementation model are observed in relation to incomplete availability of data in MIS for ALTUM and LIDA supported companies, where MIS needs improvements both in the recording of data fields and data quality control. The recorded data fields in MIS for SMEs as final recipients of support in the case of financial instruments are different from grant support - if in the case of financial instruments MIS provides a separate data field for the NACE2 code of the area of the supported project, then in the case of grant support LIDA reports the data of identical content in the data field for the main field of activity of the final recipient by NACE2, even the title points towards the NACE2 code of the company's main activity, not the area of the supported project.
12. When assessing the effectiveness of EU Funds investments at the company level, most frequently across the measures it is significant in relation to the increase in the amount of taxes paid, less frequently - in relation to the increase in turnover and net profit.