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Research Report

ERDF 'Support for Business' Evaluation

Version: 5

Date: February 2016

ERDF 'SUPPORT FOR BUSINESS' EVALUATION

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February 2016

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Acknowledgements

SQW's Study Team would like to thank members of WEFO's Research, Monitoring, and Evaluation Team and the Evaluation's Steering Group for advice and help throughout the assignment. SQW also wishes to acknowledge the contributions made by all Programme stakeholders and ERDF Project Managers consulted during the course of the evaluation's delivery.

Abbreviations

Acronym	Meaning
ABS	Annual Business Survey
APS	Annual Population Survey
BERD	Business and Enterprise Research and Development
BSD	Business Structure Database
CCT	Cross Cutting Theme
CIE	Counterfactual Impact Evaluation
CIS	Community Innovation Survey
CRM	Customer Relationship Management
DID	Difference-in-Difference
ERDF	European Regional Development Fund
ESF	European Social Fund
GVA	Gross Value Added
IDBR	Inter-Departmental Business Register
ONS	Office for National Statistics
OP	Operational Programme
PMC	Programme Monitoring Committee
PSM	Propensity Score Matching
SME	Small and Medium Sized Enterprise
VML	Virtual Micro Laboratory
WEFO	Welsh European Funding Office

Executive Summary

In August 2014, SQW Ltd, in conjunction with BMG Research Ltd and Aston Business School, was commissioned by the Welsh European Funding Office (WEFO) to undertake an **evaluation of the ERDF Support for Business delivered in the Convergence and Competiveness areas of Wales**. The research was undertaken between September 2014 and May 2015.

There were three main areas of primary research for the study:

- **A Business Survey of 1000 beneficiaries** – a telephone survey asking for feedback on the nature of support provided, satisfaction levels, effects on behaviours, and impacts on employment and business performance
- **A Counterfactual Impact Evaluation** – econometric analysis to measure the difference in performance between ERDF assisted firms and a control group of non-assisted firms
- **Qualitative research** – interviews with 19 Programme stakeholders; and six ERDF project case studies which included consultations with project managers and beneficiaries.

Headline findings

ERDF Business Support has included a range of support based on the themes of Enterprise, Innovation, ICT, Business Finance, and Community Economic Development, consistent with the aims and objectives of the Operational Programmes.

The evaluation found that, in terms of expenditure, as at the end of January 2015, Business Support projects had spent £712m, including £385m in ERDF. Around 80% of the ERDF awarded had been spent with around six months of the Programme period to run, so projects were broadly on profile.

At the end of January 2015, these projects had created around 29,400 gross new jobs and 10,400 new enterprises, with 14,500 enterprises assisted. While the 'enterprises created' indicator was on target, the 'jobs' and 'enterprises assisted' indicators still had significant progress to achieve in the closing months of the Programmes. Overall, ERDF Business Support had assisted around 5-10% of all businesses in Wales.

The evaluation found there was relatively high awareness of ERDF among beneficiaries. It also highlighted very high levels of satisfaction from beneficiaries of Business Support projects. Based on the evaluation's survey, around 85% of beneficiaries stated that they were satisfied with the relevance, speed, and overall quality of the support.

There was evidence that ERDF support had influenced behavioural change and improvements within businesses. For example, of those businesses involved in business development activity, typically around 40% stated that ERDF support had contributed to this activity. Nearly four out of five beneficiaries reported that ERDF support had contributed to their performance in some way; within this group, nearly 30% stated it had made a vital contribution.

Establishing the impact of the support was more challenging. The evaluation included two approaches to impact assessment: first, using self-reported feedback from the beneficiary survey; second, through econometric analysis (Counterfactual Impact Evaluation). Both approaches were hindered by significant gaps and inconsistencies in the beneficiary data held by WEFO. For the survey approach, these issues made it difficult to establish a fully representative sample for the survey and then in terms of scaling up impact to the wider population of beneficiaries. In the Counterfactual Impact Evaluation, a lack of matches to national datasets of business records made it difficult to create a sufficiently robust control group.

Notwithstanding these significant issues, both sets of impact analysis indicated that ERDF support had had a positive, albeit quite modest, net impact on the performance of beneficiary organisations and therefore had contributed to the growth of the wider Welsh economy during a very challenging economic climate.

Recommendations

1. Any future rationales for Business Support funded by ERDF should be strongly evidence-based, as far as possible demand assessed, and focused on clearly addressing the source market and other failures in play

2. Headline ERDF Business Support objectives should be couched in SMARTer terms with a clearer articulation of the expected outcomes

3. ERDF Business Support providing direct financial assistance should give greater consideration to clear evidence of market/other failure, and continue to encourage businesses towards repayable forms of assistance

4. The incorporation of Cross Cutting Themes should receive greater attention in future ERDF approvals and monitoring

5. WEFO should significantly improve the accuracy and integrity of its beneficiary monitoring systems, to allow effective and timely management information and to enable ongoing and robust programme evaluation

6. Given that the broad range of ERDF Business Support has proven to be useful and well received, there is a case for it continuing under the new ERDF Programmes
7. Future ERDF Business Support should be more prescriptive in terms of its target businesses, prioritising those with greater growth potential which will help ensure higher levels of overall economic impact
8. WEFO should adopt a more strategic approach to the approval of ERDF and ESF applications to ensure targeted businesses can achieve growth ambitions
9. Until such time as the integrity and comprehensiveness of the Programmes' underlying datasets are addressed (Recommendation 5), measuring the impact of support through the use of surveys (of both assisted and non-assisted firms) should be prioritised over econometric analysis methods
10. Formal commitment should be given to ensuring that the legacy impacts of large capital projects are evaluated in the coming years.

1.0 Introduction and Methodology

1.1 Aims of the Project

In August 2014, SQW Ltd, in conjunction with BMG Research Ltd and Aston Business School, was commissioned by the Welsh European Funding Office (WEFO) to undertake an **evaluation of the ERDF Support for Business delivered in the Convergence and Competiveness areas of Wales**. The research was undertaken between September 2014 and May 2015.

1.2 Background and study objectives

Both of the Convergence and Competitiveness ERDF programmes over the 2007/13 period have been used to support economic development in Wales. Within these programmes, direct support has been provided to businesses and social enterprises in the areas of innovation, ICT support, enterprise, business finance and community economic development. It was the Business Support package within the ERDF programmes that was the focus of this evaluation.

The overall purpose of this study was to assess the effectiveness of ERDF support over the 2007/14 period provided to business. Building on preceding Programme research in 2011, this was to be done using a large scale business survey and Counterfactual Impact Evaluation. These areas of work were also to be supplemented by more detailed qualitative feedback from ERDF stakeholders and Business Support projects.

As stated in the Tender Specification, the main aims of the study were to:

- Assess the effectiveness of ERDF support for businesses, with a particular focus on the Enterprise, Business Finance, R&D and Innovation, ICT Infrastructure and Community Economic Development areas of the Programme activity
- Assess the outcomes achieved to date (emphasising economic outcomes in terms of business survival and growth, including employment, turnover and profit) amongst those businesses and social enterprises created, assisted, and financially supported by ERDF projects
- Provide recommendations for the implementation of the 2014/20 ERDF Programmes in Wales, based on the findings of this study.

The more detailed study objectives were to assess:

- General awareness that the support provided/received was funded by ERDF
- Levels of satisfaction with the quality of the assistance and financial support received

- Whether beneficiaries had received ERDF-funded advice and guidance in relation to the Cross Cutting Themes (CCTs) of Equal Opportunities and Environmental Sustainability and levels of satisfaction with this assistance.

1.3 Methodology

During the 2007/13 Programme period, WEFO explored different approaches to undertaking impact evaluation of Structural Funds (ERDF and ESF). A study in 2010 looked at the feasibility of different Counterfactual Impact Evaluation (CIE) methods for evaluating the impact of ERDF and ESF programmes, and recommended the use of quasi-experimental CIE methods[1]. As a result, WEFO introduced a CIE element into ESF Leavers Surveys, and piloted a CIE approach in the ERDF Business Survey, undertaken in 2011. The 2011 Business Survey [2] included two areas of work: a survey of businesses assisted by ERDF projects, and the CIE element which attempted to match the performance of ERDF assisted firms to a suitable control group. However, the CIE analysis encountered major issues in attempting to match sufficient numbers of ERDF supported firms to ONS datasets. Against this background, three main work-streams for the study were agreed with WEFO at the start of the project.

1.4 Business Survey of 1000 beneficiaries

It was agreed with WEFO that the starting point would be the 2011 questionnaire, so that there would be broad commonality in the questions asked. The questionnaire included questions on the profile of the organisations, awareness and motivation for getting ERDF support, the nature of the support provided, satisfaction levels, effects of the ERDF support on key business development activity, and the impact of the ERDF support on employment and business performance. Some additional monitoring questions were included on the profile of jobs supported by ERDF support.

The original beneficiary database provided by WEFO had some major gaps and inconsistencies and so the first task was to clean the database to ensure it could be used for survey sampling. The survey sample was stratified to reflect the number of beneficiaries supported under different Programmes and Priorities and different types of organisations e.g. start-ups, social enterprises and organisations that had been financially assisted.

Beneficiaries were contacted using Computer Assisted Telephone Interviewing (CATI) and were given the option of being interviewed in English

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[1] DTZ (2010), A feasibility study of methodological approaches to undertake impact evaluation of 2007-2013 Structural Fund Programmes in Wales
[2] OldBell3 Ltd (2011) ERDF Business Survey

or Welsh. The main survey took place in January 2015 and 1,001 beneficiaries were interviewed in total. Based on the 7,000 beneficiary records selected: 14% completed the survey; 14% refused or quit the survey; 27% were still live contacts for survey purposes; 27% were unobtainable; and 18% stated that they had not received ERDF support. Various estimates of response rate are used in social research. The response rate for all qualifying records (excluding unobtainable and wrong numbers, those businesses no longer trading and those who did not recall receiving support) was 26%. The profile of survey completions accurately reflected the breakdown of all ERDF beneficiaries (as far as this could be determined bearing in mind the issues experienced in cleaning the data). A Survey Technical Report is included as Appendix 4.

1.5 Data Linking/Counterfactual Impact Evaluation

Aston Business School was commissioned to undertake a Counterfactual Impact Evaluation to assess the impact of ERDF support on business performance. Researchers from Aston Business School liaised directly with the IDBR (Inter Departmental Business Register) team at the Office for National Statistics (ONS) and also staff at the Virtual Micro Laboratory (VML) where this type of econometric analysis is undertaken.

Using two versions of the WEFO beneficiary database, it was eventually possible for the IDBR team at the ONS to attach enterprise reference numbers to around 8,000 ERDF supported firms and these were sent to the VML. These accounted for (at a minimum) 64% of total turnover of the population of supported firms which were of sufficient size to feature on ONS datasets. However, matching to a range of ONS datasets was relatively unsuccessful, with only the Business Structure Database (BSD) providing a large enough match (96%) to utilise in both construction of the control group and the regressions.

Due to the lack of matches with ONS datasets, it was not possible to use propensity score matching to create a control group. Instead, a control group was created manually using a group of firms that had the same sizeband and employment growth distributions as the ERDF-assisted group; this provided a control group of approx. 5,000 firms. To account for selection issues and to try and retain the largest samples possible, two different econometric methodologies were employed to estimate the impact of being assisted; Heckman models and Difference-in-Difference (DID) models. The Heckman models were run on the data pooled together; the DID models were run separately for those in receipt of ERDF support in 2010 and 2011. More detail on the process and the results of the CIE are included in Chapter 9.

1.6 Qualitative Research

It was agreed that there would be two sub elements to the qualitative research; interviews with stakeholders and project case studies. Telephone consultations were carried out with a range of ERDF stakeholders to assess the performance of the ERDF Business Support projects from the perspective of those involved in managing the Programmes, delivering projects, and Programme governance (the Programme Monitoring Committee). During February and March 2015, the consultants spoke to 19 stakeholders.

The aim of the project case studies was to probe in more detail the type of support provided to beneficiaries through the ERDF Programmes, how businesses had benefited as a result, to consider what worked well (and not so well), and to identify key lessons for future interventions. Face-to-face consultations were undertaken with Project Managers, and follow-up telephone interviews were carried out with a small number of beneficiaries from each of the projects. The case studies were undertaken during February and March 2015 and the selected projects were: the JEREMIE Fund; New Business Start-Up Support; Customer Engagement; Seren project; High Performance Computing Wales; Academic Expertise for Business (A4B). The selection of these projects was agreed with WEFO and aimed to incorporate a range of the business support provided. Headline findings are included in Chapter 7 and individual write-ups are included in Appendix 10.

1.7 Approach

In designing the evaluation's coverage, a logic chain approach was used. Logic chains offer a way of thinking systematically through the causes and effects of actions, such as ERDF Business Support, from the underpinning rationales and the objectives that flow from these, to inputs, activities and outputs, through to the eventual intended outcomes. These then lead to impacts, which are the resulting effects on the original contextual conditions and/or rationales which justified intervention in the first place. This report has used the logic chain approach as the basis against which performance and achievement of the Programme have been assessed and probed.

The next Chapter of the report provides an overview of the Economic Context for the ERDF programmes

2.0 Economic Context

Key Messages

- The ERDF Programmes have been delivered during a period of considerable economic uncertainty in Wales, as elsewhere. The scale of economic change was unforeseen, and was certainly not taken into account when the ERDF Operational Programmes were developed in 2006/07
- There is a mixed picture in terms of Wales' headline economic performance since 2007. The business base and employment levels have increased marginally and there have been some larger increases in GVA, productivity, business innovation investment, and exports
- But for many key indicators Wales continues to lag behind other parts of the UK. GVA in Wales increased from £46.7bn in 2007 to 54.3bn in 2014, an uplift of 16%, compared with an increase of 22% across the UK
- Productivity, as measured by GVA per hour worked, increased by 15% from £21.80 in 2007 to £25.10 in 2013. Although the increase was higher than the change at a UK level (13%), Welsh productivity remains 20% lower than the UK average (£30.10)
- The sectoral profile of the Welsh economy remains broadly similar to that in 2007, with no remarkable shifts
- Due to the wider economic climate, more of the ERDF programmes' Business Support is likely to have contributed to safeguarding economic activity than was originally intended when the Operational Programmes were developed in 2006/07
- Whilst the ERDF Operational Programmes have maintained their original strategic focus, their delivery has been shaped significantly by the economic context and the policy responses led by the Welsh Government. The launch of the Economic Renewal Programme in 2010 had a pronounced impact, signalling a still greater focus on innovation, a move towards priority sectors, and a greater emphasis on more repayable finance.

Before assessing the performance of the business support through the two ERDF Programmes, it is important to first consider the context in which they have been operating. Accordingly, this Chapter presents an overview of the performance of the Welsh economy between 2007 and 2014, focusing on those areas that ERDF sought to influence[3]: e.g. Gross Value Added (GVA), productivity, the business base, start-up rates, employment, innovation, exports, and earnings. There is also consideration of the main changes in public policy which the Programmes have had to work within.

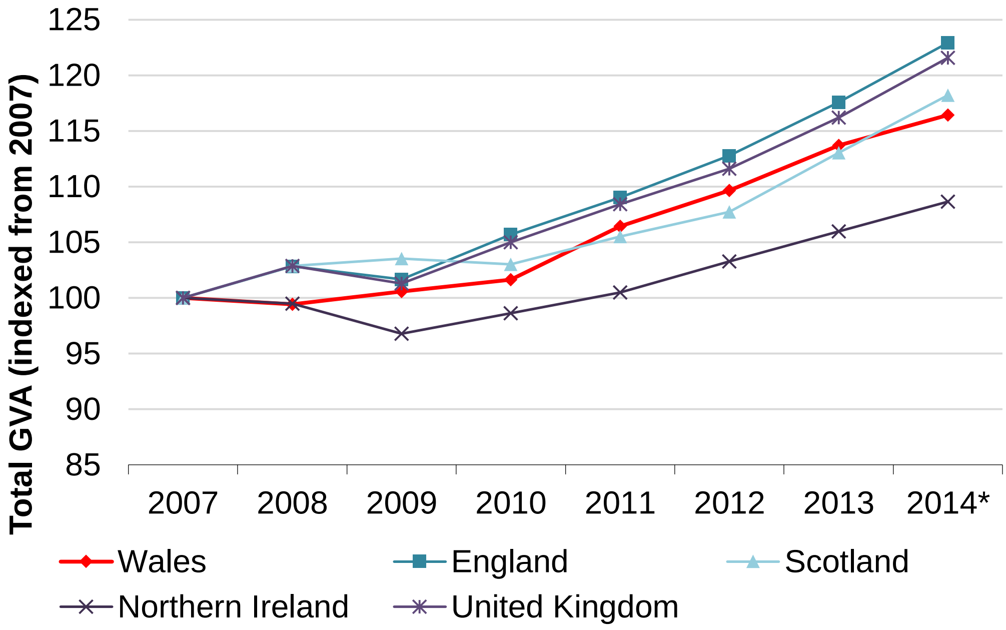
[3] As stated in the ERDF Operational Programmes 2007/13

It should be noted that much of the data are collected towards the end of the calendar year (e.g. Business Demography data collected in November and GVA data collected in December). In determining the most appropriate year for a baseline, it was decided that 2007 was most valid since the ERDF Programmes were launched in late 2007 and projects did not start reporting activity until well into 2008. As the feedback from consultations with stakeholders and Project Managers later in this report makes clear, the Programmes have been delivered during a period of considerable economic uncertainty. The scale of economic change was unforeseen and certainly was not in view when the ERDF Operational Programmes were prepared in 2006/07.

2.1 Headline Economic Performance 2007/14

In 2007, **total Gross Value Added (GVA)** in Wales was £46.7 bn. By 2014, GVA had increased to £54.3bn, an uplift of 16% over the seven year period. However, most of this growth had arisen since 2010. Indexed from 2007, the growth of Wales' GVA performance followed a similar trend to that of the rest of the UK, although it began to decline between 2007 and 2008 while most parts of the UK were still growing but did not experience as sharp a decline between 2008 and 2009 (Figure 2-1). The rate of growth in GVA in Wales since 2007 remained below that of England and the UK, but similar to Scotland and above Northern Ireland.

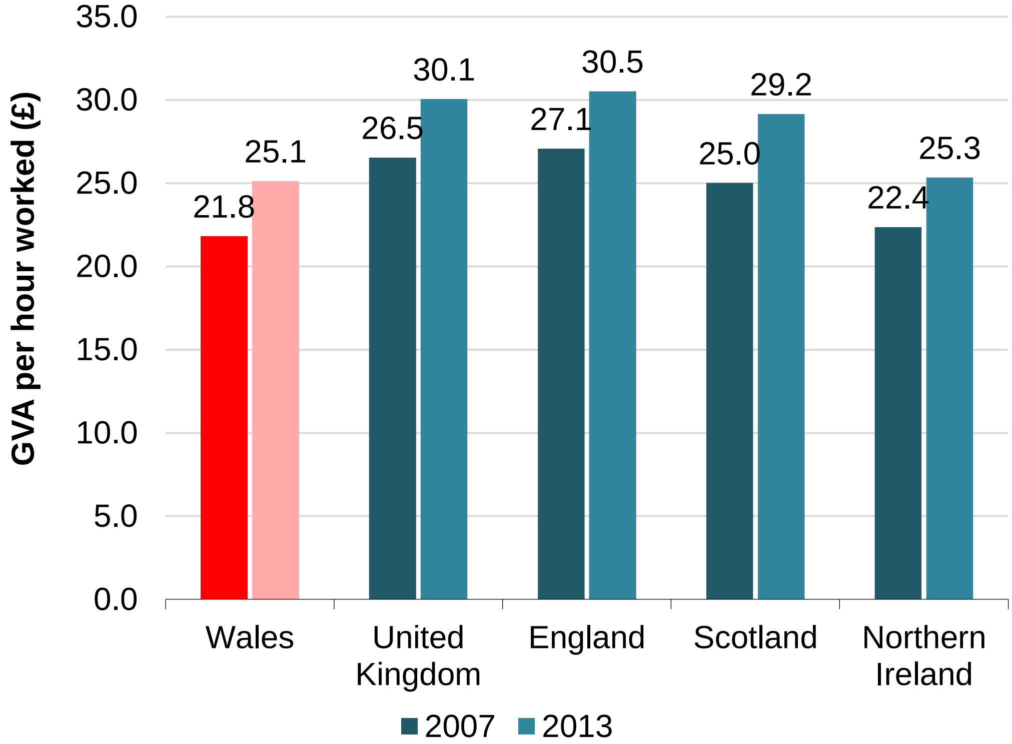
Figure 2-1: Index of GVA, 2007=100



*Source: Regional accounts, ONS. *Provisional data*

Productivity is typically measured in terms of **GVA per hour worked**. In Wales this was £21.80 in 2007. In 2013, the figure had increased by 15% to £25.10. Although the increase was higher than the change at a UK level (13%), Welsh productivity remains 20% lower than the UK average which was £30.10 in 2013. (Figure 2-2).

Figure 2-2: Productivity (GVA per hour worked)



Source: Regional Economic Analysis, Sub-regional productivity, Feb 2015, ONS

In 2014, Wales had 92,445 **registered businesses**[4]. This represents a marginal increase of 1,685 (2%) since 2007. Just under 60% of businesses in Wales were located in West Wales and the Valleys, which saw a 0.6% decrease between 2007 and 2014. East Wales, by contrast, saw a rise of just under 6% in the number of registered businesses.

Similar to the overall business base, the number of Welsh businesses per capita (measured per 10,000 working age population) in 2014 was slightly above the level in 2007. The 1% increase in registered businesses per capita compared to an overall increase of 9% across the UK for the same period. With 481 active enterprises per 10,000 population, Wales had the third lowest density of businesses across all regions and countries in the UK and somewhat lower than the UK average of 622 enterprises per 10,000 population.

[4] Business demography statistics, ONS

The **total number of jobs** in Wales increased marginally from 1.374m in 2007 to 1.397m in 2014[5]. However, between 2008 and 2009 there was a drop in workplace employment of 40,000. East Wales recovered the more quickly from the decline, with workplace employment growing by around 19,000 jobs over the seven years. Workplace employment in Wales West and the Valleys still remains at 2007 levels.

Looking at the employment rate in Wales, based on the ONS Annual Population Survey, this increased by 0.4% between 2007 and 2014. The UK as a whole saw a decline of 0.3 % over the same period. Northern Ireland was the only other area to see an increase. Wales' employment rate does, however, remain below the level for the rest of the UK, at 4% lower in 2007 and 3.3% lower in 2014.

In the Table below, the performance of the Welsh economy is summarised since 2007. The metrics include **other key indicators** including start-up rates, innovation, exports, skills and earnings. Whilst most of these metrics show some positive change in Wales, the performance continues to lag behind the UK as a whole.

Table 2-1: Summary of economic indicators

Indicator	Summary	Change since 2007	Relative to UK change since 2007	Latest vs UK average
GVA	Welsh GVA grew from £46.7bn in 2007 to £54.3bn in 2014, an uplift of 16% over the seven year period. However, the rate of growth in GVA remained below that of other parts of the UK (with the exception of Northern Ireland).	↑	↓	-
GVA per head	Welsh GVA per head increased from £17,215 in 2007 to £17,573 in 2014, a 13% uplift. The average increase across the UK during this period was 15%. Wales has the lowest GVA per head figure out of all nations and regions in the UK.	↑	↓	↓
GVA per hour worked	Productivity, as measured by GVA per hour worked, increased by 15% from £21.80 in 2007 to £25.10 in 2013. Although the increase was higher than the change at a UK level (13%), Welsh productivity remains 20% lower than the UK average (£30.10).	↑	↑	↓

[5] StatsWales – Workplace employment by industry and area

Indicator	Summary	Change since 2007	Relative to UK change since 2007	Latest vs UK average
Business stock	In 2014, Wales had 92,445 registered businesses, a marginal increase of 1,685 (2%) since 2007. Wales had an additional 1% registered businesses per capita compared to 2007, versus an overall increase of 9% across the UK for the same period.	↑	↓	↓
Employ-ment	The Welsh employment rate increased by 0.4% between 2007 and 2014. The UK as a whole saw a decline of 0.3 % over the same period. Wales' employment rate remained below the level for the rest of the UK, at 4 percentage points lower in 2007 and 3 percentage points lower in 2014.	↑	↑	↓
Start-up rates	The number of business births in Wales increased from around 9,900 in 2007 to 11,350 in 2014. The start-up rate in Wales increased by 14% and for the UK the increase was 21%. The Welsh rate continued to be well down on the UK average.	↑	↓	↓
Business death rates	The number of business closures in Wales decreased slightly from 8,520 in 2007 to 8,490 in 2014. The business death rate in Wales has remained broadly the same over this period whilst the rate across the UK increased by 4% between 2007 and 2014.	↑	↑	↑
Innovation	Business Enterprise Research and Development (BERD) expenditure grew from £308m in 2007 to £397m by 2014, an increase of 29% and slightly higher than the increase across the UK. However, the level of spend per 10,000 of the population remained below the level for the rest of the UK.	↑	↑	↓
Exports	The value of Welsh exports outside the UK increased from £9.0bn in 2007 to £13.3bn in 2014, an increase of 47%. Total UK exports increased from £220bn to £287bn, an uplift of 31%.	↑	↑	-
Skills	The proportion of Wales' working age population qualified to NVQ Level 4 or above has increased from 30% to 38% between 2007	↑	↑	↓

Indicator	Summary	Change since 2007	Relative to UK change since 2007	Latest vs UK average
	and 2014. However, this remained below the UK average which increased to 40% of the working age population. The proportion of the working age population with no qualifications has reduced from 11% in 2007 to 6% in 2014. Again whilst this is obviously a major improvement, Wales continues to have higher levels of people with no qualifications than most other parts of the UK (the UK average in 2014 was 5.6%).	↑	↑	↓
Earnings	Average gross weekly earnings rose from £472 in 2007 to £539 in 2014, an increase of 14% and slightly higher than the increase of 13% for the UK over the same period. However, average gross weekly earnings in Wales remained below the UK average in 2007 and 2014, by £78 and £82 respectively.	↑	↑	↓
Gross Disposable Household Income	GDHI per head increased in Wales from £13,000 in 2007 to £15,400 in 2013 representing an increase of 18%. Across the UK, GDHI per head increased by 15%. The average income per head in Wales remains down on the UK average of £17,600.	↑	↑	↓

Source: SQW analysis of various ONS and StatsWales datasets (See Appendix 2)

2.2 Profile of Businesses and Employment in Wales

Taking into account all types of businesses (registered and unregistered) there were around 233,000 businesses[6] in Wales in 2014. As is the case for the UK as a whole, the vast majority of businesses in Wales are micro-enterprises (95%), employing fewer than ten people. There has been very little change in the profile of the size of businesses between 2007 and 2014. In 2014, the largest sectors in Wales in terms of the business stock were Construction (14%), Professional, Scientific and Technical (14%), and Accommodation and Food Services (10%). There was relatively little change in the sectoral profile of businesses between 2008 and 2014. Construction and Retail both had small declines in this period. The Information and

[6] StatsWales – Business Structure figures based on IDBR and Labour Force Survey

Communication, Professional, Scientific and Technical, and Health sectors all had small rises.

In 2014, there were just over 1.40 million jobs in Wales and just under a third of employment (31%) was based in the Public Sector[7]. A further quarter of jobs were accounted for by the Wholesale/ Retail/ Transport/ Hospitality sectors. There has been little change in the proportion of employment across the main industries between 2007 and 2014. Across all the sectors, there was a net increase in employment of 22,800. From looking at the profile of the business base and workforce it is clear that, overall, the sectoral profile of the Welsh economy remains broadly similar to that in 2007.

2.3 Economic and Policy Context for the ERDF Programmes

The two ERDF Programmes were developed in 2006 and 2007 when the Welsh economy was growing steadily. They had a strong focus on growth, increasing innovation, and productivity. However, as highlighted above, during the first two years of the ERDF programmes, 2008 and 2009, the Welsh economy (as measured by GVA) experienced a significant falloff in its output. The recession and banking crisis in 2008 and 2009 resulted in major job losses across Wales, and businesses irrespective of size found it increasingly difficult to access finance. With suppressed demand, many businesses moved from a mind-set of growth to one of consolidation, employment sheltering, and in some cases survival. Public sector austerity measures were soon implemented by the UK Government which put extra pressure on the economy with its already high levels of public sector employment.

From the ‘formal’ start of the recession in 2008, the Welsh Government organised regular Economic Summits to bring together public, private and third sectors to agree how to address the downturn[8]. Many of the resulting Government-led measures were enabled through use of ERDF and ESF, solely or in combination. Additional support was provided through the Flexible Support for Business (FS4B) initiative (now Business Wales), the Strategic Investment Fund, and the JEREMIE Fund was launched to help issues around access to finance. There were also a range of employability, apprenticeship and workforce development programmes implemented with ESF support. During this early period of implementing the ERDF programmes, there was a strong focus on using ERDF to support Welsh Government initiatives to address the economic downturn.

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[7] StatsWales – Workplace Employment figures based on Annual Population Survey & BRES

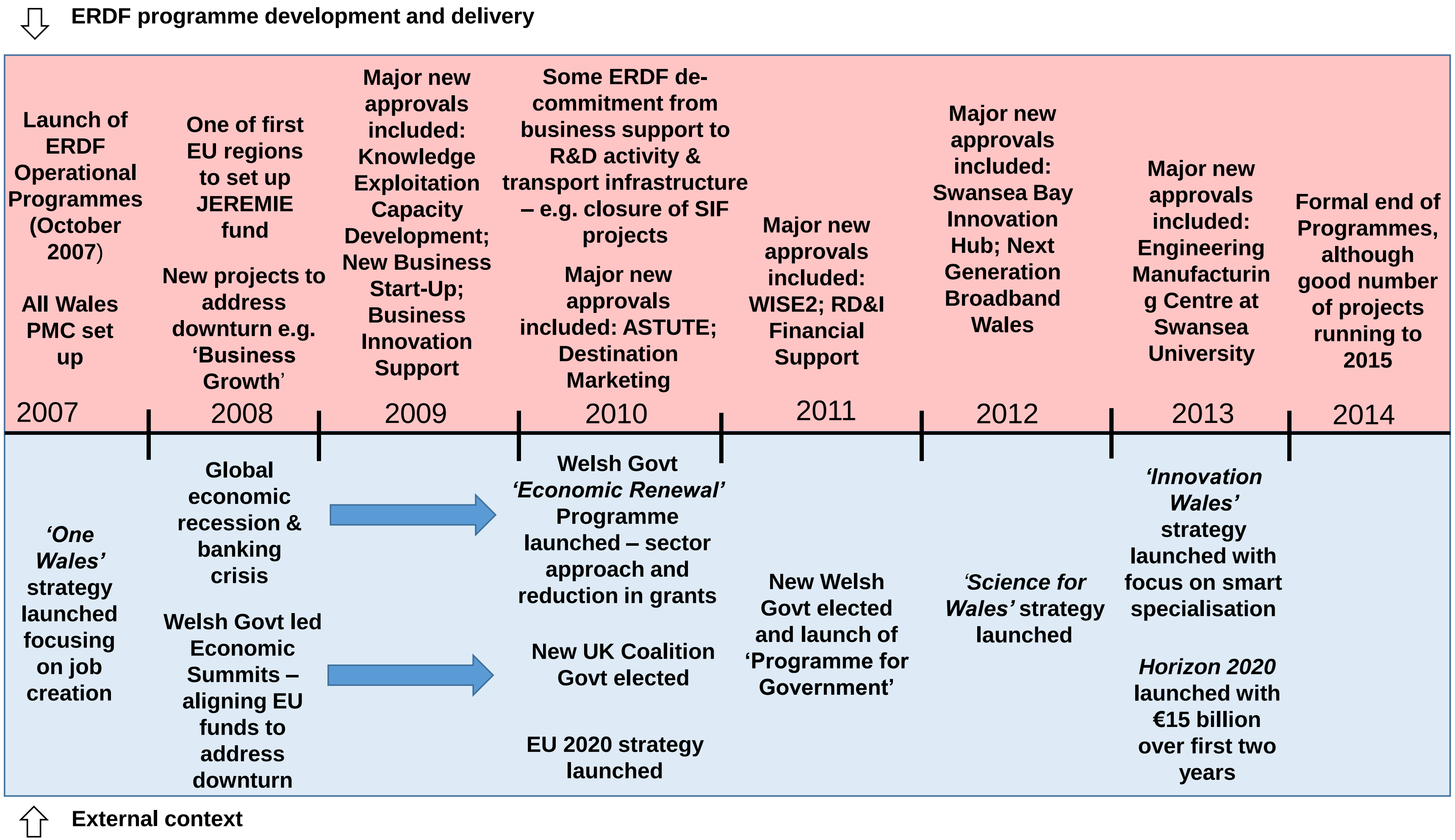
[8] More recently this has become the Council for Economic Renewal

In 2010, there was a significant shift in the Welsh Government economic development policy with the launch of the Economic Renewal Programme. In terms of Business Support, the policy put more emphasis on investing in business infrastructure (e.g. through Broadband), encouraging innovation, and a greater targeting of business support. This involved prioritising key sectors (Advanced Materials and Manufacturing; Creative Industries; Financial and Professional Services; Energy and Environment; Life Sciences; and ICT) and moving towards an 'investment culture' with the intention of more use of repayable finance rather than grants. The aim here was to start to move the beneficiary base away from 'free money' and onto repayment methods that would prepare for and enable use, in due course, of market provision. This resulted in some significant changes to approved ERDF projects, and in particular the closing of the Strategic Investment Fund project.

Over the following five years, there have been other policy changes which have also influenced the development of ERDF projects. These included the Programme for Government in 2011 and launch of the 'Science for Wales' and 'Innovation Wales' strategies. Towards the end of the Programme period, there have also been some notable investments in large capital projects such as the Engineering Manufacturing Centre at Swansea University.

In summary, whilst the ERDF Operational Programmes have maintained their original strategic focus, their delivery has been shaped significantly by the economic context and the policy responses led by the Welsh Government. The launch of the Economic Renewal Programme in 2010 had a pronounced impact, signalling a still greater focus on innovation, move towards key priority sectors, and a greater emphasis on more repayable finance. Figure 2-3 summarises the developments within the ERDF programmes alongside some of the major policy developments and external influences.

Figure 2-3: 2007/13 ERDF Programme Timeline



Source: SQW analysis of WEFO Annual Implementation Reports

3.0 Overview of ERDF Business Support

Key messages

- The rationale for the ERDF Programmes was clearly set out in the two Operational Programmes (OPs). In terms of the need for the Business Support, the main rationales for intervention were around low productivity, low use of ICT, low business expenditure on R&D, and low rates of entrepreneurship
- The OPs' vision was to make Wales 'vibrant and entrepreneurial' and 'at the cutting edge of sustainable development'. The OPs' objectives were aligned to address the main challenges and intervention rationales
- As of January 2015, the two ERDF Programmes comprising 179 projects had spent around £1,685m including £850m provided by ERDF. This represented 78% of the total ERDF which had been approved for the Programmes. The 69 projects focussed on Business Support specifically had spent £712m, including £385m in ERDF (77% of the approved ERDF)
- The Business Support projects had so far created around 29,400 gross new jobs and 10,400 new enterprises, with 14,500 enterprises being assisted. While the 'enterprises created' indicator was on target, the 'jobs' and 'enterprises assisted' indicators still had significant progress to achieve in the closing months of the Programmes[9]
- Across Business Support projects, there had been a good spread of activity under the different Strategic Frameworks of Enterprise, Innovation, ICT, Business Finance, and Community Economic Development.

This Chapter provides an overview of the business support that has been provided through the two ERDF Programmes: the West Wales and the Valleys Convergence Programme; and the East Wales Regional Competitiveness and Employment Programme. After setting out the original rationale and objectives of the Programmes, the Chapter assesses their overall performance based on the monitoring data on expenditure and outputs. The Chapter draws on the Programmes' background documents and monitoring data. Feedback from our discussions with stakeholders in relation to rationale, objectives and project activity are set out in Chapter 4.

3.1 Rationale and objectives

The two Operational Programmes provided a comprehensive analysis of the economic performance of the two regions. They also described the main strategic challenges which ERDF support was intended to address. Collectively, these represented the rationale for providing ERDF support. There were some differences between the two regions but the main challenges were common across Wales:

[9] SQW analysis of WEFO data January 2015

- **Lower added value per worker** – this was explained by the regions' industrial composition rather than the Welsh workers being less productive than UK and EU counterparts. Wales was under-represented in higher value added service sectors and over-represented in lower value production jobs. In addition many areas, especially in West Wales and the Valleys, were populated sparsely and unable to benefit from agglomeration effects
- **Low use of ICT among businesses** – there were issues around a lack of ICT infrastructure impacting on business productivity and access to markets
- **Low expenditure on R&D** – this was a feature across the business base, in large part reflecting the industrial composition
- **Low employment rates and lower rates of entrepreneurial activity** – despite past efforts (including with Structural Fund resources), there continued to be pockets of deprivation and high economic inactivity, often in those areas undergoing industrial restructuring. Reflecting a heritage of paternalistic employment, there were lower rates of VAT registration.

Rationale – implications

- The Operational Programmes emphasised throughout that intervention should be based both on addressing these strategic challenges for the Welsh economy and where there was evidence of market failure. However, the view of the evaluators is that there could have been a clearer articulation in the Operational Programmes of the different types of market failures that ERDF was aiming to address in terms of business support.

3.1.1 Aims and Objectives of the ERDF programmes

The overall Aim of the two Programmes was shared, namely to:

> *'. . . Make West Wales and the Valleys/East Wales a vibrant, entrepreneurial region at the cutting edge of sustainable development.'*

The headline objectives for the two Programmes are set out below. These then translated into five Strategic Priorities (and Themes) in the Convergence Programme and four Strategic Priorities for the Competitiveness Programme. Although indicators and targets were set under each of the Strategic Priorities, these headline objectives could have been set up to be SMARTer (Specific, Measurable, Achievable, Relevant and Time-bound). For example, 'promoting business competitiveness', and 'encouraging regeneration' are so flexible that they could include most areas of economic development activity. In addition, the way in which the Programmes were set up made it difficult to measure the difference that ERDF was making to these broad economic objectives.

Table 3-1: Programme objectives

Convergence	Competitiveness
• Promote a high value-added economy by improving knowledge and innovation for growth and increasing utilisation of ICT	• Promote a high value-added economy by improving knowledge and innovation for growth
• Strengthen the economy by increasing the size and widening the range of the business stock and tackling market failures in relation to business advice, information and finance	• Promote business competitiveness and growth
• Equip the region with the physical infrastructure necessary for the development of a modern and competitive economy and to overcome 'agglomeration' deficits	• Tackle the challenges of climate change
• Build sustainable communities and promote sustainable urban regeneration	• Encourage regeneration for growth

Source: WEFO (2010) ERDF Operational Programmes

In addition, the Operational Programmes set out their commitment to the Cross Cutting Themes (CCT) of Environmental Sustainability and Equal Opportunities. The objectives for the CCTs are set out below.

Table 3-2: CCT objectives

Environmental Sustainability	Equal Opportunities
• Reducing emissions of greenhouse gases to help limit the extent of climate change and help to adapt to its effects • Promoting sustainable transport • Promoting efficient use of resources • Promoting biodiversity and the sustainable management of the land, sea and inland waters • Improving the quality of the local built environment and opportunities to access green space • Minimising the risk of pollution and other environmental hazards thereby safeguarding the health of communities and the environment	• Increasing the number of individuals who have multiple disadvantages accessing employment and self-employment • Increasing the number of women, BME people and disabled people securing training and employment in higher paid and higher skilled sectors and self-employment • Challenging occupational segregation by increasing the numbers of women and men training or retraining in non-traditional areas, focusing on areas where there are skill shortages • Increasing the number of employers and training organisations that have equality and diversity strategies, including monitoring systems and methods for feeding in improvements

Source: WEFO (2010) ERDF Operational Programmes

3.2 Description of Activities

In order to achieve the objectives, theme-based Strategic Frameworks were developed to guide potential project sponsors on what was expected to take the programmes forward. These Frameworks also assisted WEFO in selecting and prioritising projects. Out of the nine Strategic Frameworks supporting the Programmes' overall, five were most relevant to direct business support (i.e. the scope of this evaluation):

- **Innovation, R&D, and Technology** – ERDF Convergence Priority 1 Theme 1; and ERDF Regional Competitiveness and Employment Priority 1
- **ICT Infrastructure and Exploitation** – ERDF Convergence Priority 1 Theme 2; and parts of ERDF Regional Competitiveness and Employment Priority 1
- **Enterprise** – ERDF Convergence Priority 2 Theme 1; and ERDF Regional Competitiveness and Employment Priority 2
- **Business Finance** – ERDF Convergence Priority 2 Theme 2; and ERDF Regional Competitiveness and Employment Priority 2
- **Community Economic Development** – ERDF Convergence Priority 5 Theme 2.

3.4 Overall Performance to Date

3.4.1 Spend to Date

The latest project monitoring data, as of the end of January 2015, shows that the two ERDF Programmes had spent around £1,685m, including £850m provided by ERDF (Table 3.3). This represented 78% of the total allocation available to the two ERDF programmes. With this resource, a total of 179 projects had been supported to date, 151 projects in the Convergence Programme and 28 projects in the Competitiveness Programme area.

Of these 179 projects, 69 focused on business support. These projects have a combined approved expenditure of £970m, including £501m in ERDF. To date, £712m had been claimed in eligible expenditure of which £385m had been provided by ERDF. The approved ERDF for these projects accounted for 46% of the total ERDF approved across the two Programmes overall.

As this report goes on to discuss later, the business survey for the evaluation covered 47 of these projects. Some Business Support projects had either recently been evaluated or were going to be shortly, or were primarily capital projects with no business beneficiaries at this stage. In total, these Business Support projects had a combined approved expenditure of £643m, including £317m in ERDF. To date, £537m had been claimed in eligible expenditure and £257m in ERDF (81% of approved ERDF).

Table 3-3: Spend to date (£m) – Business Support projects & all ERDF projects

	Approved – total	Approved – ERDF	Claimed – total	Claimed – ERDF	% ERDF claimed
Business Support projects – Convergence	836.57	456.95	605.87	349.16	76%
Business Support projects – Competitiveness	134.90	43.81	105.70	36.34	83%
All Business Support projects (69 projects)	**971.48**	**500.76**	**711.57**	**385.50**	**77%**
Business Support projects covered by survey (47 projects)	642.64	316.71	536.64	257.24	81%
Convergence – whole Programme	1,793.85	1,026.30	1,544.23	800.22	78%
Competitiveness – whole Programme	134.65	60.69	140.43	51.04	84%
All ERDF	**1928.51**	**1,086.98**	**1,684.66**	**851.26**	**78%**

Source: SQW analysis of WEFO monitoring data

Spend to date – implications

- Around 80% of approved ERDF had been spent to date in the Business Support projects with 6-12 months remaining (assuming most projects had claimed up to December 2014). However, from the case study work it is understood that some projects had not yet submitted their October to December claims. WEFO should ensure that all project claims are up to date to ensure a full picture of activity for these projects.

3.4.2 Outputs Achieved to Date

The output data provided for the 69 Business Support projects was the current picture as at the end of January 2015. In many cases, this information will have been completely up to date (i.e. claimed up to the end of December 2014) but it is clear that in some cases projects may have been a quarter behind (as was the case with the New Business Start-Up projects).

Based on these January 2015 monitoring data, the Business Support projects had so far created around 29,400 gross new jobs and 10,400 new enterprises, and assisted 14,500 enterprises (Table 3-4). While the *'enterprises created'* indicator was on target, the *'jobs'* and *'enterprises assisted'* indicators had some way to go over the last few months of the ERDF Programmes. Over 3,000 enterprises had been provided with some form of financial support, which represented 85% of the target.[10]

The Business Support projects had already surpassed their combined targets for *'social enterprises assisted'* (105%) and *'organisations financially assisted'* (119%). However, many of the project-based targets relating to Cross Cutting Themes (e.g. *'Implementing Environmental Action Plans'* and *'Adopting Equality Strategies/Monitoring Systems'*) were some way down on their targets. Table 3-4 provides the status of the core business support indicators for the two ERDF Programmes at January 2015. A full list of indicators in provided in Appendix 3.

Table 3-4: Performance of Business Support against project based targets

	Convergence			**Competitiveness**			**Both Programmes**		
	Targets	Actuals	%	Targets	Actuals	%	Targets	Actuals	%
Gross jobs created	31,690	21,064	66%	10,155	8,333	82%	41,844	29,396	70%
Enterprises created	8,430	6,985	83%	3,138	3,449	110%	11,568	10,434	90%
Enterprises assisted	16,911	11,857	70%	4,404	2,610	59%	21,315	14,467	68%
Enterprises financially supported	3,091	2,716	88%	560	391	70%	3,651	3,107	85%

Source: SQW analysis of WEFO monitoring data

The three main business related output indicators are *'gross jobs created', 'enterprises created' and 'enterprises assisted'*. As shown in Table 3-5, the outputs achieved through the Business Support projects (perhaps unsurprisingly) have

[10] These are the combined targets from all approved Business Support projects

accounted for nearly 100% of these outputs for the ERDF Programmes as a whole. As a result, the performance of both ERDF programmes against project-based targets is broadly the same as for the Business Support projects. What is clear from the table below is the difference between the original targets in the Operational Programmes and the sum of the project-based targets, or forecasts. For example, the Programmes had already achieved nearly double the target of *'enterprises created'* as set out in the Operational Programmes, but 90% of the project based targets. The difference could be down to a tendency by project sponsors to overestimate what their project will deliver. Alternatively, it could perhaps be argued that the original Operational Programme targets were set too low. The over-performance on the enterprises created indicator could be linked to the economic recession (with many people made redundant and encouraged to start their own business).

Table 3-5: Wider ERDF Programmes' performance against key business output indicators

	OP Targets	Project Targets	Claimed to date	% of OP Targets	% of Project Targets
Gross jobs created	38,540	43,061	30,415	79%	71%
Enterprises created	5,604	11,585	10,435	186%	90%
Enterprises assisted	15,900	21,794	14,815	93%	68%

Source: SQW analysis of WEFO monitoring data

Outputs to date – implications:

- As described above, the Business Support outputs for gross jobs created, enterprises created and enterprises assisted accounted for nearly 100% of these outputs for the wider ERDF programmes. Against the OP targets, these were broadly on track (with the enterprises created output already surpassed) but some work is required to achieve the project-based targets.

3.5 Profile of Business Support projects

Within the group of 69 Business Support projects, there had been a good spread in the number of projects under each of the Strategic Frameworks. In terms of expenditure, 41% had been spent so far under the Innovation Framework, just over a fifth (21%) had been spent on ICT projects and 19% had been spent so far on Business Finance activities (Table 3-6). The spend figures suggest that the ICT Theme projects were behind schedule, with 62% of the approved ERDF claimed to date.

Table 3-6: Breakdown of Business Support projects by Strategic Framework – expenditure

Strategic Framework	Number of projects	Approved ERDF £m	Claimed ERDF £m	% of Framework ERDF claimed	% of total ERDF claimed to date
Innovation	23	201.03	159.41	79%	41%
ICT	10	132.47	82.31	62%	21%
Enterprise	15	60.11	48.94	81%	13%
Business Finance	10	76.95	71.40	93%	19%
Community Economic Development	11	30.19	23.44	78%	6%
Total	**69**	**500.76**	**385.50**	**77%**	**100%**

Source: SQW analysis of WEFO monitoring data

Within the 69 projects, there has been some significant capital investments. These include the Next Generation Broadband for Wales (£56 million approved ERDF), the Engineering Manufacturing Centre (£18 million) and Innovation Hub at Swansea University (£15 million). These large infrastructure investments did not have any agreed business output indicators (jobs created, businesses supported) as it was never intended that these projects should directly support beneficiaries. As a result, the projects could not be included in the business survey for this evaluation. This means that for a large proportion of expenditure deemed to be Business Support, there is no evidence of any business level impact that this investment has made, at least at this stage. Whilst this Chapter has reviewed the relevant background documents and monitoring data, the next part of the report considers the feedback from discussions with stakeholders.

4.0 Process Perspectives 1: *Stakeholder* Views

Key Messages

- Stakeholders recognised the challenges in launching the ERDF programmes and Business Support projects during a period of economic recession but most stated that the programmes had adapted well to the changing circumstances
- Consultees indicated a relatively strong alignment between the ERDF Business Support with national programmes (such as the Science Wales and Innovation Wales strategies) and the Welsh Government's integrated business support package
- Stakeholders indicated that the Programmes had struck a good balance between their different strands of activity (Innovation, Enterprise, Access to Finance, ICT, and Community Economic Development). However, some stakeholders said that resources had been spread too thinly, in part, due to a general desire to share support evenly rather than to target it where maximum economic impact might have been achieved
- There were mixed views on how well the Programmes have managed to move away from grant-based funding to repayable financial assistance. Some believed the continuing availability of grants undermined the repayable finance schemes. Others maintained that there was still a need for grants, especially in relation to R&D and innovation activities and start-ups/small firms requiring an injection of less than £10,000
- There was also a mix of views among stakeholders with regard to the operation of the Cross-Cutting Themes (CCTs) and their relevance to some Business Support projects. Consultees noted that WEFO had placed greater emphasis on the CCTs in the 2007/13 Programmes than had been the case with the previous ones
- Consultees reported that the Programmes appeared to be performing well against targets. Over time, the scale of activity (and outputs) were said to have broadly matched expectations, with some stakeholders pointing out that 'in the circumstances' this performance should be seen as 'success'
- Some stakeholders said that the Programmes had had a positive impact in terms of the scale of activity, e.g. research and business growth projects would have had to operate at a smaller scale, in the absence of ERDF funding
- There was some limited evidence of Strategic Added Value from the Programmes. In terms of networking, some consultees commented that the ERDF projects had improved business-university and inter-university collaborations. It was also suggested that the programmes have encouraged innovation not only in terms of specific innovation projects but also in terms of encouraging the development of new approaches to Business Support.

This Chapter reports back on the perspectives and views gained from 19 ERDF stakeholders consulted during February and March 2015. Consultees included representatives from the private sector, the voluntary sector, universities, local government, Welsh Government and the Welsh European Funding Office. A list of consultees is included in Appendix 1. Stakeholders offered views from a number of different perspectives, ranging from a detailed knowledge of particular elements in the two Programmes, to hands-on experience of Programme and/or project management, and on to a disinterested overview of the Programmes from a representative with no EU-funded interests of their own.

4.1 Overview and Strategic Fit

Stakeholders reported a number of issues which the Programmes were required to address: relatively low levels of productivity and entrepreneurship, grant-dependency among some businesses, SMEs' long-standing difficulties in accessing finance, and a relatively poor record of businesses translating cutting-edge research into commercial processes and products. Consultees indicated a relatively strong alignment with national programmes (such as the Science Wales and Innovation Wales strategies) and the Welsh Government's integrated business support package.

An over-arching objective of the programmes was to raise productivity, which is Gross Value Added (GVA) per worker. However, some consultees queried whether the Programmes were of sufficient scale to achieve a measurable impact on productivity at the level of Wales. Other consultees noted that projects' targets were for jobs created and businesses supported, which, some consultees observed may not necessarily lead to increased productivity.

On the Programmes' objectives, design and operation, stakeholders held a range of views. However, some over-arching themes emerged. First, the initial intention of the Programmes was said to be to provide support to businesses that possessed growth potential. But, it was noted, the economic recession, which started in 2008/09, changed the economic context and, therefore, the political and economic priorities of key partners. In response to changing economic circumstances, the Programmes were used to support and sustain economic activity, rather than to support firms with growth potential. Second, a number of consultees noted the Programmes' sought initially to move away from a grant-based approach to repayable finance, as a means of breaking 'grant dependency' and building a sustainable long-term model for supporting economic growth. Third, stakeholders reported that, given the circumstances, the Programmes had performed reasonably well; although a number of consultees pointed out that their views were based on reported outputs and remarked on the absence of robust, systematic evidence of the Programmes' economic impact as measured by GVA per worker. At the same time it was acknowledged by stakeholders that the purpose of this study was to provide an assessment of economic impact.

Stakeholder feedback – implications

The feedback from stakeholders regarding overall aims of ERDF Business Support raises some interesting issues:

- Firstly, the point was made about the scale of the intervention and whether this was likely to achieve a measurable impact on productivity in the Welsh economy. As already discussed, there was some improvement in GVA per job over the period but Wales continues to lag behind other parts of the UK. This would suggest the impact to date has been quite modest.
- Second, it was highlighted that due to the economic conditions ERDF Business Support had to do more to help businesses through the recession. This potentially has implications as the Operational Programmes had a clear focus on supporting growth.
- If the strategic aim of ERDF Business Support was to focus on growth and improved productivity, there was perhaps a case for more targeting of growth-orientated and higher value added businesses than was the case in the 2007/13 programmes. It was recognised that closer integration of ERDF and ESF projects would be beneficial in terms of supporting management and leadership skills; this would help ensure targeted businesses can achieve growth ambitions.

In general, stakeholders said that the Programmes had adapted well to changing economic circumstances. Most consultees reported maintenance of the Programmes' Objectives in terms of developing the knowledge-based economy, supporting innovation, improving access to and increasing take-up of ICT, improving competitiveness, promoting entrepreneurship and increasing productivity and earnings. But they also noted that there had been a switch in emphasis away from targeting support on growth businesses to providing support to help sustain employment and economic activity; along with a return to using grants. Thus, a number of initial intents were overtaken during the course of the Programmes' lifetimes.

Consultations also indicated that the onset of economic recession had meant that many businesses had to focus on the short term, rather than on long-term issues. This damped demand for projects supporting R&D, although it was noted that demand for such projects picked up eventually. Some stakeholders indicated that the Programmes had shifted emphasis quite effectively; although a number of consultees noted that some projects, such as the four JEREMIE projects which provided repayable finance to firms, had maintained their original criteria. Most stakeholders did not draw a distinction between the priorities, operation or achievements of the Convergence Programme relative to the Competitiveness Programme, except to note that the scale of the former was so much larger than that of the latter.

4.2 Type of Business Support activity funded

Consultees indicated that the Programmes had, generally, struck a good balance between their different strands of activity (Innovation, Enterprise, Access to Finance, ICT, and Community Economic Development). However, some stakeholders said that resources had been spread too thinly, in part as a result of relatively high targets for the number of firms assisted and, in part, due to a general desire to share support evenly rather than to target it where maximum economic impact might have been achieved.

Most consultees who expressed an opinion said that the programmes had delivered the type of business support that they had expected. One consultee remarked on a lack of activity on supply-chain development, which could have been built into inward investment projects, for example. A couple of consultees also remarked on the relatively slow start with regard to the ICT element of the Programmes, that is, until the decision was taken to support broadband projects and High Performance Computing Wales.

One of the initial intents of the Programmes was to move away from grant-based funding to repayable financial assistance, in order to break a perceived grant-dependency culture and to help make programmes sustainable over time. Stakeholders were asked whether they thought a good balance had been struck between grants and repayable finance. Overall, consultations indicated that the economic recession meant grants were used more than had been anticipated at the start of the Programmes. A number of consultees argued that the availability of grants undermined the repayable finance schemes, citing examples where firms had pulled out of loans because they had been awarded a grant. Set against this, a minority of consultees expressed doubts as to the wisdom of the long-term aim of switching from grants to repayable finance; this was because they judged that there was still a need for grants, especially in relation to R&D and innovation activities and start-ups/small firms requiring an injection of less than £10,000.

4.3 Project Quality

Consultees from business, voluntary sector, universities, local government and Welsh Government highlighted a number of projects which they judged to be successful, either based on reported outputs, or because of their contribution to the Programmes' Objectives.

Consultees also indicated where they thought projects had not done as well as expected, although there was less agreement on these than on those that appeared to have performed well. Specifically, there was some scepticism regarding a couple of ICT projects, as there was said to be a demand-side failure (i.e. a lack of demand from businesses) while the projects in question focused on supply-side issues.

There was a mix of views among stakeholders with regard to the operation of the Cross-Cutting Themes (CCTs) and their relevance to some business support projects. Consultees noted that WEFO had placed greater emphasis on the CCTs in the 2007/13 Programmes than had been the case with the previous ones. More WEFO resources had been dedicated to the issues, and progress had been made in integrating CCT performance as a part of project reviews. Some consultees noted the relevance of CCTs to some projects, especially those related to resource efficiency for businesses. Others highlighted the importance of the Equal Opportunities element of the CCTs and the support provided in relation to the Welsh language.

Some consultees expressed concerns about the reporting requirements associated with the CCTs, given some businesses had received assistance which was not directly related to the CCTs. Furthermore, some consultees observed that business support providers were not necessarily well-placed (i.e. lacked the necessary knowledge and expertise) to provide advice on the CCTs and, therefore, tended to refer clients to third-party providers. A consequence of this process was some uncertainty as to which provider could or should report/claim the CCT-related outputs. Others commented on the need for the CCTs to be *'applied in a realistic and sympathetic way'*, given the size and capacity of many of the small companies that the Programmes assisted. A number of consultees expressed the view that the CCTs appeared to be bolted on to some projects, although it was recognised that this is not specific to the business support programmes. A number of consultees indicated that, as the economic recession began to bite, the imperative became supporting businesses on the one hand and maintaining the Programmes' spend profile on the other, which had the effect of downplaying the importance and delivery against CCTs.

4.4 Programme and Project Promotion

There was a general consensus amongst stakeholders that the ERDF programmes had been promoted relatively well, as indicated by the numbers of businesses supported by the Programmes. The promotion of the business support Programmes was seen as inseparable from the promotion of 'Business Wales'. The LIF programmes were reported to have had consistent branding across all local authority areas, which was said to have helped raise awareness and provide clarity on what was available to businesses. It was also reported that some projects, such as those delivered by universities, used existing contact databases to distribute information about the Programmes. Similarly, projects used third-party intermediaries to make their clients aware of what was available. The re-launch of the 'Business Wales' website saw a doubling in traffic in an 18-month period. Advertising via more traditional media, e.g. TV and print media, was also used to raise awareness of the support available.

This recognised, it was highlighted that amongst businesses there has been both a lack of awareness of what was available and conversely some confusion given the number of different projects on offer, with firms sometimes receiving multiple approaches from different ERDF-funded projects. So, there was said to be room for improvement in both simplifying the offer and in communicating it to different target segments. One consultee indicated that some access to finance projects were over-reliant on third-party networks, which had the effect of limiting the number of potential beneficiaries to those bounded within those networks.

4.5 Administration and Delivery

Consultees held broadly positive views regarding the management of the Programmes. In particular, WEFO's handling of changes in government policy and in organisational arrangements were said to have been good. Consultees reported positive perceptions of the Programmes among the business community and intermediaries with, for example, 86% scheme-satisfaction from firms supported by LIF projects.

Criticisms of the Programmes related to the excessively long waits for project approvals, overly burdensome data collection requirements, collection of the 'wrong' data (i.e. collection of data on inputs and outputs, but not on economic impact), insufficient sharing of data with (local) partners in relation to levels of investment and outputs, and instances of poor communication between WEFO teams (e.g. between the Project and Cross-Cutting Teams).

Consultees were asked for their views on business representation in the governance of the Programmes. At the level of the Programme Monitoring Committee, business (including social enterprise and voluntary sector partners) was said to be well represented, given the parameters for PMC membership outlined by the European Commission. One consultee suggested that it might be helpful if PMC membership were rotated, to introduce new thinking.

4.6 Outcomes and Impact

Consultees reported that the Programmes appeared to be performing well against targets. Little distinction was drawn between the performances of the two Programmes. A relatively slow start to the Programmes was noted – this was explained by economic conditions at the beginning of the Programmes. Over time, the scale of activity (and outputs) were said to have broadly matched expectations, with some stakeholders pointing out that *'in the circumstances'* this performance should be seen as '*success'*.

Some consultees were concerned that the Programmes' data collection processes focused too much on inputs (i.e. spending) and outputs (e.g. gross jobs created and number of firms assisted) with not enough on economic impact (as measured by

GVA) which is at the core of the Programmes' rationale. Whilst it would be challenging for projects to collect GVA data from businesses, collecting basic turnover information would provide some indication of how beneficiaries have performed post-support. Furthermore it was acknowledged by stakeholders that the purpose of this study was to provide an assessment of economic impact.

In some cases, worries about the absence of data on economic impact was linked to concern that support had been spread too thinly across too many small firms with low growth potential. Due to their size, there is a lack of data on business performance (e.g. they are not required to submit accounts to Companies House) making assessment of causal impact difficult. By contrast, a number of consultees were uncertain as to whether any (marginal) increases in GVA (at the level of the Welsh economy) could be measured and/or attributed to the Programmes; and, therefore, reference to job outputs and businesses assisted were often used as a proxy for evidence of impact. Furthermore, one consultee noted that investments in R&D and innovation produce long-term impacts and, therefore, proposed long-term monitoring of businesses' performance (that is future Programmes should include arrangements to monitor the ongoing impact of previous programmes).

When asked to consider the Programmes' additionality (i.e. whether the Programmes' achievements had been greater in scale, higher in quality and/or achieved more quickly than might otherwise have been the case) consultees highlighted the difficulties in measuring the Programme's impact, in terms of GVA per head or GVA per worker. Some stakeholders said that the Programmes had had a positive impact in terms of the scale of activity, e.g. research and business growth projects would have had to operate at a smaller scale, in the absence of ERDF funding. But, as one consultee remarked: '*The Programmes reached more businesses than would have been supported by a domestic programme – as they had more resources – but it is impossible, at this stage, to know if they were the right businesses or what impact has been achieved as a result*.'

4.7 Strategic Added Value

Strategic Added Value looks at programmes' and programme management's impacts over and above that which can be achieved (often in quantitative terms) at the level of specific projects[11]. Consultees were asked whether there was evidence that the Programmes could be said to be providing leadership, helping coordination/networking, improving influence/leverage, and encouraging innovation.

The responses offered are summarised below:

[11] The concept of Strategic Added Value was developed as part of an impact evaluation framework used to evaluate the former regional development agencies in England

- **Leadership:** Consultees found it difficult to comment on the extent of leadership offered by the Programmes. One consultee said the Programmes had been led by others rather than providing leadership themselves; another noted that the PMC was a 'monitoring' committee, not a 'leadership' committee. A further consultee said that the Programmes had not provided leadership, but that some projects had provided leadership in their areas/fields. Another stakeholder indicated that ERDF criteria and rules and regulations provided some (needed) discipline in decision-making processes.
- **Coordination/networking:** One consultee reported that the LIFs had helped to develop links between local authorities, and went on to say that there was evidence that business support projects were better aligned than in the past. This view, though, was not universal, with one consultee arguing that business support was just as disjointed in the 2007/13 Programmes as it has been in previous years. A number of consultees commented that projects had improved business-university collaborations, and had also helped universities collaborate with each other more effectively. Consultees also pointed to evidence of better coordination between infrastructure projects and business support, e.g. the integration of superfast broadband with business support activity.
- **Influence/leverage:** One consultee argued that the networks established through the ERDF projects had provided a platform from which universities could access wider funding. Another argued that the Programmes had encouraged business support organisations – as well as businesses – to focus on how best to promote economic growth. It was also suggested that specific ERDF-funded projects had influenced behaviour which would be helpful for the 2014/20 programmes (e.g. the Swansea Bay Campus Project pioneered an approach which is being followed by others, including Aberystwyth University).
- **Innovation:** One consultee noted that the Programmes had encouraged innovation in service delivery, but also noted there were a number of other factors at work. ERDF was said to provide the funding and the opportunity to try new things, and projects were encouraged to incorporate innovation into their activities. One consultee suggested EU Structural Funds had, in part, been responsible for the establishment of the Innovation Advisory Council for Wales, as the Funds required a strategy to be developed.

4.8 Recommendations

In drawing together consultations with stakeholders, a number of recommendations were made based on consultees experiences of the 2007/13 Programmes. These are summarised below.

Stakeholder feedback – Recommendations

<u>Rationale and Objectives</u>

- Understand the change that you are trying to create through the programmes and ensure a consistent focus on economic growth when developing/ appraising projects. There should be greater emphasis on transformational projects which are aligned with the Smart Specialisation agenda (defining innovation priorities for Wales)

- Promote cultural change across all project activities, to reduce an over-reliance on grants and to increase the use of repayable finance
- Target support to businesses, not sectors, with growth potential - focus on working with businesses that have the capacity and willingness to grow, rather than just supporting all ‘eligible’ businesses that come forward for support
- Address management skills issues as part of an integrated business support offer, e.g. developing export skills to enhance access to overseas markets
- Ensure better integration of CCTs in project design and implementation, but ensure this is proportionate.

Management and Administration

- Ensure that WEFO’s guidance to projects, e.g. on CCTs and collection of beneficiary data, is consistent across all of its teams
- Encourage risk-taking and innovation by project sponsors, to ensure that risk-aversion does not limit the potential economic impact of programmes
- Ensure strong partnership-working between local government and Welsh Government. Further, develop a ‘Team Wales’ approach, where working together means not just sharing out the money, but securing real changes in collaboration, integration, and roles
- Use WEFO’s evidence base to test the rationales and projected outputs and outcomes set out in proposals, and produce independent and transparent assessments of proposals
- Given current financial constraints in the public sector, encourage partners and project sponsors to seek out wider, additional sources of match funding (e.g. as Swansea University has done successfully in accessing EIB funding)
- Avoid rolling forward funding to projects from previous programmes without evidence of their success and a clear and evidenced rationale for their continuing need.

Marketing and Promotion

- Ensure consistent branding and discipline among local projects, to avoid confusing businesses about what is on offer. Link promotional activity to achieving maximum economic returns to the programme, by focusing activity on those firms that are most likely to add most value to the economy.

Monitoring and Evaluation

- Incorporate evaluation from the start of the programmes and individual projects – project managers need to understand the importance of evaluation
- Develop better ways of monitoring business performance and gather ‘economically relevant’ data, e.g. on productivity, to ensure the real difference that programmes are making is understood.

5.0 Survey Analysis

Key Messages

Awareness and Motivation

- There was relatively high awareness of ERDF and its activities; three in four responding organisations were aware of ERDF as a funding source. Awareness was highest (92%) in organisations supported under Competitiveness Priority 1, and lowest (63%) in Competiveness Priority 2
- Business growth (identified by 71% of survey respondents) was by far the greatest motivation for organisations getting involved with the Programmes. Other key drivers included introducing new products/processes/services (54%), diversifying into new markets, and developing staff skills (both 42%).

Nature of Support

- The most common types of support accessed were business start-up advice (46%), financial support (45%) and more general business support (40%). Just under a third (30%) of surveyed enterprises received innovation support
- Of those organisations receiving financial support, nearly 90% stated that this was in the form of a grant, 7% reported loan funding support, and 1% received equity finance support
- A quarter of beneficiaries had received advice or support on environmental issues, and a slightly lower proportion (23%) support on equality issues. This level of activity with the Cross Cutting Themes was higher than the results from the 2011 survey
- Satisfaction levels for the support received were very high with around 85% of beneficiaries stating that they were satisfied with the relevance, speed, and overall quality of the support. This is higher than the results from the 2011 survey
- Half of organisations reported that their objectives in receiving support had been met. This was highest among financially-assisted organisations, where 70% reported that all objectives had been met
- Over the last five years, 28% of the total survey sample had received other advice or support, other than Programme support. The main sources of these other support were the Welsh Government, local government, and other business support organisations.

Business Development Themes

- The proportion of beneficiaries involved in business development activity over the last five years ranged from 60% introducing new products or services to 22% involved in some form of collaboration activity. In nearly all cases, beneficiaries involved in Priority 1 projects (Convergence and Competitiveness) were the most likely to be undertaking this activity
- For all business development themes, ERDF support was providing reasonably high levels of additionality (typically around 50-60%) in terms of timescale, scale and quality of the changes implemented by organisations.

Profile of jobs in ERDF supported businesses

- Nearly half of the survey sample thought they provided a source of work that paid in line with the local average. Another 42% of organisations believed they paid somewhat above the average, while 8% believed they paid below the average. The average starting salary was estimated to be around £18,000.

5.1 Context

In total, 1,001 businesses, social enterprises and public sector bodies were surveyed over the telephone by BMG. Through the analysis, the terms '*beneficiaries'* and '*organisations'* have been used to include respondents to the survey. The survey was undertaken in December 2014 and January 2015. This survey covered a range of ERDF Business Support projects and asked questions around the following themes: beneficiary profile; reasons for involvement in the ERDF project; nature of support; feedback on the quality of support; changes to business behaviour; and impact on performance. This Chapter presents the survey results with a breakdown by type of organisation and Programme Priority for the key survey questions. Where possible, comparisons are also made with a similar business survey undertaken for WEFO in 2011[12]. Further detailed results are included in Appendix 6.

5.2 Survey Sample

Using the WEFO contacts database, the sample was stratified based on ERDF Programme and Priority, and type of organisation (e.g. businesses, third sector, public sector, start-up, financially supported). More detail on the survey approach is provided in Appendix 4. Table 5-1 breaks down the survey sample by Programme and Priority.

Table 5-1: Survey Sample, by Programme Priority

Type	Unweighted	Weighted
Convergence P1	124	139
Convergence P2	546	538
Convergence P5	105	49
Competitiveness P1	14	18
Competitiveness P2	212	257
Total sample	**1,001**	**1,001**

Source: SQW analysis of BMG Survey

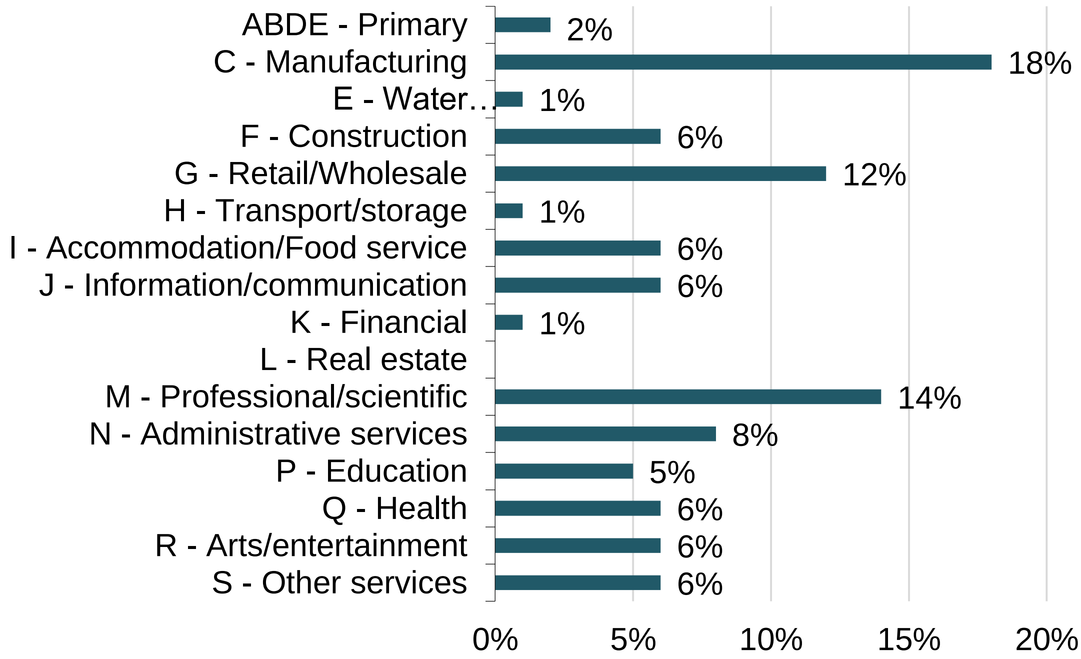
[12] Old Bell 3 Ltd in association with Cardiff University and IFF Research Ltd.

5.3 Beneficiary Profile

5.3.1 Profile of Beneficiaries

Beneficiaries from a range of sectors took part in the survey as shown in Figure 5-1. Nearly one in five (18%) of interviewed beneficiaries were from the Manufacturing sector. Beneficiaries from the Professional & Scientific and Retail & Wholesale sectors were the other main group (14% and 12% respectively). There were fewer beneficiaries from Financial Services, Transport & Storage, Water Supply, Sewerage & Waste, and the Primary Sectors. There was a greater representation of manufacturing enterprises in the survey sample than is the case for the Welsh economy as a whole; based on ONS data around 7% of the business base is involved in the production sectors.

Figure 5-1: Survey Sample by Primary Sector of Beneficiary



Source: SQW analysis of BMG Survey (Base= 1,001)

The majority of beneficiaries were micro-sized (employing fewer than 10 people), accounting for 84% of the survey's sample (in the Welsh economy as a whole, micro enterprises represent 95% of the total). Only seven large enterprises (employing 250+ people) were interviewed, which was 1% of the sample. In most cases (89%), beneficiaries had one workplace. Of the remainder, 3% were a branch part of a bigger organisation and 7% were head offices. The age profile of sampled beneficiaries was varied. Just over half were established within the last five years and over a fifth (21%) of beneficiaries were relatively mature, established at least 16 years ago.

5.3.2 Profile of Enterprise Owners

Nearly two thirds (61%) of those interviewed were sole owners of the beneficiary organisation concerned:

- 69% of the sole owners stated that they were running their enterprise on a full-time basis, with 30% doing so part-time (base = 610)
- 15% of those running enterprises had a longstanding illness or disability, and 83% did not. One percent of beneficiaries declined to answer this question (base = 610)
- 7% of those running their organisation considered themselves to belong to an ethnic minority, 94% did not, and again 1% declined to answer this question (base=610)

The remaining 39% of those interviewed were one of multiple partners or directors (base = 1,001). A detailed breakdown of these types is in Table 5-2.

Table 5-2: Monitoring data for organisations with multiple partners or directors

	Number	%
No. of interviewees based in organisations with multiple partners or directors	391	39%
Total no. of partners or directors	1,798	-
No. of full-time partners or directors	595	33%
No. of partners or directors from the same family	412	23%
No. of partners or directors with long term illness/disability	158	9%
No. of partners or directors from an ethnic group	55	3%
No. of partners or directors that are women	739	41%

Source: SQW analysis of BMG Survey

5.3.3 Profile of Jobs

The survey indicated that there were 4,284 employees at organisations with one workplace, and a further 2,544 at organisations with other sites (Table 5-3). Out of the total 6,828 employees, 4,913 (72%) were full-time workers and 2,444 (36%) were women.

Table 5-3: Employment Levels

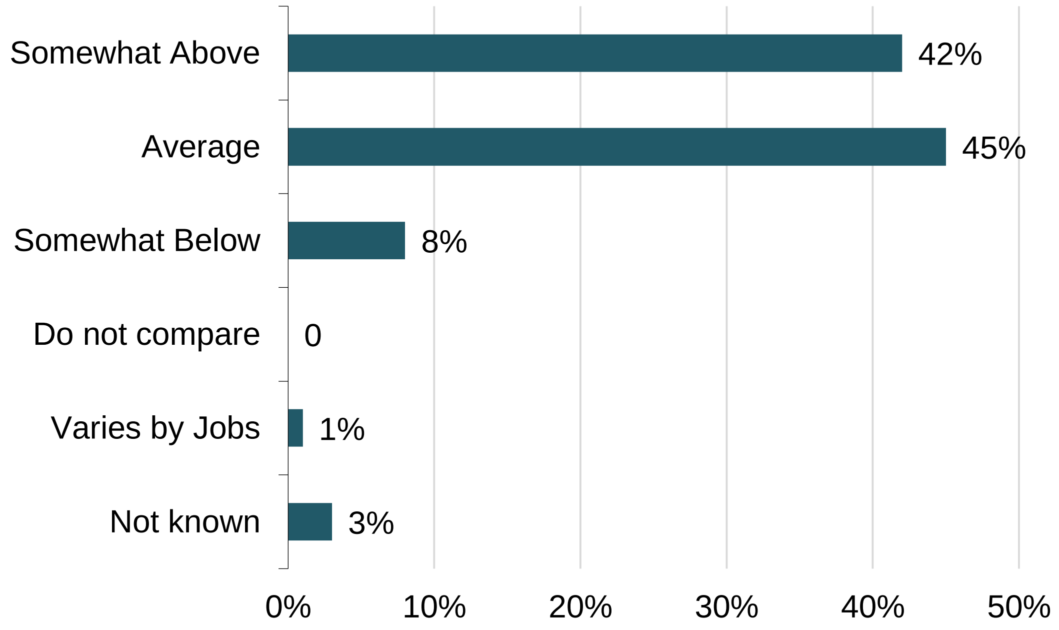
	Number of employees
Single site organisations	4,284
Multi-site organisations	2,544
Total employment	6,828

Source: SQW analysis of BMG Survey

Nearly half of the beneficiaries interviewed (45%) thought they provided a source of work which paid in line with the local average (Figure 5-2). A further 42% of beneficiaries reported that they paid somewhat above the average, while 8% believed they paid below the average. This finding is not unexpected given the broad range of sectors supported including a reasonably high proportion of retail and service sector businesses.

These results are broadly similar to the findings from the 2011 ERDF business survey, which found a slightly higher number of beneficiaries paying in line with the local average (48%) but a marginally lower number paying somewhat above the average (39%).

Figure 5-2: Do you pay in line with the local average for all jobs in the area?



Source: SQW analysis of BMG Survey (Base= 515)

The average starting salary based on the survey responses was estimated to be around £18,000. However, responses varied with 26% of organisations offering a starting salary of less than £15,000 (9% offering less than £10,000) and 26% offering a starting salary of £20,000 and above (10% offering over £25,000).[13] By way of context, the average salary in Wales in 2014 was £23,000[14].

[13] Some businesses either did not know (11%) or refused (6%) to answer this question.
[14] ONS' Annual Survey of Hours and Earnings (ASHE) 2014 states that mean annual earnings in Wales was £23,000 and median earnings was £20,000. The average starting salary from the survey feedback was £18,000. It *may* be possible that some organisations inadvertently provided an average salary figure including part-time staff which would obviously bring the figure down. It is also not a direct comparison between average salaries for all jobs and average starting salaries

Profile of jobs – implications

- The ERDF programmes were focused on creating jobs, particularly high value added jobs which would help improve overall productivity levels. The feedback from the survey indicated that typical salary levels in supported businesses were slightly below the Welsh average. This reflects the broad range of sectors supported through ERDF including lower value added sectors such as retail and other service sector businesses.
- Although the survey asked about the typical salaries of all jobs, it is not unreasonable to assume that this finding applied to the new jobs created with ERDF support.
- With the continuing focus on productivity and wealth creation in the new 2014-2020 ERDF programmes, ERDF Business Support should be more prescriptive in terms of the types of businesses that are targeted.

Beneficiaries reported a wide range of expected qualifications for average applicants to vacancies. On one hand, about a third (30%) expected no formal qualifications, while on the other 16% expected applicants to have a degree or higher degree. The other qualification reported frequently was '*5 or more GCSE, O Levels, NVQ Level 2 or equivalent, at grades A to C'* for 12% of respondents. Apprenticeship qualifications were only expected by 4% of beneficiaries which is somewhat surprising given the increased focus on apprenticeships over the last few years.

The 2011 ERDF business survey found that nearly a quarter of new recruits would normally be qualified to Level 5 or more. The feedback from this survey found this was significantly lower at around 2%, with most (37%) of recruits being qualified to Level 3-4.[15]

[15] It should be noted that the profile of the 2011 survey was slightly different with a higher proportion of larger businesses which may in part explain the different feedback on qualifications

Table 5-4: Qualifications for new recruits – comparison with 2011 survey

	2015	2011
Level 5+	2%	24%
Level 3-4	37%	17%
Entry level to Level 2	29%	23%
None	32%	37%

Source: SQW and Old Bell 3 Ltd.

5.3.4 Market Characteristics

Over half (58%) of beneficiaries reported having customers in local markets, with a further 38% having customers across Wales. Over 40% of beneficiaries had customers elsewhere in the UK, and a quarter were involved in exporting (i.e. outside the UK)[16].

The location of business competitors was broadly similar to customer location. Just over half of those interviewed had local competitors, a third had competitors across Wales, and 40% elsewhere in the UK. The majority of beneficiaries (77%) thought that, if they were to cease trading, their current sales would be taken up by competitors. By contrast, 17% judged that no-one would take up their sales were they no longer to be in operation.

The amount spent on Welsh-based suppliers varied. Over half of beneficiaries spent more than 50% of their bought-in goods and services on suppliers based in Wales. Within this figure, 24% purchased the totality of their inputs from within Wales.

5.4 Awareness and Motivations

At the start of the survey, beneficiaries were asked whether or not they were aware that their project was funded through ERDF. There was relatively high awareness, with three in four organisations understanding that their support was funded through ERDF (Table 5-5). This level of awareness was highest (92%) in organisations supported under Competitiveness Priority 1, and lowest (63%) in Competiveness Priority 2.

However, these positive findings should be caveated in light of the relatively large numbers of contacts on the WEFO database who claimed not to have heard of the ERDF project that their name was listed against. This applied to around 1,200 contacts out of the 7,000 originally selected.

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[16] It is difficult to compare this to the Welsh economy as a whole as HMRC export data reports the value of exports rather than the number of exporting businesses

Table 5-5: Awareness of ERDF support for the project

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Yes	75%	84%	77%	82%	92%	63%
No	21%	14%	19%	16%	0%	32%
Don't Know	4%	2%	4%	2%	8%	5%

Source: Source: SQW analysis of BMG Survey (Base= 1,001)

Business growth (71% of respondents) was by far the greatest motivation for beneficiaries getting involved with the Programmes. This feedback from businesses would suggest the level of 'safeguarding activity' indicated by some stakeholders was actually not as prevalent. There was broad consistency across the different Programmes and Priorities and other frequent reasons for engaging included: introducing new products/processes/services (54%); diversifying into new markets (42%); developing staff skills (42%); being signposted by a business support organisation (39%); developing new collaborative partnerships (31%); and business consolidation (29%).

Only a very small proportion of organisations (2%) were motivated mainly by access to finance support. On the face of it, this result appears be quite low, given the emphasis the Programmes have had in this area. This said, it could be argued that in many cases accessing finance was a 'means' to the wider 'ends' of growing the business, introducing new products, and diversifying into new markets, which are reported in the paragraph above. It should also be noted that the sample of firms supported by the JEREMIE Fund (one of the main business finance projects) was relatively small and this will have had a bearing on the feedback on financial motivations.

The most popular routes by which beneficiaries became aware of the Programmes were through referrals from business support organisations (32%), and word of mouth (30%). Other notable routes were previous contact with the delivery organisations (18%) and Programme marketing (10%).

5.5 Project Support

The Business Support projects covered by the survey spanned a range of activities. This is reflected in the feedback below on the different types of support provided to beneficiaries (Table 5-6). The most common types of support accessed were business start-up advice (46%), financial support, (45%) and more general business support (40%). Just under a third (30%) of businesses received innovation support.

Most of the start-up support reported by beneficiaries was delivered under Priority 2 of the Programmes. Over 60% of organisations supported under Convergence Priority 5 reported receiving financial support. This Priority also had the highest proportion of beneficiaries receiving help with collaboration and networking. The highest level of innovation support was found among beneficiaries involved in Convergence Priorities 1 and 5.

Table 5-6: Type of Support provided

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Advice/support with setting up a business	**46%**	10%	52%	35%	8%	58%
Financial support	**45%**	36%	51%	61%	52%	35%
Support for business premises or laboratories	**10%**	10%	10%	14%	23%	8%
Innovation advice/support	**30%**	46%	30%	38%	36%	22%
Developing a collaboration, partnership or networking support	**27%**	36%	24%	40%	11%	28%
ICT or e-commerce advice/support	**26%**	34%	25%	30%	17%	23%
Export advice/support	**5%**	6%	4%	3%	24%	6%
Other Business Development advice/support	**40%**	33%	39%	48%	34%	46%
Staff Training & Development	**2%**	2%	1%	2%	0%	4%
Accounting/Taxation	**2%**	0%	2%	0%	0%	3%
Other	**2%**	2%	1%	3%	8%	2%
None of these	**3%**	3%	3%	1%	0%	2%
Don't know	**1%**	1%	1%	0%	0%	0%

SQW analysis of BMG Survey (Base= 1,001)

Of those organisations receiving financial support (452 beneficiaries), nearly 90% stated that this came in the form of grant provision (Table 5-7). In addition, 7% of all beneficiaries reported receiving loan funding, and 1% received equity finance support[17].

[17] Once again, the under-representation of firms supported by the JEREMIE Fund in the survey sample should be noted. If more JEREMIE Fund beneficiaries had been surveyed this would have increased the profile of businesses receiving loan or equity funding.

Table 5-7: Type of Financial Support provided

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Grant funding support	**86%**	86%	87%	88%	94%	82%
Loan funding support	**7%**	5%	8%	2%	6%	8%
Equity funding support	**1%**	7%	1%	2%	6%	0%
Other	**4%**	7%	3%	2%	0%	4%
Don't know	**5%**	8%	4%	8%	0%	7%
Refused	**0%**	0%	0%	0%	0%	0%

SQW analysis of BMG Survey (Base= 452)

One in ten of all beneficiaries received help with premises. This related mainly to business premises or office space (77% of respondents), although 11% also received support with specialist laboratory space.

Organisations provided with innovation support were asked to provide more detail on what this entailed. There were similar levels (around 40%) of organisations receiving 'Commercialisation and Knowledge Transfer' support and those receiving 'R&D and product development' support (Table 5-8). 'R&D and product development' support was particularly common for organisations supported through Priority 1 of the two Programmes (64%).

Table 5-8: Type of innovation support provided

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Support for R and D, product development, and innovation	**39%**	64%	32%	29%	91%	29%
Commercialisation and knowledge transfer support	**41%**	35%	46%	34%	9%	39%
Other	**9%**	8%	7%	18%	0%	13%
Don't know	**23%**	14%	25%	28%	0%	32%
Refused	**1%**	2%	1%	3%	0%	0%

SQW analysis of BMG Survey (Base= 304)

For most beneficiaries receiving 'Other Business Development Support', this involved business planning support (59%) and marketing support (51%). There was also a notable number of beneficiaries in this group (36%), receiving advice on regulation and legislation issues.

Table 5-9: Other business development support provided

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Marketing support	**51%**	28%	55%	51%	24%	56%
Business planning support	**59%**	28%	62%	73%	18%	64%
Supply chain development and tendering support	**23%**	20%	24%	16%	0%	24%
Energy and resource efficiency support	**13%**	27%	12%	14%	0%	11%
Advice or support on HR and recruitment issues	**24%**	12%	25%	18%	0%	29%
Advice on regulation and legislation	**36%**	23%	34%	44%	0%	43%
Other	**2%**	1%	1%	3%	0%	2%
Don't know	**13%**	22%	12%	6%	57%	9%
Refused	**1%**	0%	1%	0%	0%	0%

Source: SQW analysis of BMG Survey (Base= 405)

5.5.1 Cross Cutting Themes

A quarter of beneficiaries had received advice or support on environmental issues, with a slightly lower proportion (23%) receiving support on equality issues (Table 5.10). In the case of both Cross Cutting Themes, most support had been received under Convergence Priority 5 (Theme 2: Community Economic Development)[18]. Based on the feedback received, there has been less emphasis on CCT support under Competitiveness Priority 1, where 92% of organisations stated that they had not received any support in this area.

Overall feedback was positive from those that had received support on equal opportunities and environmental issues; 88% found the equalities support helpful, and 89% found the environmental support similarly helpful.

The results described above suggest there has been an increase in the level of support addressing Cross Cutting Themes since the 2011 ERDF business survey. Then, 15% of organisations reported receiving support on Environment Management, and 18% in relation to Equalities. The proportion of organisations that were satisfied with the CCT support has also increased by around 10% since the last survey.

[18] It should be noted that the sample for Convergence Priority 5 Theme 2 was smaller than other Priorities reflecting the lower number of beneficiaries supported to date. Furthermore, since the organisations supported under this priority were mainly social enterprises and community-focused businesses, a larger proportion of beneficiaries may have been interested in CCT advice

Table 5-10: Cross Cutting Theme support

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Advice or support on equality issues	**23%**	19%	23%	45%	0%	22%
Advice or support on environmental issues	**25%**	28%	25%	44%	8%	23%
Neither of these	**64%**	60%	65%	42%	92%	66%
Don't know	**4%**	6%	3%	4%	0%	4%

Source: SQW analysis of BMG Survey (Base= 1,001)

5.5.2 Overall Satisfaction Levels

Satisfaction levels for the support received were high, with around 85% of beneficiaries stating that they were satisfied with the relevance, speed and overall quality of the support delivered (Table 5-11).

Table 5-11: Satisfaction Levels – overall

	5 – Very satisfied	4 – Satisfied	3 – Neither satisfied nor dis-satisfied	2 – Dis-satisfied	1 – Very dis-satisfied	Summary: Satisfied	Summary: Dissatisfied
The relevance of the support/advice to your organisation	46%	39%	7%	4%	3%	85%	6%
The speed with which the advice/support was provided	44%	40%	7%	4%	2%	85%	5%
The speed with which the financial support was approved	40%	44%	5%	5%	2%	84%	7%
The overall quality of the advice/support	46%	40%	7%	3%	3%	86%	6%

Source: SQW analysis of BMG Survey (Base= 1,001 for all, except financial support base = 452)

Once again, satisfaction levels are slightly higher in this survey than in the 2011 ERDF business survey. That found around 80% of businesses were satisfied with the support received at that point.

Across the Programmes and Priorities, the highest satisfaction levels were to be found among organisations supported under Convergence Priority 5. Table 5-12 shows those that stated they were either 'very satisfied' or 'satisfied'.

Table 5-12: Satisfaction Levels – Businesses stating 'very satisfied' or 'satisfied' - by Programme and Priority

	The relevance of the support/advice to your organisation	The speed with which the advice/support was provided	The speed with which the financial support was approved	The overall quality of the advice/support
Conv 1	84%	79%	76%	87%
Conv 2	87%	87%	84%	88%
Conv 5	92%	87%	81%	91%
Comp 1	75%	83%	100%	86%
Comp 2	83%	85%	90%	81%

Source: SQW analysis of BMG Survey (Base= 1,001 for all, except financial support base = 452)

5.5.3 Project Objectives

There was mixed feedback from beneficiaries on the extent to which they had clear objectives and expectations in accessing support from the Programmes. Forty percent felt they had clear objectives for getting involved, 43% were reasonably clear on what they wanted to achieve, and 17% were not sure what to expect from their involvement. In total, 829 of the survey sample had some idea of the objectives for their project involvement.

Half of beneficiaries reported that all of their objectives had been met (Table 5-13). This was highest among directly financially-assisted beneficiaries, where 70% reported that all objectives had been met. For those that have not achieved all their objectives, this could be because the support was ineffective but, in light of the high satisfaction levels, it is more likely to indicate that the benefits of the support have still to be realised and/or benefits were not being recognised by organisations (or possibly their objectives were unrealistic).

As shown in Table 5-13, the highest proportion of beneficiaries achieving all of their objectives was to be found under Convergence Priority 5 (59%). The lowest number of beneficiaries achieving all objectives were those supported by projects under Competitiveness Priority 1 (35%). Projects funded under Convergence Priority 5 primarily supported social enterprises and community organisations, which, as a group, were more likely to report that all their objectives had been met than the sample as a whole. The ambitions of these type of organisations may be more modest than those of more growth orientated businesses (e.g. technology firms). It could be therefore be argued that achieving beneficiary satisfaction in Convergence Priority 5 projects has been more straightforward.

Table 5-13: How far have your project objectives been met? – Programme and Priority

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
All of my objectives were met	**50%**	48%	52%	59%	35%	46%
Some of my objectives were met	**44%**	49%	43%	36%	48%	46%
No objectives were met	**6%**	3%	5%	4%	9%	8%
Don't Know/can't recall	**1%**	0%	0%	1%	9%	1%

Source: SQW analysis of BMG Survey (Base= 829)

5.5.4 Other Forms of Support

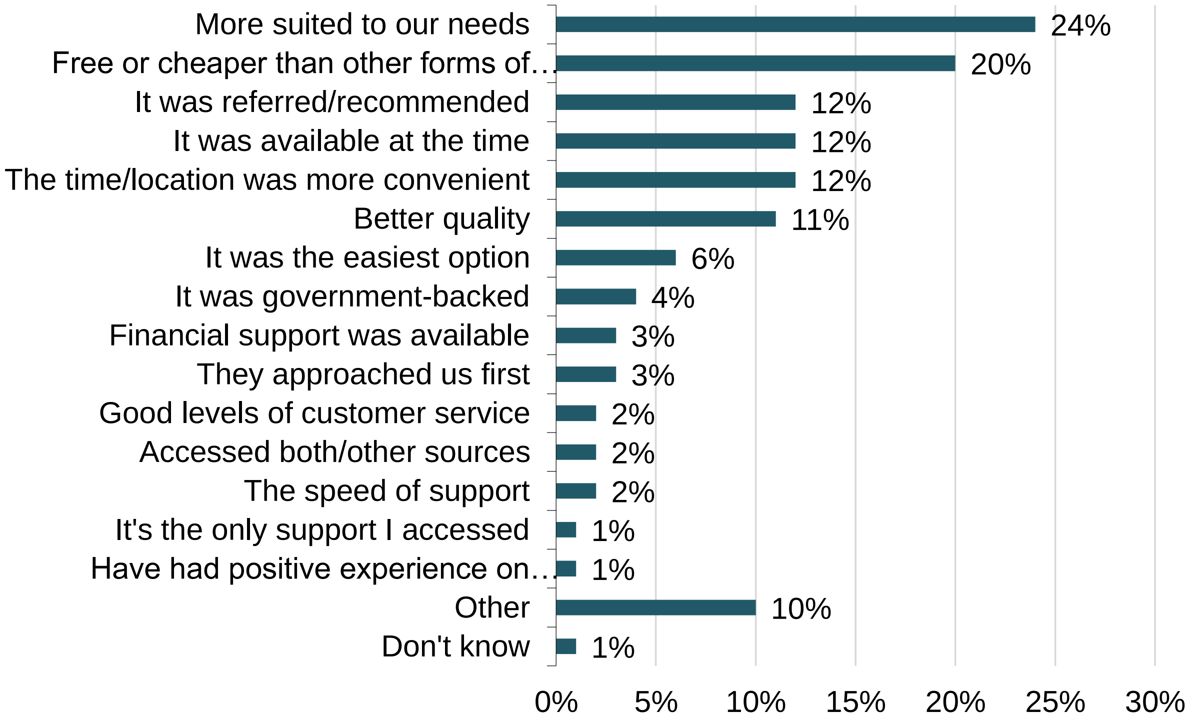
As already highlighted, 45% (or 452) of organisations in the survey had received direct financial assistance through the ERDF Programmes. Of these, 16% had previously applied for funding elsewhere (9% from another public sector source and 7% from applying to the private sector).

Thinking of all the support provided, 22% of the 1,001 organisations interviewed had considered getting similar support from elsewhere, prior to approaching ERDF for support. The main alternative sources of support considered were private consultants (18%), local government, other business support organisations and industry competitors (all 10%). Three quarters (74%) of those that had considered other support thought it likely they would have accessed support from these other sources in the absence of the Programmes. There is likely to be some optimism bias here, but even allowing for this, this is an interesting finding in relation to the market failure argument for intervention[19].

For those organisations that stated it was likely that they would have accessed support from elsewhere had ERDF not been available (159 beneficiaries), there were two main reasons for accessing the ERDF support. Just under a quarter (24%) stated that ERDF support was more suited to their needs and a fifth highlighted the fact that the ERDF support was free or cheaper than the alternative (Figure 5-3). Nearly two thirds (62%) of these same organisations stated that ERDF support was recommended to them, with the main referrals coming from the Welsh Government, local councils, and Business Wales.

[19] Although it should be caveated that this feedback relates to relatively small number of businesses i.e. 74% of the 22% that had considered other support

Figure 5-3: Reasons for accessing ERDF support, rather than other sources



Source: SQW analysis of BMG Survey (Base = 159)

Over the last five years, 28% of the total survey sample had received other advice or support, other than from the ERDF Programmes. The main sources of support were the Welsh Government (24%), local government (19%), other business support organisations (18%) and private consultants (10%).

The proportion of organisations that have accessed other forms of support in the last five years is much lower than the 45% reported in the 2011 ERDF business survey. It should be noted that in recent years there have been attempts to consolidate and rationalise the business support landscape in Wales. There have also been significant reductions to public sector budgets which are likely to have reduced the availability of business support programmes.

Just over a third (34%) of all organisations stated that they have also received support through an ESF project over the last three years. This response was reasonably consistent across all types of organisations. Convergence Priority 1 had the largest share of organisations stating that they had also received support through an ESF project. Skills support is often an important part of helping to improve business performance and ESF and ERDF projects need to provide an integrated package of support.

Survey Analysis - implications

- Although there has been an increase in the number of beneficiaries that reported specific support on environmental or equal opportunity issues, the incorporation of Cross Cutting Themes should receive greater attention in future ERDF approvals and monitoring. These themes continue to be an important part of Welsh, UK and EU economic development policy and CCTs also have a positive impact on business performance

- As outlined in the Operational Programmes, ERDF Business Support projects should be addressing specific challenges for the Welsh economy and areas of market failure. The provision of financial support to businesses has been a major issue in the 2007/13 programmes (due to the economic recession and banking crisis) and will continue to be important in the new programmes
- The survey found that out of those businesses that received financial support, a relatively small proportion had applied for finance from elsewhere. Arguably, this could have been because they assumed they would not be able to access funding (or not on such favourable terms). However, it reinforces that any future financial support projects should be absolutely clear in providing the evidence on the need and demand for their funding offer.

5.6 Business Development Activity

The business survey included a series of questions on key business development themes. These were new products and services, new plant and equipment, ICT investment, collaboration activity, access to finance and new work processes in the workplace. Collectively, these areas of activity provided an indication of innovation levels within the beneficiary base. For each theme organisations were asked whether they had undertaken any activity in the last five years, what this involved and whether the ERDF support has had any contribution.

Table 5-14 summarises the responses for each area of business development activity with a full breakdown provided in Appendix 6. The proportion of beneficiaries involved in business development activity over the last five years ranged from 60% introducing new products or services to 22% involved in some form of collaboration activity. In nearly all cases, beneficiaries involved in Priority 1 projects (Convergence and Competitiveness) were the most likely to be undertaking this activity. Of those businesses involved in this activity, typically around 40% stated that ERDF support had contributed to this activity.

Table 5-14: Scale of business development activity and ERDF contribution

	% of organisations active in last 5 years	Those indicating a contribution from ERDF support
New products or services	60%	46%
New plant or equipment	42%	41%
ICT investment	38%	37%
Collaborations	22%	32%
Access to Finance	29% have sought finance, of which 64% received	38%
Improved work processes	44%	39%

Source: SQW analysis of BMG Survey

Those businesses that had indicated some contribution from the ERDF support were then asked how it had made a difference. For all business development themes, ERDF support was providing reasonably high levels of additionality (typically around 50-60%) in terms of timescale, scale and quality of the changes implemented by organisations, with the greatest impact apparent on timescale (Table 5-15).

Table 5-15: Nature of contribution from ERDF support[20]

	Impact on scale?	Impact on timescale?	Impact on quality?
New products or services	51%	65%	45%
New plant or equipment	65%	72%	57%
ICT investment	62%	75%	65%
Collaborations	58%	67%	57%
Access to Finance	53%	62%	57%
Improved work processes	64%	72%	61%

Source: SQW analysis of BMG Survey

5.6.1 Key findings from business development activity

The headline findings from the feedback on business development activity are as follows[21]:

[20] The figures in this table indicate those that stated that without ERDF support it would have been unlikely that they would have undertaken the activity to the same scale, timescale or quality

[21] In nearly all cases these percentages relate to the subset of organisations that have indicated they have undertaken the activity

- Over half (54%) of organisations regarded their products or services to be of premium quality (the highest on a ranking of one to five). A further 29% scored their products or services at the second highest level
- The highest proportion of firms investing in new plant or equipment was, perhaps not unexpectedly, among directly financially assisted firms, where 57% reported this activity
- The majority of the new plant or equipment introduced because of the ERDF support was sourced from suppliers in Wales (39%) or elsewhere in the UK (51%)
- Organisations were motivated by a number of drivers when investing in new ICT – e.g. website/intranet development (77%), marketing/communications (74%), data storage (67%), and engaging with suppliers online (66%)
- The majority of collaboration activity was with other businesses (70%), a third with public sector bodies (31%), and about a quarter (24%) with educational institutions. In most cases, beneficiaries collaborated with other Welsh based organisations. Four out of five of the public sector collaborators were based in Wales, as were 83% of the Higher or Further Education collaborators, and 65% of the business collaborators
- Just under a third (29%) of the survey sample had sought finance over the last five years, including nearly half of public sector beneficiaries (48%) and social enterprises (47%). The main sources of finance sought were loans (45%) and public sector grants (40%)
- From those organisations that sought finance, 64% were successful in their application. Public sector grants (34%) were the most popular source of finance received, followed by secured bank loans (21%) and overdrafts (17%)
- In terms of improved work processes, the most common activity highlighted was performance management processes, cited by 28% of beneficiaries. Staff training (21%) and changes to organisational structure (15%) were the other most popular responses.

Survey Analysis – implications

- Firms involved in these business development activities are most likely to create the wealth and employment which the ERDF programmes were looking to create. Future ERDF Business Support projects should be clearly structured around the business development issues covered in the survey that deliver tangible benefits for businesses. This will then increase the proportions of businesses involved in business development activity and those reporting a contribution from the ERDF support.

6.0 Employment and Business Outcomes

Key Messages:

- Just under one in ten (9%) existing businesses stated that they would have been unlikely to continue operating if they had not received the ERDF support. However, a fifth of new businesses stated that it is unlikely that they would have started up without the ERDF support
- Around 30% of beneficiaries surveyed by the evaluation stated that ERDF support had had an impact on employment. Within this group of beneficiaries, 75% stated that new jobs had been created, and just over half (53%) reported some jobs had been safeguarded. Survey evidence indicates that just over **900 gross new jobs had been created** and **1,100 gross other jobs safeguarded** since ERDF support was provided
- Four in ten of the new jobs created were held by women and just over a fifth (21%) were held by Welsh speakers. Around 6% of new jobs were held by people from ethnic minority groups (8% of the Welsh population are from a non-White background) and 4% by people with disabilities (12% of the workforce has some form of disability)
- The majority of beneficiaries (59%) stated that these employment impacts would not have occurred without the ERDF support provided
- More than a third (35%) of beneficiaries reported that further jobs would be created over the next five years, as a result of ERDF support. **The number of gross jobs estimated in the future by beneficiaries is 1,200**
- More than half of all beneficiaries (52%) reported that turnover had increased since they received ERDF support. Just under half (46%) highlighted that productivity and profitability had improved since the support
- Those beneficiaries receiving direct financial support reported experiencing the most positive change in terms of turnover performance
- The latest aggregate turnover of surveyed beneficiaries was almost £730m; this had increased 10% since the time beneficiaries received ERDF support. Profits had increased 16%, up to just under £40m, and export turnover had increased by 29% up to nearly £83m over the same period
- Nearly four out of five beneficiaries reported that ERDF support had made some contribution to their performance; within this group, nearly 30% stated it had made a vital contribution
- The results on business impacts achieved since receiving the support are generally more positive than the results from the 2011 ERDF business survey. The proportion of beneficiaries reporting an increase in turnover has increased from 41% in 2011 to 52% in 2015.

6.1 Overall impact of ERDF support on business operation

The survey asked existing businesses about the impact of ERDF support in helping them to continue operating. It also asked new businesses about the impact of ERDF in starting up. Just under one in ten (9%) of existing businesses stated that they would have been unlikely to continue operating if they had not received the ERDF support. However, 20% of new businesses stated that it is unlikely that they would have started up without the ERDF support.

The additionality of ERDF support evidenced in these responses is more positive than feedback to the 2011 ERDF business survey. It found that only 5% of all enterprises thought it unlikely that they would still be operating without the ERDF support.

6.2 Employment Impacts

Around 30% of beneficiaries surveyed stated that the ERDF support received had had an impact on employment within their organisation. Within this group, 75% stated that new jobs had been created, and just over half (53%) reported that some jobs had been safeguarded following the ERDF support. A very small number of beneficiaries (1%) reported that jobs had disappeared. The type of employment impact was consistent generally across the two Programmes and different Priorities. The exception was Convergence Priority 5, where nearly 87% of beneficiaries reported that new jobs had been created since receiving support (Table 6-1).

Table 6-1: Type of employment impact, by Programme and Priority

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Impact on employment levels	**30%**	29%	32%	43%	63%	22%
New jobs have been created	**75%**	76%	74%	87%	61%	78%
Jobs have been safeguarded	**53%**	62%	58%	55%	48%	32%
Jobs have disappeared	**1%**	1%	1%	0%	13%	0%
Refused	**2%**	0%	1%	2%	0%	5%

SQW analysis of BMG Survey (overall impact, base = 1001, type of impact, base= 302)

Survey feedback indicated that over 900 gross new jobs had been created and 1,100 other gross jobs had been safeguarded since ERDF support was provided (Table 6-2). Combining these jobs, and then taking account of the estimated 35 jobs which have disappeared, results in a total impact of just over 2,000 gross jobs.

Table 6-2: How many jobs have been affected?

	Number of jobs	Average per business
New jobs	927	0.93
Safeguarded jobs	1,123	1.12
Jobs that have disappeared	35	0.03
Total jobs	2,015	

SQW analysis of BMG Survey (base= 1,001)

It is interesting to compare the job impact figures with the results from the 2011 ERDF business survey (Table 6-3). In this survey, there was an increase in the proportion of organisations stating that jobs have been created and a slight decrease in those saying that jobs have been safeguarded. These differences are likely to reflect the continuing challenges in the wider economy in 2011. In order to compare the results from the two surveys, it should be noted that the 2015 results in Table 6-3 are presented as a percentage of the total survey sample.

Table 6-3: Job impacts as a result of ERDF support – comparison with 2011 results

	2011	2015
Organisations stating that jobs have been created as a result of the ERDF support	17%	23%
Organisations stating that jobs have been safeguarded as a result of the ERDF support	18%	16%

Source: SQW and Old Bell 3 Ltd

The survey asked organisations to provide a breakdown of the job impacts, in terms of the number of jobs held by women, people with disabilities and Welsh speakers. Four in ten of the new jobs created were held by women and just over a fifth (21%) were held by Welsh speakers. In addition, 6% of new jobs were held by people from ethnic minority groups and 4% are held by people with disabilities. By way of context, 8% of the Welsh population are from a non-White background[22] and around 12% of people employed in Wales have some form of disability[23].

The majority of beneficiaries (59%) reported that these employment impacts would not have occurred without the ERDF support provided. The highest reported levels of additionality were from beneficiaries receiving support through Convergence Priority 5 (79%) and Competitiveness Priority 1 (74%), as in Table 6-4.

Table 6-4: How likely would these employment impacts have occurred without ERDF support?

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Definitely would have occurred	**6%**	7%	6%	0%	0%	11%
Likely that they would have occurred	**32%**	27%	33%	21%	26%	39%
Unlikely that they would have occurred	**42%**	57%	42%	42%	48%	29%
Definitely would not have	**17%**	5%	18%	37%	26%	14%

22 Stats Wales – Local Labour Force Survey/Annual Population Survey 2015
23 Stats Wales – Local Labour Force Survey/Annual Population Survey 2015

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
occurred						
Either unlikely or definitely would not have happened	**59%**	**62%**	**60%**	**79%**	**74%**	**43%**
Don't know	**3%**	5%	1%	0%	0%	7%

SQW analysis of BMG Survey (base= 297)

6.2.1 Future employment impacts

More than a third (35%) of beneficiaries reported that further jobs would be created over the next five years as a result of ERDF support. The number of future jobs estimated by beneficiaries was 1,200 (gross). Beneficiaries which had been supported with direct finance were the most optimistic about future job impacts. More than half (53%) of beneficiaries supported under Priority 1 of the Competitiveness Programme were anticipating further job creation; this is a higher proportion than for beneficiaries receiving support under other Priorities (Table 6-5).

Table 6-5: Will further jobs will be created over the next five years as a result of the support? – by Programme and Priority

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Yes	**35%**	34%	36%	39%	53%	31%
No	**60%**	62%	59%	55%	47%	62%
Don't Know	**5%**	3%	5%	6%	0%	7%

SQW analysis of BMG Survey (base= 1,001)

6.3 Business Impacts

More than half of beneficiaries (52%) reported that turnover had increased since they received ERDF support. Around a third (32%) stated no change, and 5% reported a decrease in turnover. In terms of other aspects of business performance, just under half (46%) highlighted that productivity and profitability had improved since support had been provided (Table 6-6).

Table 6-6: Has your performance changed since receiving support?

	In-creased	De-creased	Stayed the same	Don't know	N/A	Refused
Turnover	52%	5%	32%	3%	8%	0%
Profitability	46%	6%	34%	5%	9%	0%
Turnover outside of the UK	14%	1%	23%	4%	56%	1%
Productivity	46%	3%	32%	4%	15%	0%

SQW analysis of BMG Survey (base= 1,001)

Business outcomes – implications

- Although around a half of beneficiaries reported increases in turnover, profitability and productivity, a comparatively low proportion (14%) reported increases in exports. Whilst this perhaps reflects the Business Support projects covered in the survey (i.e. not including the main export project), it would perhaps have been expected that the innovation projects funded under Priority 1 of the two programmes would have helped to increase exports to a greater degree[24] .

Those beneficiaries receiving direct financial support had experienced the most positive changes in terms of turnover performance, with 71% reporting turnover increases. Beneficiaries supported under Priority 2 and Priority 5 of the Convergence Programme were the more likely to have experienced growth in turnover, as shown in Table 6-7.

Table 6-7: Since receiving support, how has turnover changed?

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Increased	**52%**	42%	56%	51%	47%	48%
Decreased	**5%**	7%	5%	3%	0%	4%
Stayed the same	**32%**	38%	30%	18%	39%	34%
Don't know	**3%**	3%	3%	4%	8%	4%
Not applicable	**8%**	9%	5%	22%	6%	9%
Refused	**0%**	2%	0%	2%	0%	0%

SQW analysis of BMG Survey (base= 1,001)

Feedback on current (i.e. latest) business performance and how this had changed since receiving ERDF support shows the gross changes across the survey sample.

[24] Evidence on the links between innovation and exporting includes: Harris & Moffat (2011), R&D, Innovation and Exporting - SERC Discussion Paper 73

The latest aggregate turnover for surveyed beneficiaries was estimated to be about £727m, and this has increased by 10% since the organisations concerned had received ERDF support (Table 6-8). Profits had increased by 16%, up to just under £40m, and export turnover had risen by 29% up to nearly £83m.

Table 6-8: Gross changes in business performance

	Turnover	Profits	Turnover outside the UK
Number providing figures	838	435	188
Baseline (when they received ERDF support) £	661,424,000	34,412,000	64,303,000
Current (latest) £	727,081,000	39,959,000	82,941,000
Increase since ERDF support £	66,487,000	5,668,000	18,677,000
Decrease since ERDF support £	830,000	121,000	39,000
Overall change %	**10%**	**16%**	**29%**

SQW analysis of BMG Survey (base= 1,001)

The changes described above are gross, and do not take into account the actual contribution, if any, made by the ERDF support. Nearly four out of five beneficiaries reported that the ERDF support had had '*some'* contribution on their performance, and within this nearly 30% stated it had made a '*vital'* contribution. The most positive responses also came from beneficiaries supported through Convergence Priority 5 and Competitiveness Priority 1 (Table 6-9).

Table 6-9: What contribution has ERDF support made to your performance?

	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Vital contribution	**27%**	22%	29%	48%	29%	21%
Some contribution	**52%**	53%	51%	39%	55%	54%
Either some or vital contribution	**79%**	**75%**	**80%**	**87%**	**84%**	**75%**
No contribution	**20%**	24%	19%	11%	8%	24%
Don't Know	**1%**	1%	1%	2%	8%	1%

SQW analysis of BMG Survey (base= 1,001)

Business outcomes – implications

- As stated earlier there was evidence that beneficiaries supported under Priority 1 of both programmes were noticeably more likely to have been involved in business development activity over the last five years. However the feedback on turnover growth was quite consistent across the Priorities, as was the feedback on how ERDF support has contributed to improved business performance. This suggests that the range of support activities are all delivering similar levels of business outcomes and should therefore continue into the new ERDF programmes.

6.4.1 Nature of additionality

Those beneficiaries indicating ‘some’ or a ‘vital’ contribution from ERDF support (789 organisations in total) were asked about the nature of this contribution and how far they agreed with statements on the extent to which different forms of additionality (quality, timing, and scale) were present. Timing proved to be the most frequent aspect of additionality, with 78% of beneficiaries agreeing they had achieved impacts more quickly than would have otherwise happened. The statements on quality and scale additionality were also significant, with around 70% of beneficiaries claiming these effects.

The other main findings in relation to the additionality of the business impacts are as follows:

- For those beneficiaries that indicated additionality on timing, over half (51%) stated the support had accelerated impacts by up to a year
- In most cases, the impact of the support was realised either immediately (47%) or within six months (32%)
- Those organisations which indicated some contribution to business growth were then asked about the persistence of impact. There was a mix of views on how long the effects from ERDF support would last. Just under half (47%) of beneficiaries stated impacts would last up to five years, with 30% anticipating impacts would last more than 10 years.

6.4.2 Future business impacts

Just under half (48%) of all beneficiaries expected further impact on their turnover performance as a result of the support provided. This increased to 59% of beneficiaries receiving direct financial assistance, and was slightly lower for social enterprises (37%). Anticipated new impacts in future on turnover, profits, and productivity were highest across the board for financially assisted beneficiaries.

The results across the Programmes and Priorities were broadly similar (Table 6-10), with the exception of future exports. There were noticeably higher numbers of beneficiaries supported through Convergence Priority 1 and Competitiveness Priority 1 expecting future impacts on exports, compared with the support under other Priorities.

Table 6-10: Do you anticipate the support received will have future impact on your business/organisation?

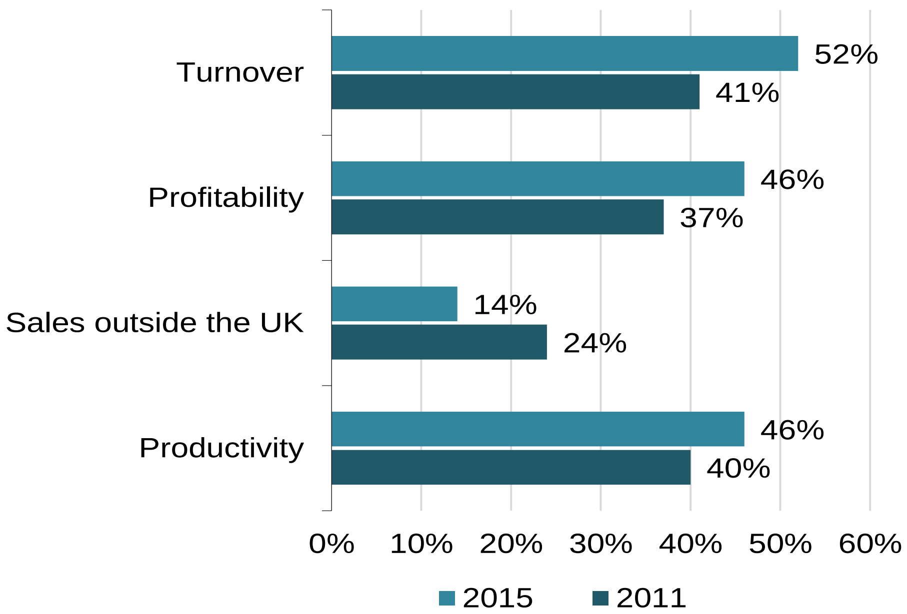
	Total	Conv P1	Conv P2	Conv P5	Comp P1	Comp P2
Turnover	**48%**	50%	48%	49%	55%	44%
Profits	**45%**	46%	46%	41%	55%	43%
Exports	**16%**	30%	14%	6%	47%	13%
Productivity (output per worker)	**39%**	42%	41%	44%	39%	33%
None of these	**40%**	39%	39%	31%	23%	47%
Don't know	**5%**	3%	5%	6%	14%	4%
Refused	**0%**	0%	1%	0%	0%	0%

SQW analysis of BMG Survey (base= 1,001)

6.4.3 Comparison with 2011 results

The results on business impacts achieved since receiving the support are generally more positive than the results from the 2011 ERDF business survey. The proportion of beneficiaries reporting an increase in turnover has increased from 41% in 2011 to 52% in 2015 (Figure 6.1). Positive changes in profitability have also jumped up from 2011 levels to around 46%. The only measure which has seen a drop is the proportion of beneficiaries reporting an increase in exports.

Figure 6-1: Business impacts since ERDF support – comparison with 2011 results



Source: SQW and Old Bell 3 Ltd

The next Chapter summarises the feedback from the project case studies.

7.0 Learning from Project Case studies

The evaluation included the production of six project case studies which were undertaken during February and March 2015. These involved consultations with Project Managers and follow-up telephone interviews with small numbers of beneficiaries. The selected projects were agreed with WEFO in order to provide feedback on a range of support funded by ERDF. The case studies are provided in Appendix 10.

Key messages

- The case study projects covered a range of business support including entrepreneurship, business finance, innovation and ICT. In all cases, the project managers (or sponsor organisations) had been involved in delivering similar types of activity under previous Welsh ERDF programmes
- On the whole, projects were clear on their overall aims and how they fit with the aims of ERDF. However, there could have been clearer articulation and evidence in the project business plans on the market failures which were being addressed
- Based on the data that was available (up to the end of 2014) it appeared that most of the projects were slightly behind target on the key metrics of enterprises assisted, enterprises created and gross jobs created, with the exception of the New Business Start-up Service (NBSS) project which was performing well
- However project managers’ consultations indicated that the original (and in some cases updated) targets were overly ambitious and this was mainly attributed to the prolonged economic downturn
- The New Business Start-up Service, Customer Engagement and JEREMIE Fund projects have all been high profile projects well-integrated with the core business support package managed by the Welsh Government and Finance Wales
- The two university-led projects (Seren and High Performance Computing) have promoted the support through the universities’ existing networks and databases. Engagement between businesses and the A4B project has happened through individual HE/FE institutions
- The case studies highlighted a range of examples of businesses benefiting from the ERDF support including new business sites set up with JEREMIE Fund support and growth in start-ups and existing SMEs through the Welsh Government NBSS/ Business Wales projects. Although there were fewer businesses available for interview in the three innovation projects there were nevertheless examples of benefits.

7.1 Different types of business support

One of the projects addressed business finance and two involved traditional support for existing SMEs and new start-ups. Two of the case studies were university-led projects focusing on commercial opportunities in geoenergy and encouraging the use of high performance computing, and the final case study project supported knowledge transfer between universities and the business base.

In all cases, the project managers (or sponsor organisations) had been involved in delivering similar types of activity under previous ERDF programmes. These successor projects were described as being better tailored to the new economic conditions and challenges facing the Welsh economy.

Table 7.1: Profile of case study projects

Project	Project aims	Main areas of activity
The JEREMIE Fund	Addressed clearly evidenced market failure in the supply of risk finance to micro, small and medium sized enterprises in Wales, a failure in demand from SMEs in Wales for equity finance to support growth, and an over-reliance on grant financing among SMEs in Wales.	Five sub-funds (Micro Loans, Loans, Risk Capital, Technology Transfer, and Co-investment) providing loan, equity and mezzanine finance to support the growth of SMEs in Wales
New Business Start-Up Support	Aimed to increase entrepreneurship in Wales and in doing so increase economic activity in deprived and rural communities. It also intended to grow more start-ups with growth potential, which will then generate employment and wealth in the Welsh economy.	Two strands to the project. The original project provided start-up support to different target groups (self-employed, graduates, 'non-growth', 'growth') through workshops and 1-2-1 advice. A High Potential Starts (HPS) component was introduced in early 2012 to provide more bespoke and intensive coaching support to start-ups with high growth potential.
Customer Engagement	Aimed to "provide a first class business support customer service for all businesses in Wales". It addressed market failures around asymmetric information, coordination issues, and positive externalities to ultimately support job creation in the Welsh economy linked to business growth.	Direct provision of information, advice, guidance and business support through Business Wales and signposting to support from other public sector agencies, the private sector and third sector. Business support delivered online, via telephone and face to face (either at business premises or via 11 regional advice centres located across Wales).
Seren project	Aimed to deliver new and innovative ground engineering technologies which would be commercialised creating new companies and jobs, supporting existing companies and	Support provided to businesses through a programme of lectures, seminars and workshops. The project also involved the development of computational tools

Project	Project aims	Main areas of activity
	increase profitability in companies within the Convergence area	to be used by beneficiaries.
High Performance Computing Wales	Project sought to improve the innovation performance of Welsh businesses through the provision of state-of-the-art high performance computing capabilities and training to businesses and researchers across the Convergence area.	Support involved: the development of physical computing assets and associated products for SME use; and the creation of a Research and Innovation Institute to stimulate investment in ICT, specifically focusing on the four key sectors of digital, health/bioscience, advanced manufacturing/engineering, and low carbon
Academic Expertise for Business (A4B)	Aimed to support academic institutions to strengthen their capability to exploit their knowledge in partnership with companies, and accelerate the transfer of knowledge from academia to businesses.	Project offered a range of grant support mechanisms for Higher and Further Education Institutions to fund feasibility studies, proof-of-concept projects, knowledge transfer partnerships, and collaborative research projects with business.

Source: SQW case studies

On the whole, projects were clear on their overall aims and how they fit with the aims of ERDF. However, there could have been clearer articulation and evidence on the market failures which were being addressed. Based on the available documentation and Business Plans, only the JEREMIE Fund project was explicit on its rationale for intervention in the investment market.

7.2 Project performance

Each of the projects had agreed Key Performance Indicators which they reported on to WEFO. The most common business support indicators were ‘enterprises assisted’, ‘enterprises created’ and ‘gross jobs created’. The case studies found it difficult to be able to assess performance against these indicators. Most projects had at least three months of data still to report on and expected a lot of activity to be captured in the final few months of the 2007/13 Programmes.

The main messages in terms of output performance are as follows:

- Based on the data that was available it appeared that most of the projects were slightly behind target on these key metrics with the exception of the New Business Start-up Service (NBSS) project.
- From the consultations with project managers there was a strong sense that the original (and in some cases the updated) targets were overly ambitious and this was mainly attributed to the prolonged economic downturn.

- Two of the projects, Customer Engagement (CE) and the JEREMIE Fund, stated that their support had had a significant impact in terms of safeguarding employment but that this was not a relevant indicator for ERDF.

- Based on its revised targets, the JEREMIE Fund had performed well with the exception of the 'gross jobs created' target. However, for an investment fund it may have been more appropriate to have indicators that measured additional output or GVA rather than job creation.

- The three innovation projects (Seren, High Performance Computing (HPC) and A4B) were all in the process of undertaking their own project level evaluations and gathering evidence of business benefit (making it hard to have a complete picture on performance). In addition for these type of projects, it appeared that a lot of the quantifiable business impact, including employment effects, will come in the future.

7.3 How the support was delivered to businesses

The NBSS, CE and JEREMIE Fund projects have all been high profile projects well-integrated with the core business support package managed by the Welsh Government and Finance Wales. This support was promoted through 'Business Wales' (and before that 'Flexible Support for Business') and the suppliers contracted by the Welsh Government to deliver one-to-one support and workshops. Finance Wales has also proactively promoted their funds using their networks and briefing events. The high profile of these ERDF projects was reinforced by feedback from the programme stakeholders.

The two university-led projects (Seren and High Performance Computing) have promoted the support through the universities existing networks and databases. Engagement between businesses and the A4B project has happened through individual HE/FE institutions who have been the direct beneficiaries, receiving financial and technical support to encourage commercialisation and technology transfer activity.

Overall, support around environmental sustainability and equal opportunities was well integrated within the support provided, either directly by the project or through referring on to another ERDF funded project. This was particularly the case for the NBSS and CE projects managed by the Welsh Government. Another case study project, Seren, had environmental sustainability as its core aim.

7.4 Effects and impact on businesses

The project case studies highlighted a range of examples of businesses benefiting from the ERDF support including new sites set up with JEREMIE Fund support and growth in start-ups and existing SMEs through the Welsh Government NBSS/

Business Wales projects. Although there were fewer businesses available for interview in the three innovation projects there were nevertheless examples of benefits.

Table 7.2: How projects have supported individual businesses

Project	Examples of business impact
The JEREMIE Fund	Beneficiary consultations indicated a number of business-related outcomes arising from the support including: ➢ The location of a 10-strong R&D team in Wales, which would otherwise have been located in London, and the opening of an office in the USA Three of the eight businesses consulted for this case study reported increased profitability following the Project's support.
New Business Start-Up Support	Seven of the 10 businesses interviewed were able to identify business impact Examples included: ➢ Improved business plan through the High Potential Starts programme but the funding they required was sourced separately. 18 months trading with 2 staff and sales of £120k. Difficult to attribute impact to the support, but possibly around 20% ➢ Business plan developed and company registered. Project support helped persuade the council to rent them space at a business centre. Advisor has also signposted the firm onto further support from Business Wales. 4 months trading with 4 staff and expecting sales of c.£100k. The support has helped to speed up the process of setting up ➢ With support from their advisor they started targeting the larger operators with their product. One has recently signed a contract and this is now opening doors with other large firms. The business currently has 3 employees with sales of £0.5m. Project support contributed to some of this growth. ➢ The business was originally meant to spin out from the university but has been delayed because of a dispute over IP ownership. The whole process of spinning out has been very challenging and without ongoing advisor support would have probably given up on the idea.
Customer Engagement	Seven out of the eight interviewed businesses stated they had made changes in their business as a result of the support. Many of the changes appeared to be significant and had impacted positively on business performance. ➢ Six businesses reported operationally becoming much more

Project	Examples of business impact
	professional due to the support. Businesses now had improved plans (e.g. health & safety, recruitment, environment, etc.), systems and tools for strategic approaches. This had resulted in better client experiences and ultimately increased sales. ➢ Six businesses reported increased sales following from the support which had also increased their profitability.
Seren project	➢ Business became involved to develop their expertise in ground-source heat pumps, and the opportunity to raise the company's profile – the firm has since seen improvements to its products, and the awarding of larger contracts as a result of the Seren project. Broadly, involvement in Seren was felt to have been a catalyst for change for the business and has experienced employment and turnover growth since their involvement in the project.
High Performance Computing Wales	➢ Life sciences company received 70% funding from HPC Wales towards the salary of a research assistant for 12 months. This consultee suggested that their business may not have started at all without the HPC support, as the support helped the academic who set-up the business to define his project, and deliver commercial contracts.
Academic Expertise for Business (A4B)	➢ Following involvement in A4B, the business has developed new and improved products, with resultant improved sales and safeguarded employment. Indeed, the consultee reported that the business would no longer exist without its use of A4B's services. The business remains in frequent contact with the university, with 'regular discussions about product development'.

Source: SQW case studies

7.5 Additionality of support

There are two areas of additionality worth considering in relation to the case study projects, the extent to which the activity would have happened anyway and how far business outcomes would have been achieved without the support from the ERDF projects.

In terms of the project activity, evidence of additionality was considered by WEFO at the application stage. These projects all started during a period of public sector austerity and although it could be argued that elements of the support may have proceeded (e.g. the Welsh Government is likely to have proceeded with some type of general support for start-ups and existing SMEs), it would have been difficult for many of the projects to attract sufficient funding.

Within the relatively small sample of businesses interviewed as part of the case studies, the feedback suggested there was reasonably strong additionality in terms of the business outcomes that have been achieved to date.

- 'The whole process of spinning out has been very challenging and without ongoing advisor support would have probably given up on the idea' (NBSS)
- 'Since we are all quite experienced engineers, we would probably have set up anyway but the support has helped us to speed up the process' (NBSS)
- 'Involvement in the project has been a catalyst for change for the business. Without the support, the company would not be involved in mine water exploitation, and the company's profile would not have bene raised' (Seren)

7.6 Wider impacts

Most of the case study projects could provide examples of working alongside other ERDF (and in some cases ESF) projects. For example, there were close links between the NBSS, CE and Business Innovation projects managed by the Welsh Government. Also, the Seren project has had regular meetings with the Welsh Institute for Sustainable Environments (WISE2) and Low Carbon Research Institute projects. A few examples of wider, more strategic, impacts that have been realised by the case study projects included:

- The HPC project has reportedly influenced the development of a Medical Research Council centre and ESRC centre. In addition, HPC Wales Ltd, the company set-up to lead the HPC Wales project are leading a Horizon 2020 project. It is expected that these additional research assets will ultimately bring new revenue streams to the Welsh Higher Education sector, and build the research capacity.
- A4B has helped to create sustainable relationships between academics and industry partners – consultees regarded these collaboration and partnership effects as the most important results to emerge from A4B.

7.7 Recommendations

A number of recommendations were suggested by project managers in the course of the case study discussions.

- Ensure project managers are provided with clear and consistent guidance on beneficiary monitoring requirements

- Organise more ERDF/ESF events to bring together project managers in order to share learning and encourage more integration of EU funded projects
- Consider mechanisms for recording the safeguarding of employment – this proved to be an important part of project activity during the economic recession (however, it should be noted that the European Commission is sceptical about using jobs safeguarded metrics)
- Adopt more flexible metrics which can capture longer term impact of projects – e.g. the finance and innovation focused projects have struggled to meet gross jobs created targets.

8.0 Economic Impact

Key Messages

- This analysis provides an estimate of achieved and future net economic impact. It should be noted that includes assumptions relating to the gross to net calculations and also in how results have been scaled up to the wider population.

Achieved Turnover Impact – sampled firms

- Over 60% of the 1,001 assisted businesses surveyed for the evaluation attributed additional annual turnover (both new and safeguarded) to the ERDF support received
- In total, ERDF support was estimated to have generated £40.1m in annual attributable turnover. This estimate is already discounted for deadweight effects. The average substitution effect across the whole sample of businesses was 4.6% and the median displacement effect was estimated to be 35%. The attributable annual turnover figure adjusted for substitution and displacement is estimated to be £24.9m
- Including persistence effects, this provides a **cumulative net impact of £112m in achieved turnover impact for the sample of 1,001 businesses.**

Future Turnover Impact - sampled firms

- Nearly half of survey respondents (48%) stated they expected future turnover impacts, in addition to those already achieved. After taking account of deadweight, substitution, displacement, optimism bias and persistence effects, the **impact of future cumulative net turnover is estimated to be about £66m for the sample of 1,001 businesses. The combined (achieved and future) net turnover impact was £178.4m.**

Net GVA impact

- It is estimated that the **net GVA impact (achieved and future) of the ERDF support was around £46.4m for the sample of 1,001 businesses.**

Scaling up to the Wider Population

- It is estimated that between 25,000 and 32,000 organisations have been supported to date in the 47 Business Support projects covered by the business survey (though some may have been supported by multiple projects). Scaling up the survey results to the wider population of ERDF supported firms therefore generates an **estimate of between £1,159m and £1,483m in net GVA impact.** The claimed expenditure for these projects was £537m including £257m in ERDF. Using the total expenditure figure, this would mean a **return on investment figure of between 2.2 and 2.8:1.**

As discussed earlier, ERDF support has resulted in various business outcomes. But in this Chapter, the analysis now moves on to assessing the net economic impact of the support provided to businesses. It is understood that WEFO deliberately chose not to set any programme-level targets for increasing Gross Value Added (GVA) because of the bigger role played by other factors in the economy. However, GVA is the primary measure of economic output and can be used to assess the net impact of the ERDF support. It can also be used in a Value for Money assessment. To assess the *net* GVA impact, it is necessary first to establish the net difference that the support has (and will make) to business output (turnover). There are various steps that need to be considered.

This analysis provides an estimate of achieved and future net economic impact. It should be noted that includes assumptions relating to the gross to net calculations and also in how results have been scaled up to the wider population. The results should be viewed with these caveats in mind.

8.1 Achieved Impact

8.1.1 Deadweight/additionality

In order to be able to calculate impact over different time periods and then apply estimates of persistence, the survey asked for estimates of *annual attributable impact*, both in terms of new and safeguarded turnover. Since this asks clearly for the impact generated by the support, this takes into account deadweight (the extent to which outcomes of an intervention such as ERDF support would have been achieved anyway). Over half (554) of businesses in the survey were able to provide an estimate of *annual attributable impact*, either as a figure or as a percentage of turnover. A further 92 businesses were not able to provide an exact figure but indicated growth in turnover since the support and stated that ERDF support has had some contribution. For these businesses, the study assumed an average timescale of three years since they received support and assumed ERDF support has contributed 25% of the annual change[25]. **In total, it is estimated that ERDF support has generated £40.1m in annual attributable turnover (both new and safeguarded)**.

[25] As an example, if a company's turnover has grown by £100k since the support, it is assumed the annual growth has been £33k (using an average of three years since they received support). It is then assumed that 25% of this annual growth can be attributed to ERDF support as the business has already indicated some or vital contribution

Table 8-1: Annual Attributable Impact

	Number/Value
Number stating attributable annual turnover impact – new and safeguarded (either a figure or %)[26]	554
Annual value of attributable turnover (new and safeguarded) £	39,010,682
Additional businesses indicating growth in turnover and some ERDF contribution	92
Additional annual attributable turnover (£)	1,145,600
Total annual attributable turnover (£)	**40,156,281**

Source: SQW analysis

8.1.2 Substitution

The concept of substitution requires an assessment of whether a firm's involvement in the ERDF project detracted from other development activities elsewhere in their business. The vast majority (86%) stated that ERDF support did not have this effect. The 90 or so businesses claiming there could have been some substitution effect were then asked how the benefits of this other business development activity would compare. There was a range of estimates provided; however, the average substitution effect across the whole sample of businesses surveyed is 4.6%. Applying the estimate of 4.6% to the attributable annual turnover figure results in an estimate of around £1.8m for substitution effects. **Therefore the attributable annual turnover figure adjusted down for substitution is estimated to be £38.3m (**Table 8-2**).**

Table 8-2: Adjusting for Substitution Effects

	% and value
Average substitution %	4.6
Estimate for substitution effect (£)	1,853,796
Adjusted for substitution (£)	**38,302,485**

Source: SQW analysis

8.1.3 Displacement

Displacement occurs where increased economic activity in one location has the effect of reducing economic activity elsewhere. Using beneficiary feedback on the location of competitors and how much of their sales could be taken up by competitors, the median displacement effect was estimated to be 35%. Applying this to the annual attributable turnover impact (adjusted for substitution) results in an estimate of around £13.4m for displacement effects. **Therefore the attributable**

[26] The values presented here take into account deadweight as businesses were specifically asked about what could be attributed to the ERDF support. The question in the survey did not ask for separate figures for increased and safeguarded impact

annual turnover figure adjusted down for substitution and displacement is estimated to be £24.9m.

Table 8-3: Adjusting for Displacement Effects

	% and value
Median Displacement %	35.0
Estimate for displacement (£)	13,405,870
Adjusted for displacement (£)	24,896,615

Source: SQW analysis

8.1.4 Cumulative Impacts

The impacts considered above relate to one year of impact, and the analysis now factors in the cumulative impact, allowing for the fact that impacts will persist over time. As already discussed in Chapter 6 (6.4.1) there were mixed views on how long businesses thought the impacts they had experienced would last. The median across all responses was 4.5 years, and this has been applied to provide a cumulative impact figure. **Taking into account the cumulative effects over time, it is estimated that the ERDF support has generated around £112m in achieved turnover impact (**Table 8-4**).**

Table 8-4: Cumulative turnover impact achieved to date

	Number/Value
Attributable annual turnover figure adjusted for substitution and displacement (£)	24,896,615
Median persistence factor (years)	4.5
Cumulative turnover impact (£)	112,034,769

Source: SQW analysis

8.2 Future Impacts

All the above analysis focusses on the impacts of the support which have been realised by businesses so far, and how these achieved effects might persist over time. For some businesses in the sample, they may have only recently received the support and therefore achieved impact is likely to be quite limited. In the survey, businesses were therefore asked if they anticipated **any future impact in addition to the impacts already achieved**. Nearly half (48%) stated that they expected future turnover impact.

Over a third of the total sample (346 businesses) could provide either a figure or percentage for future turnover, and there were a further 61 firms where an estimate could be included (these firms expected future turnover growth and had previously stated the ERDF support had made at least ‘some’ contribution). On this basis,

Table 8-5 sets out the same process as already described to take account of substitution, displacement and persistence effects.

The only additional step in calculating future impact is to factor in optimism bias; that is the tendency of beneficiaries to be overly optimistic about the impact of an intervention in the future. An estimate of 40% optimism bias has been used based on guidance produced by the UK Government[27].

It is estimated that the ERDF support will generate annual attributable turnover of around £14.8m. This assumes that substitution, displacement, and median persistence factors are the same for future turnover as they were for turnover achieved, as above; there is no evidence from the survey to suggest that future turnover effects will differ from those achieved already. **Including persistence effects, this means the future impact is estimated to be in the region of £66.4m.**

Table 8-5: Future Impacts

	Number, % and value
Number stating attributable annual turnover impact in the future (either a figure or %)	346
Annual value of attributable turnover in the future (£)	37,186,222
Additional businesses indicating growth in turnover and ERDF contribution	61
Additional annual attributable turnover (£)	2,486,120
Total annual attributable turnover (£)	39,672,342
Average substitution %	4.6
Adjusted for substitution	37,840,887
Median displacement %	35.0
Adjusted for Displacement	24,596,576
Optimism bias %	40
Adjusted for Optimism bias	14,757,946
Median persistence factor (years)	4.5
Cumulative future turnover impacts (£)	**66,410,756**

Source: SQW analysis

[27] Department for Communities and Local Government (2007), Adjusting for Optimism Bias in Regeneration Projects and Programmes

8.3 Moving from Turnover to GVA

There are two approaches to calculating GVA impact from turnover data. The first is to use feedback from the businesses on the proportion of turnover that is spent on bought-in goods and services and then assuming the remainder (profits and salaries) equates broadly to GVA. The survey results suggest that an average of 34% of turnover is spent on bought-in goods and services, which would leave around 66% in GVA. However, this figure appears very high; the most recent Annual Business Survey results for 2012 show that for Wales as a whole the turnover-to-GVA ratio is 26%. Since it is notoriously difficult for businesses to report accurately on how much of their spending is on inputs, the study has opted prudently to use the ONS-derived estimates of turnover-to-GVA.

In the turnover-to-GVA analysis, broad sector averages from the Annual Business Survey were incorporated which also resulted in an average of 26% across all survey responses. It is now possible to apply the turnover-to-GVA impact ratios to achieved and future turnover impacts. **It is estimated that the net GVA impact (achieved and future) of the ERDF support is around £46.4m.**

Table 8-6: Calculating GVA impact from turnover impact

	Value
Cumulative annual turnover impact – achieved (£)	112,034,769
Cumulative GVA impact – achieved (£)	29,129,040
Cumulative annual turnover impact – future (£)	66,410,756
Cumulative GVA impact – future (£)	17,266,797
Total turnover impact (£)	**178,445,526**
Total GVA impact (£)	**46,395,837**

Source: SQW analysis

8.4 Scaling up impact to the Wider Population

In order to provide an assessment of Value for Money, the results from the survey need to be scaled up to the wider population of assisted firms. Although the scope of the evaluation has been the 69 projects that sit under the relevant Strategic Frameworks, only 47 of these projects were covered by the business survey. Based on WEFO's claim data up to January 2015, 25,000 organisations had been supported (including start-ups and social enterprises). This figure will include some cases of the same organisation being assisted by different ERDF projects. However, the research has found that there are gaps in some of the claim data and there are some projects that report job outputs but not enterprises assisted. In light of this potential under-reporting of organisations assisted, the scaling up exercise has taken into account the overall forecast figure of 32,000. This means that the analysis has used a scaling up factor of between 25:1 and 32:1 as shown in Table 8-7.

It should be noted that these estimates of the wider population do not necessarily represent unique organisations and some beneficiaries may have been supported by more than one ERDF project. However, it is legitimate to scale up to this number since the survey made clear that beneficiaries were being asked about support through one project[28].

Table 8-7: Scaling up factors

	Number
Number of businesses in the sample	1,001
Number of businesses supported – claimed to date	25,000
Number of businesses supported – forecast	32,000
Scaling up factor (low)	25.0
Scaling up factor (high)	32.0

Source: SQW analysis

The latest monitoring data (available at the end of January 2015) indicates that the 47 ERDF projects covered by the business survey had spent £536.6m in eligible expenditure, of which £257.2m was funded through ERDF.

Using the two scaling up factors, the net additional GVA is estimated to range between £1,158.7m and £1,483.2m. This provides a return on investment (RoI) of between 2.2 and 2.8 to 1.

Table 8-8: Calculating Return on Investment

	Value	RoI
Total eligible expenditure (£)	536,639,712	
Total ERDF (£)	257,242,837	
Cumulative GVA impact – achieved and projected (£)	46,395,837	
Scaled up GVA impact – low estimate (£)	1,158,737,180	2.2
Scaled up GVA impact – high estimate (£)	1,483,183,590	2.8

Source: SQW analysis

Economic impact - implications

- The impact calculations scaled up from the business survey provide an indication of likely economic impact but these vary depending on the estimates used for the wider population of beneficiaries.

[28] To clarify, the survey asked about the support from one ERDF project. These results have then been scaled up to all instances of support

- They suggest a modest return on ERDF investment of between two and three to one (bearing in mind they are based on new and safeguarded turnover also including anticipated impact)[29]. Part of the reason for this relatively low level of return is the broad range of businesses that have been supported through the ERDF programmes. These estimates of economic impact would also point to the need for better targeting of the types of businesses supported in future ERDF programmes.
- However, it should be noted that some Business Support projects were not covered by the business survey and therefore do not feature in these calculations. Some of these projects were excluded because they were in the process of commissioning their own evaluation; others were not included because they were capital projects with no business support indicators[30].
- The stakeholder feedback indicated that some large capital projects have been funded but the impact will be realised over the longer term and that measuring the legacy impact will be challenging. Even though the new ERDF programmes have been launched, these legacy impacts from the 2007/13 should be researched over the coming years.

[29] By way of comparison, the large scale evaluation of England's Regional Development Agencies highlighted an average GVA return of 7:1 for business development interventions – Dept. for Business,
Enterprise & Regulatory Reform (2009), Impact of RDA spending, volume 1

[30] Examples of business support projects not covered by the survey included: the Welsh Government's eBusiness And ICT Support project; Community Enterprise Networks project managed by Time Banking Wales; Bangor University's PONTIO project; Next Generation Broadband for Wales project; and Swansea University's Nano and Micro Technologies for Healthcare project

9.0 Counterfactual Impact Evaluation

A key requirement of the study was to undertake a Counterfactual Impact Evaluation (CIE) to provide a more objective assessment of the impact of ERDF interventions on the performance of assisted firms. The key question was to determine what would have happened in the absence of assistance? This is obviously unobservable so econometric analyses have been used which provide an estimate of the effect of assistance by using appropriate control groups. This is the second time that such an approach to evaluation has been attempted for ERDF interventions in Wales and, as such, the results should be treated as exploratory. There remain a number of issues concerning the quality of the CRM (Customer Relationship Management) data available for the analysis which hampered the matching process to ONS data.

In this study's context, the CIE sought to compare the performance data of ERDF-assisted and financially-supported businesses with performance data on a matched sample of non ERDF-assisted or financially-supported businesses, with the matching undertaken on the basis of business characteristics. In order to undertake the CIE, ERDF-supported firms were linked to ONS' business population and survey datasets to create a matched (or 'control') group of un-assisted businesses. The remainder of this Chapter sets out the various steps taken to create a control group, and the subsequent econometric analysis to estimate the impact of ERDF support against a range of performance metrics.

Overall, the results provide tentative support for the positive effects of ERDF support, but at best provide only a partial examination of its impact. The caveats mentioned throughout prevent a definitive comparison to the counterfactual position, whilst the reduced number of observations compared to the population cast some doubts on the models' representativeness. This said, the analysis does represents a step further than has previously been achieved, and its limitations and practical learning should be used to design a more comprehensive framework and better quality underpinning datasets for future evaluations.

9.1 Creating the CIE Dataset

The first step of the analysis was to connect the ERDF-assisted firms to the ONS' datasets. A list of 28,160 ERDF-assisted firms was provided by WEFO and sent to the Inter-Departmental Business Register (IDBR) Team at ONS, who ran a series of matching algorithms based on Company, Name, Address and VAT Number fields to obtain the required Enterprise Reference Numbers (ERNs) – the unique linking variable in the IDBR. The results of this matching process was that ERNs could only be found for 13,630 (48%) of the 28,160 firms which had received ERDF assistance. However, these matched firms were not all unique - it was possible for them to appear on the list more than once if they had received ERDF assistance on multiple occasions. Allowing for such duplications, there remained 7,811 unique firms which were used in the analysis.

The relatively low rate of matching[31] is likely to have been due to a combination of (i) poorly recorded company name details in the ERDF assistance database and (ii) a relatively high share of lifestyle businesses[32] in the pool of assisted businesses; the latter often are not registered for VAT and/or PAYE, and hence not do not appear on the IDBR. A further problem encountered was that no additional background variables were attached to the list of ERDF-assisted firms provided by WEFO. Thus, it was impossible to tell whether the firms that were matched were representative of the wider population of assisted firms. This led to work on a second dataset provided by WEFO which resulted in a total number of 10,288 firms being sent to the ONS for matching. The outcome was a 43% match rate with 3,568 unique firms available for the analysis.

In order to gauge whether the matched data as a whole were representative of the wider population of firm beneficiaries assisted by ERDF, two steps were undertaken. First, the two sets of matched firms were combined (and duplicates removed), and second they were matched to the file of additional variables. This resulted in a dataset of 8,302 unique firms but the additional variables were only linked to 5,331 of these firms due to a different set of ID numbers used in the first dataset provided by WEFO. Overall, these 5,331 firms accounted for 64 per cent of the total turnover of supported firms. Given that not all firms could be linked to the additional variables, the analysis proceeded on the basis that the remaining firms were sufficiently representative of all assisted firms[33].

9.2 Matching to ONS Business datasets

Whilst the majority of the unique 8,302 firms appeared on the ONS Business Structure Database (BSD), the match rate in terms of ONS' wider datasets was poor due to the fact that they are sample-based surveys with a lower coverage of smaller firms. The different level of matching is shown in Table 9-1.

[31] Previous data-linking of assisted firms across a range of public sector schemes in the UK to the IDBR has produced much higher matching rates – usually at least 75%.
[32] Feedback from WEFO indicated that due to the scale and breadth of the ERDF Programme, it was likely that a large number of lifestyle businesses have been supported
[33] Better data storage and handling by WEFO would have increased the degree of matching and thus representativeness.

Table 9-1: Matching ERDF assisted firms with ONS datasets

	No. of matches
Matching against Business Structure Database (BSD) 2007/14	7,968
Matching against Annual Business Survey (ABS) 2009/12	664
Matching against Business Expenditure on R&D Survey (BERD) 2007/12	572
Matching against Community Innovation Survey (CIS) 2006/10	447

Source: Aston Business School

Given the low rate of match to these various ONS business survey datasets, other than the BSD, it was not feasible to use these data in constructing control groups, or as explanatory variables in the intended regression models to provide an estimate of the impact of assistance. The generation of the control group was, therefore, restricted to the BSD and its limited range of variables (i.e., employment, turnover, SIC, age, and ownership).

9.3 Creating the Control Group

In order to make inferences about the impact of ERDF support, it is necessary to know how assisted firms would have performed had they not received support. As this cannot be observed, one method to achieve this is to construct a matched control group via Propensity Score Matching (PSM). PSM was attempted using BSD variables to generate a suitably matched control group. However, none of the resulting models were adequately balanced – that is, the control group generated was not similar enough in characteristics to the ERDF-assisted firms thus any differences between the two sets of firms could not be attributed solely to the ERDF support. A wider range of variables may have helped generate a more closely aligned control group.

Given these limitations in matching, it was decided to generate manually a random control group of about 5,000 non-assisted firms located in Wales, with a similar size-band and growth profile to that of the ERDF-assisted firms[34]. It is important to note that this process involved a similar methodology to that used in previous evaluation studies to create an appropriate control group for the ERDF-assisted firms[35].

9.4 Impact of ERDF-support – Econometric Results

Two econometric methodologies were used in the analysis: Heckman-type treatment models; and Difference-in-Difference. The two methodologies are described in Appendix 11. The results are set out in Table 9-2.

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[34] Details on how this was done are provided in Appendix 11

[35] For example, the evaluations of the Goldman Sachs 10,000 Small Businesses Programme and the Scottish Enterprise Account-Managed Clients. See the following reports: Goldman Sachs (2014) Empowering Entrepreneurs, Accelerating Growth. Progress Report on the Goldman Sachs 10,000 Small Businesses UK Programme; Aston Business School (2013) Scottish Enterprise's Account Management Programme: Data Matching.

The results of the Heckman-type treatment models suggest that ERDF assistance results in higher **levels** of employment, turnover, and productivity compared to the non-assisted firms, after controlling for size, sector, age and ownership. However, the growth models suggest that, after controlling for the same factors, the **rate of increase** is only faster for employment, and ERDF-assisted firms have in fact slower turnover and productivity growth than non-supported ones. Based on the turnover and productivity models the results could suggest that at firm level ERDF projects slowed down the rate of growth (perhaps, for example, because firms were in a learning or R&D phase due to the introduction of a new process or product) and there was a longer lead time for turnover and productivity effects to filter through, compared with employment effects which were more immediate.

There are a number of caveats which should be borne in mind in reflecting on these findings, particularly with the two differing sets of results on the levels and growth outcomes. The two sets of models are based on different samples, and on a dataset that has been pooled over different years. In addition, the performance models suffer from a lack of other explanatory variables[36].

Additional Difference-in-Difference models were run for those assisted with ERDF in 2010 and in 2011. The results again suggest that assistance has a positive impact on employment **growth (**seven per cent higher than non-assisted firms) and turnover **growth** (five per cent higher). However, no impact was found for productivity growth. Similarly, ERDF assistance was found to impact positively on employment and turnover **levels**, with employment 15 per cent higher and turnover 12 per cent higher. However, a negative impact was found for productivity **levels**, which was three per cent lower than for non-assisted firms. Given that productivity is measured here as turnover per employee, it is likely that the negative impact on productivity is a result of the stronger effect on employment than on turnover, both increasing but employment at a faster rate.

The DID models appear to provide the more consistent results in terms of the size, sign, and significance of the coefficients. These models are a more reliable reflection of the effect of ERDF assistance, and infer that the support increases employment and turnover growth and levels, two years after receipt of support. The size of the impacts are perhaps more contentious; the inclusion of other explanatory variables, were they available, would likely reduce the size of the impact that the analysis has so far identified.

[36] The large coefficients suggesting that omitted variables may be a problem.

Table 9-2: Impact of ERDF Support on Performance Outcome

	Coefficient	Sign	Significance
Treatment Models			
Employment Growth (2 years after support)	1.778	+	***
Turnover Growth (2 years after support)	-0.850	-	***
Productivity Growth (2 years after support)	-3.095	-	***
Employment Levels (2 years after support)	0.620	+	***
Turnover Levels (2 years after support)	4.210	+	***
Productivity Levels (2 years after support)	5.542	+	***
DID Models			
Employment Growth (Post-2010)	0.064	+	***
Turnover Growth (Post-2010)	0.052	+	***
Productivity Growth (Post-2010)	-0.013		Not signif
Employment Levels (Post-2010)	0.143	+	***
Turnover Levels (Post-2010)	0.121	+	***
Productivity Levels (Post-2010)	-0.030	-	***
Employment Growth (Post-2011)	0.069	+	***
Turnover Growth (Post-2011)	0.051	+	***
Productivity Growth (Post-2011)	-0.016		Not signif
Employment Levels (Post-2011)	0.139	+	***
Turnover Levels (Post-2011)	0.107	+	***
Productivity Levels (Post-2011)	-0.039	-	***
Selection Models			
Employment Growth (2 years after support)	-0.004	-	Not signif
Turnover Growth (2 years after support)	0.002	+	Not signif
Productivity Growth (2 years after support)	0.003	+	Not signif
Employment Levels (2 years after support)	-0.000	-	Not signif
Turnover Levels (2 years after support)	0.008	+	Not signif
Productivity Levels (2 years after support)	0.008	+	Not signif

*Note: *** equals significant at 1% level (highly statistically significant); ** equals significant at 5% level; * equals significant at 10% level (weakly statistically significant). "Not signif" means that the result is not statistically different from zero (no effect).*

The final strand of the econometric analysis was to estimate the impact of the amount of assistance received, rather than the previous focus on the impact of being assisted per se. The results of the model[37] suggest that the actual amount of financial support given to firms had no significant impact on any of the outcome measures, either in terms of their growth or levels[38]. This is a similar result to other evaluations, such as the evaluation of Selective Financial Assistance in Northern Ireland (SQW, 2013[39]) where it was the offer of assistance that was found to have had an impact rather than the actual payment. Taken in combination with the results above, this it suggests that there is an overall benefit to being assisted, in terms of subsequent employment and turnover impacts, but this is not solely due to the amount that is given. Rather, this may in fact reflect business mentoring and/or advice which is provided (or sought) in tandem with financial support

9.5 Interpretation & Conclusions

As highlighted previously, there are a number of caveats with regards to the interpretation of the results. The two main restrictions were the inability to generate a suitably matched control group and then the lack of wider explanatory variables to use in the analysis. Both of these problems are related, and stem from the fact that the variables provided by WEFO from the Programme's database only permitted matching with the BSD and not the other ONS business datasets. As a result, it is likely that the size of the impacts found are somewhat overestimated due to the reduced set of variables included in the models, with the potential risk of omitted variable bias. However, the CIE results suggest that ERDF assistance has an impact on employment and turnover, with assisted firms growing seven percent faster than non-assisted ones, and turnover growing five per cent faster (at a maximum) with assistance.

The results on productivity, which is a key policy imperative for the Programme, are less clear. A negative impact was found with regards to productivity levels, although as this is measured as a ratio of turnover per employee the result is likely to reflect the stronger impact on employment than turnover for the assisted firms. These findings suggest that assistance results in a more immediate increase in labour to satisfy increased demand for the firm's products or services, but in those cases where this is due to new products or services or new capital equipment, there is a disruptive phase on productivity until the firm/employees learn to produce at a more efficient rate. Indeed, a longer time lag post-support, may have shown a positive effect on productivity levels. There was no significant statistical effect of ERDF

[37] Again, a Heckman Selection model.

[38] This analysis looked solely at businesses where there was data available on the amount of finance received

[39] SQW Ltd (2013): An evaluation of Selective Financial Assistance in Northern Ireland, 2004/05 to 2010/11. A Final Report to DETI.

support on productivity growth. Both these results are common in other similar studies where the support can be utilised for a range of outcomes (i.e. to grow employment or to specifically increase productivity). Without being able to identify the aim of the support in the data, the results can be clouded. Alternatively, it has been commonly concluded, where similar results have been found on productivity, that support was targeted on inefficient firms or sectors due to either government lobbying or because they are strategically important (Harris and Trainor, 2005[40]; Martin et al., 2011[41]; Criscuolo et al., 2012[42]; Koski et al., 2013[43]). In these cases, support such as ERDF helps to prop-up firms artificially whereas natural market forces would have resulted in their closure. Again, without a longer post-support time period, it is difficult to assess whether the effects are due to temporary disruption or longer term decline.

The models attempted to identify further the impact of the amount of financial support in order to generate a Value for Money assessment. Again, due to data restrictions, the number of observations was reduced substantially and, when combined with a lack of wider explanatory variables, suggests caution when interpreting the results. The models on growth and on levels all suggest no statistically significant impact from the amount of the assistance given. This is in contrast to the earlier results on the impact of being assisted, and suggests that the payment itself does not generate the impacts, but rather works indirectly and in tandem with the wider support mechanisms associated with being assisted. Indeed previous work for DETI[44] in Northern Ireland indicated that it was the offer of assistance, rather than the payment, that made the difference potentially by generating a signalling effect to other finance providers that the recipient was viable. Receipt of assistance has also been shown to have effects on increasing confidence within the firm itself.

Overall, the results provide tentative support for the positive effects of ERDF support, but as described there are major caveats in the analysis. This said, the analysis does represent a clear advance in the evaluation methodology for ERDF programme expenditure in Wales. The limitations set out above should provide an agenda to develop a more comprehensive framework and better quality underpinning datasets for future evaluations.

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[40] Harris, R. and Trainor, M. (2005b) Capital subsidies and their impact on total factor productivity: Firm-level evidence from Northern Ireland. Journal of Regional Science 45 (1): 49-74

[41] Martin, P., Mayer, T., and Mayneris, F. (2011) Public Support to Clusters: A Firm Level Study of French Local Productive Systems. Centre for Economic Policy Research Discussion Paper Series No. 7102, CEPR

[42] Criscuolo, C, Martin, R., Overman, H.G., Van Reenen, J.R. (2012) The Causal Effects of an Industrial Policy. CEP Discussion Paper No. 1113, Centre for Economic Performance

[43] Koski, H. and Pajarinen, M. (2013) Subsidies, Shadow of Death and Productivity. ETLA Working Papers No 16

[44] Department of Enterprise, Trade and Investment

CIE - Recommendations

- Each company should be given its own unique ID number within the Programmes. In this way, firms that receive multiple types of support and/or multiple instances can be identified through a common ID number. This will also help to alleviate any problems in identification if the firm subsequently changes name and/or address. The convention of having a consistent ID is also important if the data is anonymised for research purposes, as otherwise it is difficult to distinguish firms that appear on the dataset multiple times.[45]
- The Companies House Registration (CRN) number is added to the dataset, where a firm is registered - this will make subsequent CIE matching to any of the ONS' datasets more straightforward (as they have a direct lookup table).
- Linked to this, a system should be put in place to record firms' details in a consistent manner. This should include name and address details (with each element in a separate and consistently used fields), and across other variables such as size-bands and sectors.
- All the data should include the dates of when financial assistance payments were made. It is likely that the financial support involved stage payments and the identification of the last payment date would ensure that any post-support evaluation covers the period thereafter.
- Due to the difficulty in matching with ONS datasets, it is recommended that consideration be given to a survey-based approach which may be more beneficial in helping to estimate the impact. This would include a survey conducted on a representative sample of firms receiving support (as was undertaken for the evaluation and reported earlier). It would also include surveying a relevant control group, for example a sample of firms that applied but were either not successful or did not take up the assistance offered (but it is acknowledged that this will also be difficult). Such survey work could also collect the required background variables needed to estimate the impact and could include questions on other support received, thus helping to isolate the specific impact of ERDF funding. The survey results could then be combined with data from the BSD (matched using the CRNs) to estimate the employment, turnover and productivity impacts from independent official data.

[45] The central database would need to be able to search the lists (using name, contact name or address) provided by individual projects to identify any cases of businesses being supported by more than one project – this central database would then have the unique ID numbers

10.0 Process Perspectives 2: *Data Issues*

This Chapter discusses the specific issue of the Programmes' monitoring data. Both the integrity and accuracy of this information proved to be significant, and costly, challenges in undertaking the evaluation. The Chapter focusses on the data-related issues encountered in undertaking the study's main business survey, and then the separate data-matching analysis used to inform the counterfactual assessment of impact. It then concludes with some key recommendations to inform more accurate, coherent and reliable data management for future monitoring systems. To set the context for the recommendations, the current processes and protocols for managing Programme monitoring data are described.

10.1 WEFO's Monitoring and Contacts Database

WEFO has two online monitoring systems; a first which keeps track of project performance on contracted spend and outputs, built up at the level of individual projects; and a second which maintains a cumulative list of beneficiaries being assisted by Programme support. The former is important in managing the shape and performance of the Programmes, the second in ensuring a robust listing to assist with output verification. The main issues experienced by the study were with the latter.

Feedback from WEFO's Monitoring Team highlighted some of the difficulties experienced in maintaining the beneficiary details. To begin with, it was acknowledged that the original database structure should have had a separate field for 'organisation name'. It was also stated that the structure of the database with separate columns for, 'Enterprises Assisted' and 'Enterprises Created', has created significant confusion and difficulty from monitoring (and, subsequently, evaluation) perspectives.

Above and beyond database structure issues, it was conceded by WEFO colleagues that in the early years of the Programmes there was insufficient attention paid to ensuring projects' provided timely and complete beneficiary data, partly because it was expected that projects would simply comply with the requirements, especially as the Welsh Government was developing a Customer Relationship Management system which was intended to collect the data required by WEFO. Projects were required to submit quarterly claims to reclaim their ERDF and alongside this expected to provide beneficiary data on a timescale as agreed with their Project Development Officer (PDOs), based in WEFO. This provision of beneficiary data tended to be on a six-month cycle, and so somewhat out of synchrony with the claims process, although in the last few years PDOs have encouraged projects to submit the information quarterly.

Since there was no direct link between submitting beneficiary data and receiving ERDF payment, there have been delays in receiving this beneficiary information from projects. It is understood that WEFO's Research, Monitoring and Evaluation (RME) Team and PDOs now raise the issue of timely and complete beneficiary data at quarterly meetings with Project Managers, but there is currently no mechanism for forcing projects to provide these beneficiary data. Importantly, there is no protocol that ERDF claims are only paid upon receipt of beneficiary data, and verification of beneficiary outputs is not a well-established practice in the Programmes. The requirements to provide beneficiary data are highlighted in the legal ERDF Offer of Grant Letter which all project managers commit to, but at no stage in the Programme have these conditions been invoked to enable claw back in response to the non-provision of beneficiary data.

For those projects that have provided beneficiary data, there is then the issue of ensuring this has been provided consistently and in a format that aligns with the holding database. Again, it was acknowledged that the RME Team has had ongoing issues in recruiting and retaining resources to update and check the beneficiaries' database. When a resource has been in post, this checking has been done manually and has focused on checking the 'quantity' of the data i.e. are all the database fields populated, rather than the 'quality' of content of those fields that have been entered (e.g. checking the name, business name and address have all been filled in correctly).

It was suggested that in the early years of the 2007/13 ERDF programmes, PDOs had limited awareness of the beneficiary database. In fact, under the current monitoring systems, PDOs do not have permissions to access the database. These issues may well be true, in which case there is a strong case for training, capability development and protocol reassessment. That said, the issues at large in designing, operating, and maintaining high performance monitoring databases are very well understood, given over 20 years' experience of ERDF activity in the UK, and 30 years of similar by national business support organisations, such as the Department of Business, Innovation, and Skills (and its precursors). Ensuring a full and thorough addressing of these issues going forward is a key management challenge and important for the rotation of ERDF activity in Wales.

10.2 Data issues for the primary research

The main issues with the beneficiary data were as follows:

1. No separate field identifying the beneficiaries' name

Within the database provided, there was no separate field for the name of the beneficiary organisation. In some cases, the beneficiary's name had been merged with the address field. In others, the name of the beneficiary was missing altogether.

Having details on the names of beneficiaries should be a minimum requirement of any monitoring database.

2. Inconsistences in the way enterprise details were collected by delivery partners

The lack of a consistent client ID number caused a number of problems for both the survey and the matching exercise undertaken as part of the CIE. Furthermore, names for the same enterprise were often not entered consistently (e.g. one record might specify 'Business Name Ltd', another 'Business Name Limited). In a small database, this type of issue could be easily rectified but it causes more problems in larger ones. It was also commonplace for there to be multiple contacts at the same establishment, most likely because different contacts were being supported through different ERDF projects. There were also inconsistencies in the format of business addresses, employment variables (some text, other numeric) and sector variables (i.e. number of SIC digits).

3. Missing telephone numbers

Around 20% of unique organisations in the contacts database either did not have telephone numbers or the number recorded for them was invalid. This represents a sizeable proportion of the beneficiary base which could not be used for survey sampling.

These issues caused major issues for constructing the business survey sample. The original WEFO database provided to the evaluators contained around 28,000 contacts, of which, after substantial data cleaning by the evaluation team, 15,500 were suitable for research purposes. In other words, 12,500 records in the beneficiary database were judged as being inappropriate for use in constructing the survey sample. The issues also made it difficult for the CIE in terms of attaching Enterprise Reference Numbers.

Aside from the issues with the maintenance and structure of the database, a further issue caused difficulties in the data matching exercise necessary for the CIE. The study attempted to access data to on ERDF-assisted firms from various ONS datasets in order to undertake Propensity Score Matching to create a suitable control group. These datasets would normally include Business Structure Database (BSD), Annual Business Survey (ABS), Business Expenditure on R&D Survey (BERD) and Community Innovation Survey (CIS). However, in the analysis for this study the match rate against these datasets was very low, i.e. these databases did not hold any data on a large proportion of ERDF-assisted firms. This is probably due to a relatively high share of small operators in the pool of assisted businesses; the latter often are not registered for VAT and/or PAYE, and hence not do not appear on the IDBR.

Assuming the profile of ERDF assisted firms will continue to be similar in future Programmes, this issue will continue to restrict the applicability of CIE and, as suggested in the previous Chapter, perhaps puts more onus on survey work with assisted and non-assisted firms.

10.3 Recommendations

Recommendations on the role of data and its management for future monitoring systems are set out below; it is understood that WEFO is already factoring in some of these issues into the design of new database structures for the forthcoming 2014/20 programmes.

Recommendations

- Ensure that ERDF payments are only released to projects once the required beneficiary data have been submitted to WEFO
- Issue clear guidance to projects, from the outset, on the level of detail and timescales for beneficiary data, and ensure there are clear and unambiguous definitions of the data responses which are required
- Ensure both project managers and Project Development Officers are clear on the importance of good quality beneficiary data, and that PDOs have full access to review the data provided by their projects
- Improve the structure of the database, including a separate field for the name of the beneficiary organisation, standardising the way in which addresses are provided and ensuring beneficiary post-codes are included
- Ensure the database highlights errors/issues to project managers for them to resolve, reducing the burden on WEFO's Monitoring Team
- Ensure the database has a set of minimum requirements including contact name, organisation name, post-code, telephone number and date of support
- Request that projects record the Companies House Registration (CRN) number, where a firm is registered, in order to assist matching with ONS datasets
- Start to build a culture which sees the provision of monitoring data not as an obligation, but a core requirement in understanding the impact and added value that ERDF programmes are providing

11.0 Conclusions and Recommendations

This final Chapter sets out the study's Conclusions and Recommendations. The material is organised at the level of each of the key elements of the logic chain, as described in Chapter 1.

11.1 Context, Rationales and Objectives

There is a mixed picture in terms of Wales headline economic performance since 2007. Whilst the business base and employment levels have remained the same or decreased marginally, there have been some increases in GVA, productivity, business innovation investment, and exports. But, for many key indicators, Wales has continued to under-perform relative to other parts of the UK. The ERDF Programmes have been delivered during a period of considerable economic uncertainty in Wales, as elsewhere. The scale of economic change was unforeseen, and was certainly not taken into account when the ERDF Operational Programmes were developed in 2006/07.

In the round, the Programmes' rationales were valid at the time they were introduced, and have remained current for their duration. However, there could have been a clearer articulation in the OPs of the different types of market and other failures that ERDF was seeking to address through Business Support. The idea of 'putting right' these failures at source should have been a more integral part of the Programmes' culture and imperatives.

R1: Any future rationales for Business Support funded by ERDF should be strongly evidence-based, as far as possible demand assessed, and focused on clearly addressing the source market and other failures in play

The main Business Support objectives were: to promote a high value added economy for growth and increase utilisation of ICT; strengthen the economy by increasing the size and widening the range of the business stock; and to promote business competitiveness.

R2: Although indicators and targets were set under each of the Strategic Priorities, headline objectives for the future should be couched in SMARTer terms with a clearer articulation of the outcomes they are looking to achieve

11.2 Inputs and Activities

As at end January 2015, the two ERDF Programmes, comprising 179 projects, had spent around £1,685m, including £850m provided by ERDF.

This represents 78% of the total ERDF, which was approved for the Programmes. The 69 projects specifically focussed on Business Support had spent £712m, including £385m in ERDF (77% of the approved ERDF).

There was relatively high awareness of the role of ERDF funding in the support, with three in four organisations understanding that their support was funded through ERDF. This level of awareness was highest (92%) in organisations supported under Competitiveness Priority 1, and lowest (63%) in Competiveness Priority 2. However, these positive findings should be caveated slightly in light of the relatively large numbers of contacts on the WEFO database who claimed not to have heard of the ERDF project that their name was listed against. This applied to around 1,200 contacts out of the 7,000 originally selected for interview.

Across Business Support projects, there was a balanced spread of activity under the different Strategic Frameworks of Enterprise, Innovation, ICT, Business Finance, and Community Economic Development. Based on the large scale survey of businesses, the most common types of support accessed were business start-up advice (46%), financial support (45%) and more general business support (40%). Just under a third (30%) of surveyed enterprises received innovation support. In terms of the two Cross Cutting Themes (CCTs), around a quarter of beneficiaries had received advice or support on environmental sustainability and equal opportunity issues.

Of those organisations receiving financial support, nearly 90% stated that this was in the form of a grant, 7% reported loan funding support, and 1% received equity finance support. However, it should be noted that the JEREMIE Fund ERDF projects were under-represented in the survey. Overall, the study found that there had been some progress in moving financial support away from grant-based funding to repayable financial assistance. But, as evidenced from the survey results, there remains some work to do in this area.

The survey found that out of those businesses that received financial support, a relatively small proportion had applied for finance from elsewhere. Arguably, this could have been because they assumed they would not be able to access other funding (or not on such favourable terms). However, it reinforces that any future financial support projects need to be absolutely clear on providing the evidence on the need and demand for their funding offer.

R3: ERDF Business Support providing direct financial assistance should give greater consideration to clear evidence of market/other failure, and continue to encourage businesses towards repayable forms of assistance

The evaluation found very high levels of satisfaction from beneficiaries of Business Support projects. Based on the survey, around 85% of beneficiaries stated that they were satisfied with the relevance, speed, and overall quality of the support. For the sub-set of beneficiaries that received CCT support, satisfaction levels were similarly high with nearly 90% reporting that the support was helpful. Evidence from businesses consulted through the project case studies also confirmed positive feedback on the range of support provided.

R4: Although there has been an increase in the number of beneficiaries that reported specific support on environmental sustainability or equal opportunity issues, the incorporation of Cross Cutting Themes should receive greater attention in future ERDF approvals and monitoring

11.3 Outputs

The Business Support projects had so far created around 29,400 gross new jobs and 10,400 new enterprises, with 14,500 enterprises being assisted. While the 'enterprises created' indicator was on target, the 'jobs' and 'enterprises assisted' indicators still had significant progress to achieve in the closing months of the Programmes.

There have been some significant infrastructure investments made under the business-related Strategic Frameworks. These include the Next Generation Broadband for Wales, the Engineering Manufacturing Centre and Innovation Hub at Swansea University. These large investments however did not have any agreed business output indicators (Jobs Created, Businesses Supported) or details of direct beneficiaries.

From the ERDF programme monitoring systems, it was not possible to ascertain how many unique organisations have been assisted through the Business Support projects. Very significant gaps and inconsistencies in the beneficiary contact database caused difficulties in establishing a sample for the business survey and have presented challenges in the data-matching process.

R5: WEFO should significantly improve the accuracy and integrity of its beneficiary monitoring systems, to allow effective and timely management information and to enable ongoing and robust programme evaluation

11.4 Outcomes

The proportion of beneficiaries involved in business development activity over the last five years ranged from 60% introducing new products or services to

22% involved in some form of collaboration activity. Of those businesses involved in business development activity, typically around 40% stated that ERDF support had contributed to this activity.

Just under one in ten (9%) of existing businesses stated that they would have been unlikely to continue operating if they had not received the ERDF support. However, a fifth of new businesses stated that it is unlikely that they would have started up without the ERDF support.

Around 30% of beneficiaries surveyed in the evaluation stated that ERDF support had had an impact on employment. Within this group of beneficiaries, 75% stated that new jobs had been created, and just over half (53%) reported some jobs had been safeguarded. **Survey evidence indicates that just over 900 gross new jobs had been created and 1,100 gross other jobs safeguarded since ERDF support was provided.** Four in ten of the new jobs created were held by women (at the time of the survey) and just over a fifth (21%) were held by Welsh speakers. Around 6% of new jobs were held by people from ethnic minority groups and 4% by people with disabilities.

The majority of beneficiaries (59%) stated that these employment impacts would not have occurred without the ERDF support provided. More than a third (35%) of beneficiaries reported that further jobs would be created over the next five years, as a result of ERDF support. **The number of gross jobs estimated in the future by beneficiaries is 1,200**.

The feedback from the survey indicated that typical salary levels amongst beneficiary organisations were slightly below the Welsh average. This reflects the broad range of sectors supported through ERDF including lower value added sectors such as retail and other service sector businesses. Although the survey asked about the typical salaries of all jobs, it is not unreasonable to assume that the new jobs created with ERDF support also had salaries slightly below the Welsh average.

More than half of all beneficiaries (52%) reported that turnover had increased since they received ERDF support. Just under half (46%) highlighted that productivity and profitability had improved since the support. In contrast, only 14% reported an increase in export sales since they had received the ERDF support. The latest aggregate turnover of surveyed beneficiaries was almost £730m; this had increased 10% since the time beneficiaries received ERDF support. Profits had increased 16%, up to just under £40m, and export turnover had increased by 29% up to nearly £83m over the same period.

Nearly four out of five beneficiaries reported that ERDF support had had some contribution to their performance; within this group, nearly 30%

stated it had made a vital contribution. The results for business impacts achieved since receiving the support are generally more positive than the results from the 2011 ERDF business survey. The proportion of beneficiaries reporting an increase in turnover has increased from 41% in 2011 to 52% in 2015.

R6: Given that the broad range of ERDF Business Support has proven to be useful and well received, there is a case for it continuing under the new ERDF Programmes

R7: The feedback on average salary levels and the notably low level of increase in exports from ERDF assisted firms suggest the need for the support to be more targeted. Evidence from the business survey and project case studies, reinforced in stakeholder feedback, highlights a very broad range of beneficiaries (sector, size, attitude to business development). With the continuing focus on productivity and wealth creation in the new 2014/20 ERDF Programmes, future ERDF Business Support should be more prescriptive in terms of its target businesses, prioritising those with growth potential which will help ensure higher levels of overall economic impact

11.5 Impacts

The study involved two approaches to estimating overall impact: one approach used the business survey feedback, scaled up to the wider population, the other an econometric-based Counterfactual Impact Evaluation. Both approaches have their advantages and disadvantages and there are caveats with both sets of estimates.

Starting with the self-reported survey approach, over 60% of the 1,001 assisted businesses surveyed for the evaluation attributed additional annual turnover (both new and safeguarded) to the ERDF support received. Nearly half of survey respondents (48%) stated they expected future turnover impacts, in addition to those already achieved. Based on the survey feedback the combined (achieved and future) net turnover impact was £178.4m. It is estimated that the net GVA impact (achieved and future) of the ERDF support was around £46.4m for the sample of 1,001 businesses.

Scaling-up to the wider population of ERDF Business Support beneficiaries, it was estimated that between £1,159m and £1,483m of net GVA impact had been generated. The claimed expenditure for these projects was £537m, including £257m from ERDF. Using the total expenditure figure, this would mean a return on investment figure of between 2.2 and 2.8: 1. The main issues in this analysis were: the accuracy of self-reported impacts; the fact the survey could not cover those ‘Business Support’ projects without business outputs; assumptions used in calculating gross to net impact; and how the results were scaled up to the wider population.

A Counterfactual Impact Evaluation (CIE) was undertaken comparing performance data on ERDF assisted firms and a control group of non-assisted firms. Econometric analysis using Difference-In-Difference models suggested that employment growth in ERDF assisted firms has been seven per cent higher than in non-assisted firms, turnover growth was five percent higher but no impact was found for productivity growth. Similarly, ERDF assistance was found to impact positively on employment and turnover levels, with employment 15 per cent higher and turnover 12 per cent higher. However, a negative impact was found for productivity levels, which was three per cent lower than for non-assisted firms. The results of the modelling also suggested that the actual amount of financial support given to firms had no significant impact on any of the outcome measures.

Even allowing for the better integrity and recording of beneficiary data, the main problem encountered in the CIE process was the lack of matches to the other ONS datasets, and the subsequent challenge in control group construction and sufficient explanatory variables. Given that the majority of ERDF-assisted firms appeared to not be widely sampled across these surveys (possibly due to size and sectoral issues) it is likely that this will continue to be a problem in the future.

Both impact analyses suggest that ERDF has had a modest net impact on the performance of businesses and social enterprises. The survey-based analysis suggests a return on ERDF investment of between two and three to one (taking into account new and safeguarded turnover and future anticipated impact). Part of the reason for this relatively low level of return is the broad range of businesses that have been supported through the ERDF programmes. These estimates of economic impact would also point to the need for better targeting of the types of businesses supported in future ERDF programmes.

R8: Feedback from the stakeholders and project case studies highlighted the potential benefits of greater integration between ERDF and ESF projects; this would help ensure targeted businesses can achieve growth ambitions. It is therefore recommended that WEFO adopts a more strategic approach to the approval of ERDF and ESF applications

R9: Until such time as the integrity and comprehensiveness of the Programmes' underlying datasets are addressed (Recommendation 5), and given that there will continue to be issues in matching ERDF assisted firms with other ONS datasets, measuring the impact of support through the use of surveys (of both assisted and non-assisted firms) should be prioritised over econometric analysis methods

R10: During the latter part of the 2007/13 Programmes some large capital projects have been funded, but their impacts will only be realised over the longer term. Measuring the legacy impact of these projects will be challenging. Even though the new ERDF programmes have been launched, formal commitment should be given to ensuring that the legacy impacts of these large 2007/13 capital projects are evaluated in the coming years

In conclusion, the evaluation found challenges in both approaches to estimating net impact of the ERDF Support for Business in Wales. However, both sets of analysis have indicated that ERDF support has had a positive, albeit quite modest, net impact on the performance of beneficiary organisations.