XII International Evaluation Conference
Wrocław, 21-22 June 2017

Findings and Lessons Learned from the Impact Evaluation of KAI 4.3 "Support for the Development of Microenterprises" of the Romanian 2007-2013 ERDF ROP

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Contracting authority of the evaluation: Ministry of Regional Development, Public Administration and European Funds

Evaluators' consortium: ACZ Consulting, t33, IRIS Ricerche

European Funds
Technical Assistance

MINISTRY OF ECONOMIC DEVELOPMENT

European Union
Cohesion Fund

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1 – Evaluation context (a)

- **Ongoing impact evaluation** → **Main focus:** Net effect (how much has the programme contributed to microenterprise development?)
- **Duration:** March – November 2014
- **Contracting authority:** Romanian Ministry of Regional Development and Public Administration

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- **Evaluators' consortium:** ACZ Consulting (lead partner – Romania), t33 (Italy), Iris Ricerche (Italy)

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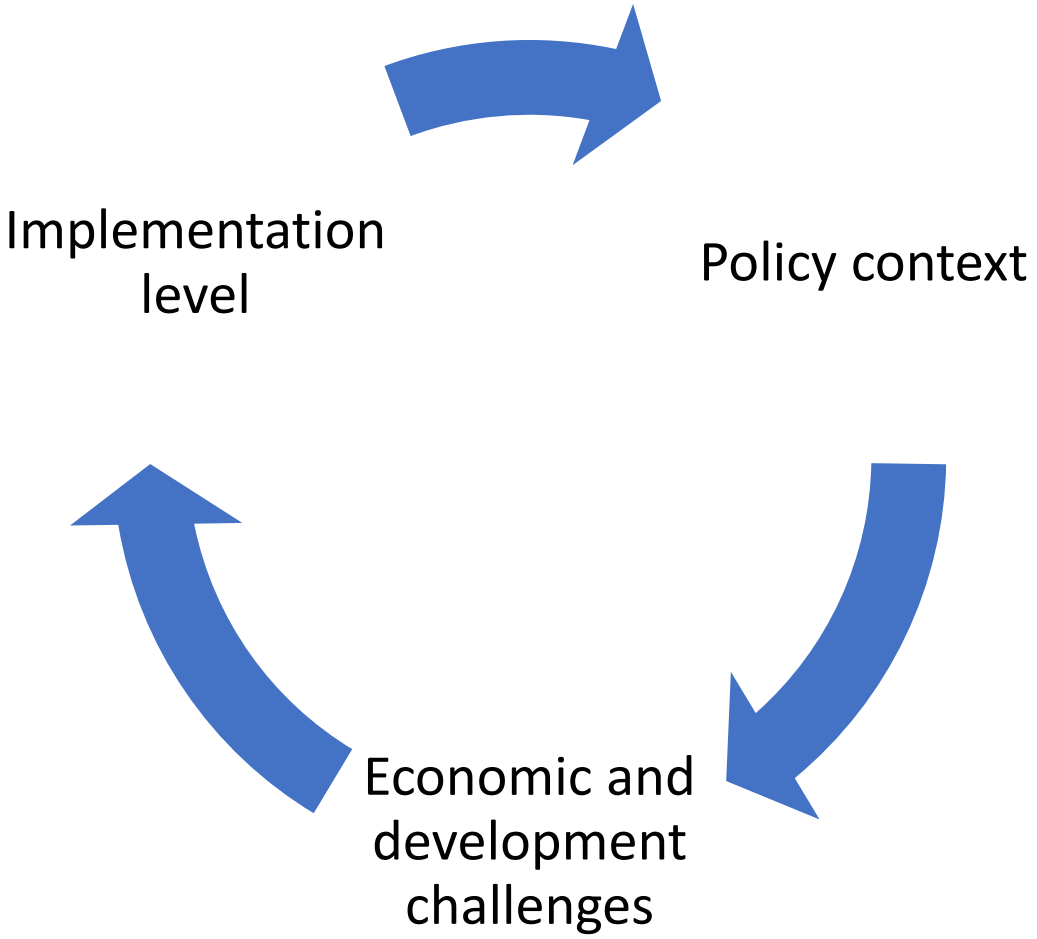
1 – Evaluation context (b)

- The impact evaluation of KAI 4.3 was **the first impact evaluation study made in Romania with counterfactual methods**

- **This study is part of a framework agreement, which included 8 studies regarding 11 key areas of intervention**

2 – Programming context of KAI 4.3



2 – Programming context of KAI 4.3

2.A Policy context

- Key Area of Intervention (KAI 4.3) has been financed by the Romanian “ROP” ERDF programme
- **Programming period**: 2007-2013
- **Objective**: Supporting the development of microenterprises in construction, manufacturing and services sector, located in urban areas
- **Expected results**:
  - A general growth of microenterprises competitiveness
  - A growth in the use of new technologies, inovations, ITC equipments and services
- **Result indicator:** jobs created in supported enterprises

2 – Programming context of KAI 4.3

2.A Policy context

- **Eligible beneficiaries**: Commercial companies or cooperative societies which, under the law, fall into the category of microenterprises, which operate within production, services or constructions.

- **Eligible activities**:
  - Purchase of new and modern equipments and technologies for production activities, services, constructions;
  - Acquisition of IT systems (hardware and software);
  - Construction/expansion/modernization of the production/services of microenterprises.

2 – Programming context of KAI 4.3

2.B Economic and development challenges

- Microenterprises represent an **important share of the economy** (87% of the enterprises and 21% of the employment)

- Microenterprises **severely hit by the economic crisis** (a net decrease of -16% in the number of microenterprises from 2008 to 2012)

2 – Programming context of KAI 4.3

2.C Implementation level

- The evaluation has addressed the KAI 4.3 implementation in order to collect information for mapping the mechanisms behind the impact. However, the evaluation is not on implementation but on the impact.

- **Evaluation has focused on**:
  - **Call 1**: launched in 2008, with a 20 million Euro allocation, with a minimum beneficiary contribution of 30% of eligible costs;
  - **Call 2**: launched in July 2010, about 190 million Euro allocation, grant up to 100% of the eligible costs of the project.

- **Programme annual implementation report 2013**
  - Output: 1,762 financed microenterprises (Call 1 and 2);
  - Result: 8,500 new jobs created, with an average of 4.7 new jobs created per company.

3 – Main evaluation questions

Findings and lessons learned for the microenterprise support

1) What is the net effect of KAI 4.3?

2) What are the key factors hindering / underpinning the implementation?

Lessons learnt for future evaluations

3) What can we learn for future evaluations?

4 – Methodological toolbox

DESK RESEARCH (MAIN ELEMENTS)

- **Literature review** has been used to:
  - Define and finetune the methodological approach;
  - Examine existing studies in the country in the same field (being the evaluation a pioneering study in Romania);
  - Analyze other programmes having similar measures promoting SMEs and micro-enterprises development (e.g. Rural Development Programme).

- **SWOT and PEST analyses** has contributed to:
  - Update the situation and SWOT analysis of the ROP and the justification for KAI 4.3;
  - Identify specific needs of firms and microenterprise in the country.

- **Logic model** has been used to:
  - Analyze the components of the logic model of the KAI 4.3;
  - Identify challenges for the achievement of results and impact;
  - Identify the outcome variable for quantitative estimates.

4 – Methodological toolbox

QUANTITATIVE ANALYSIS

- A set of **counterfactual analyses (propensity score matching + difference in difference + regression discontinuity design)** has been proposed to:
  - Compare the overtime performance of beneficiaries and non-beneficiaries (unsuccessful applicants);
  - 3 years and 4 years after the project finalisation;
  - Estimate the net effect (in terms of jobs created – result indicator of the measure – but also in terms of turnover).
- **Econometric estimates (probit and linear model)** have been conducted to:
  - Identify the key factors explaining the high rescission rate (around 1/3 of beneficiaries) among call 1 beneficiaries;
  - Measure the contribution of the financial size of the grant on the enterprise performance and compare the two calls.

4 – Methodological toolbox

QUANTITATIVE ANALYSIS

- **Creation of a new database** of beneficiaries and non beneficiaries of KAI 4.3 (but applicants):
  - 908 microenterprises (2007-2013)
  - 25 variables (sector, localisation, webpage, jobs, turnover, net assets etc…)

4 – Methodological toolbox

QUALITATIVE TOOLS

- **Case studies** with KAI 4.3 beneficiaries
- **Interviews** with the Managing Authority and Regional Development Agencies
- **Benchmarking** with other similar interventions (PNDR, other international programmes for microenterprises and innovation) and **panel of experts**
- **Focus groups**

Highlight the key mechanisms ensuring the impact

Identify the most relevant obstacles hindering the manifestation of KAI 4.3 effects

5 – Evaluation findings and lessons learned

What is the net effect of KAI 4.3

IMPACT of KAI 4.3 – *Quantitative effects*

- Beneficiaries of Call 1 created 3 more jobs than the “compared” non-beneficiaries 3 years after the completion of the project (2.4 more jobs 4 years after the completion of the project)

- There is no significant impact on turnover while comparing beneficiaries and non-beneficiaries

What is the net effect of KAI 4.3

IMPACT of KAI 4.3 – *Behavioural changes*

- ❑ Supported the acceleration of the implementation of existing ideas rather than stimulating new ideas
- ❑ Increased capacity to exploit market opportunities by promoting a more strategic focus and changes in scope of business
- ❑ Increased quality of products and supply of our new services

What are the key factors hindering/underpinning the implementation? - **Implementation aspects**

FINDINGS

- **Project generation:** The preparatory phase of the project was considered challenging. Many applicants decided to hire consultants. In some cases, the quality of the advice received has not reached the expectations of the applicants

- **Selection procedures:** The selection process takes approximately one year (the pre-contracting phase lasts up to 50% of the entire selection process)

- **Reporting:** Beneficiaries of the projects considered administrative and reporting procedures as too difficult, even if there has been an improvement in the call 2

What are the key factors hindering/underpinning the implementation? - **Implementation aspects**

FINDINGS

- **Credit market failure:** For many projects it is necessary to request a bank loan to ensure the cofinancing. Because of the precarious financial conditions and lack of funds, some of the beneficiaries decided to rescind their projects

- **Impact of the size of the grant:** The financial value of the grant has a positive impact on employment growth, particularly for small microenterprises (the second call with higher grant values has performed better than the first in terms of jobs created)

What are the key factors hindering/underpinning the implementation? - **Implementation aspects**

LESSONS LEARNED/RECOMMENDATIONS

- **Project generation:** Promoting training for applicants and ad hoc services through sectoral stakeholders (e.g. information centers, chambers of commerce)

- **Selection procedures and reporting:** Simplifying financial and audit procedures especially for smaller projects (under 100 000 euro)

- **Adopting more selective approach:** Promoting more innovation and research oriented and / or sectoral interventions, supporting with specific interventions a small set of high performing microenterprises ensuring higher impact (e.g. gazelles)

What are the key factors hindering/underpinning the implementation? - **Implementation aspects**

LESSONS LEARNED/RECOMMENDATIONS

- **Credit market failure:** Using financial instruments instead of increasing the intensity of the grant

- **Impact of the size of the grant:** The financial value of the grant has a positive impact on employment growth, with a higher cost per job in the second call (call 2 is less efficient than call 1)

What are the lessons learned for future evaluation activities

For future evaluation activities, it seems relevant to:

1. Create an integrated database to register all the beneficiaries of cohesion policy programmes

2. Update the database realized in the evaluation study of KAI 4.3

3. Carrying out other counterfactual analyses to compare the results of KAI 4.3 with other interventions (Rural Development Programme)

4. Repeating counterfactual analysis at 4, 5 and 6 years after completion

Thanks a lot

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