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ERDF Support for Business Evaluation

Executive summary

1. Introduction and background

- 1.1 In November 2021, the Welsh European Funding Office (WEFO) of the Welsh Government commissioned Wavehill alongside Winning Moves and Belmana to undertake an evaluation of non-financial Support for Businesses funded through the European Regional Development Fund (ERDF) and delivered through the 2014-2020 European Structural Fund programmes.
- 1.2 The evaluation seeks to assess the effectiveness of ERDF support for businesses with a particular focus on two priority axes (PAs) within the ERDF Operational Programmes of West Wales and the Valleys and East Wales¹, PA1: Research and Innovation, and PA2: Small and Medium Sized Enterprise (SME) Competitiveness
- 1.3 A series of Specific Objectives (SOs) are found under each PA. Each SO identifies the socio-economic need and the specific changes to be achieved through Structural Funds investment. The focus of the evaluation has been on Operations that have been delivered through SOs focussed on assisting businesses, namely:
 - SO1.2 - to increase the successful translation of research and innovation processes into new and improved commercial products, processes and services, in particular through improved technology transfer from Higher Education Institutions (HEIs)
 - SO2.2 - To increase the number of SME start-ups through the provision of information, advice and guidance and support for entrepreneurship
 - SO2.3 - To increase the uptake and exploitation of Next Generation Access (NGA) and Information and Communication Technologies (ICT) infrastructure by SMEs
 - SO2.4 - To increase the growth of those SMEs with growth potential, in particular through accessing new markets (both domestic and international)
- 1.4 Operations supported by the Structural Funds are required to contribute to the attainment of Cross Cutting Theme (CCT) indicators and targets. The CCT indicators for both PAs are:

¹ There are five priority axes (PAs) across the ERDF programmes: PA1: Research and Innovation, PA2: SME Competitiveness, PA3: Renewable Energy and Energy Efficiency, PA4: Connectivity and Sustainable Urban Development (West Wales and the Valleys)/Connectivity (East Wales), PA5: Technical Assistance

- Percentage of enterprises adopting or improving their equality strategies and monitoring systems
 - Percentage of enterprises adopting or improving their sustainable development strategies and monitoring systems
- 1.5 Operations supported under SO 1.2 are referred to a [Business Future-Proofing Toolkit](#) for support in this area. Developmental support provided by Business Wales as part of Priority Axis 2 leads to the claiming of these target indicators.

Evaluation aims

- 1.6 The evaluation aims to assess:
- the effectiveness of ERDF Support for Businesses,
 - the outcomes achieved to date,
 - the extent to which supported businesses received advice or support in relation to CCTs
 - whether the programme provided opportunities to promote the Welsh language or contribute to the goals of the Well-being of Future Generations Act and
 - whether impacts are influenced by different types of support or different business situations

2. Methodological Approach

- 2.1 The evaluation has involved
- **desk-based research** reviewing various documentation associated with the ERDF Operational Programmes, targeted case study operations and performance related data associated with the SOs.
 - **A survey of 1,014 SME businesses** exploring awareness and motivations for getting ERDF support, the nature of support received, satisfaction levels with that support and the effects of that support on business activity and its impact on employment and business performance. A quota sampling approach by SO was adopted which mimicked a simple random sample. Following discussions between the evaluation consortium and the Welsh Government, the decision was taken to limit the sample frame to businesses that received support since March 2019. It was felt this would strengthen the re-call of support from businesses and provide more accurate responses to questions, while also giving exposure to, and enabling comparison between the perceptions of support pre and post-COVID-19.
- In total, there were 1,014 survey completions, 870 from CATI and 144 online submissions, equating to a response rate of 13.5 per cent.
- **Counterfactual impact evaluation (CIE)** was conducted to explore firm-level employment and turnover impacts amongst participant businesses registered with Companies House and for Value Added Tax (VAT) or Pay as You Earn (PAYE). The analysis used the Office for National Statistics (ONS) Business Structures Database (BSD) and other firm-level data. The variables captured include business age, turnover, employment, sector and survival (continued operation). Using these variables enabled comparable data to be found for businesses in Wales supported by ERDF and also for other UK businesses that can act as a counterfactual.

A statistical technique called propensity score matching (PSM) was used to determine the suitability of a counterfactual business. This can then form the basis for difference-in-difference analysis to understand whether the growth seen between supported businesses and the counterfactual (the first difference) differs significantly before and after the support (the second difference). Any significant difference is an estimate of the additional effects of the support.

- **Qualitative research with key stakeholders** was carried out by telephone and through videoconferencing (Microsoft Teams). Consultations were carried out with 16 ERDF stakeholders who reflected on the performance of the operations within the targeted SOs.
- A series of six **case studies** have been compiled to provide more detail on the experience of delivering specific operations within each SO. They provided the opportunity to contextualise the findings of the survey and to explore in greater depth, the support offered and the experiences of businesses in receipt of that support. For each case study, the lead beneficiary (the organisation managing the operation) and a random sample of participant businesses were interviewed by telephone. Across the six case studies this equated to 41 depth interviews with participant businesses.

Methodological Limitations

- 2.2 The emphasis of this research is on evaluating activity at a broad, SO level. Whilst the ultimate goals for provision delivered under each SO are consistent, the nature of that support (particularly its intensity and duration) varies considerably (although all businesses would have received a minimum of six hours of support). Furthermore, business support within some Operations is tailored to the growth orientation of those participants, with the most intensive support targeted at those with the strongest growth prospects. Again this leads to considerable variation in the support received within each SO. Detail on the intensity of support offered by Operations was not available to the evaluators. Hence it is not possible to account for variations in intensity when exploring levels of satisfaction, business effects and impacts.
- 2.3 Respondents to the survey are dominated by participants of the Business Wales operations. The intensity of support offered through Business Wales varies considerably depending on the growth potential of a business. One element within the Business Wales Operation, the Accelerated Growth Programme provides the most intensive support to growth orientated businesses over a longer timeframe. Data made available subsequent to the survey identified that the majority of enrolments (c.85 per cent) to the Accelerated Growth Programme took place prior to March 2019. This cohort of businesses have therefore largely been inadvertently excluded from the sample frame (14 respondents from that service were engaged in the survey. If survey responses were representative of their population, there would have been c.70 survey respondents). This may have led to a dilution in the true level of self-reported impacts associated with employment and business growth.
- 2.4 In the design of the business survey concerns were raised about its length and the complexity of some question sets. This was set against a background of falling response rates to surveys, partly attributed to consultation fatigue associated with extensive primary research of businesses through the COVID-19 pandemic and the increased prevalence of remote working. This led to the removal of some questions of the survey to ensure focus on the key areas of interest of the evaluation. The question set associated with attribution was

one of the areas to be rationalised. With a reduced level of survey information on the self-attribution of impact, there is a restricted ability to undertake a self-reported impact evaluation of support. However, whilst self-reported impact represented an element of the 2016 study, self-reported impacts are not considered robust methods of attribution and assessment with the CIE considered a more robust approach.

3. Key Findings and Recommendations

Rationale and Socio-economic Context

- 3.1 The rationale behind the specific design of the evaluated SOs drew on evidence of continued underperformance of the Welsh economy relative to the UK average. Entrepreneurial activity, productivity and investment in research and development and innovation were all lagging indicators when compared to the majority of other regions in the UK. The issues the Welsh economy faced were enhanced by indicators of a lack of entrepreneurial ambition and a lack of ambition to exploit new markets, whilst the peripheral and rural situation in much of Wales hampered connectivity and growth.
- 3.2 The latter stages of 2014-2020 Operational Programmes have witnessed considerable turbulence for the Welsh and indeed the wider UK economy, particularly since the outbreak of COVID-19 in March 2020.
- 3.3 Over the programme period and despite the turbulence encountered, a wealth of positive macroeconomic trends for the Welsh economy are evident. Of particular note is the rate of improvement in productivity, which is in excess of the UK average (leading to a marginal closure in the gap with the rate of productivity across the rest of the UK). In addition, considerable improvements in entrepreneurial activity, business survival rates and wages have all led to a narrowing of the gap to the UK average.
- 3.4 Additional socio-economic indicators have typically shown positive movements however these have often been outshone by the average rate of improvement across the UK, widening the inherent performance gap across indicators associated with skills, levels of innovation and export activity.
- 3.5 Other contextual factors that have influenced the performance of the Welsh economy, in addition to the COVID-19 pandemic, include the UK's exit from the EU and the Russian invasion of Ukraine, which has had considerable inflationary effects on energy prices and the cost of living.

Design and Implementation

- 3.6 Activities associated with SOs 2.2, 2.3 and 2.4 are underpinned by strategic 'backbone' projects that drew on learning from the previous round of Structural Funds. These projects sought to adopt a refined service offer that emphasised clarity and simplicity in the nature of the service offer. Furthermore, the backbone projects evolved from previous activity, aiding a relatively smooth transition of services to the current programme.
- 3.7 In the early stages of implementation, some indicators lacked clarity or represented a slight shift from terminology in the previous programme, which led to some confusion. The definitions regarding eligibility were also, at times, unclear, which led to issues surrounding evidence gathering and the recording of indicators.
- 3.8 Several stakeholders noted an adjustment in the role of WEFO in managing the programme. They have acted in more of a partner role than in previous programmes,

supporting operations through challenging times, particularly during the midst of the pandemic.

- 3.9 The partnership approach of the WEFO was also evident in the enhanced integration of CCTs within the activity of operations within SO2.2 and SO2.4 (where targets were assigned). Whilst these SOs were short of their targets for CCTs, there has been a considerable uptick in performance, and CCT provision has become better integrated into service provision.

Recommendation

The approaches adopted in the effective integration of CCTs in service provision should be retained in future business support, particularly given their close alignment to the Well-being of Future Generations Act and other Welsh Government policy.

- 3.10 The rapid adjustments to operational activity and target emphasis at the time of the pandemic (away from growth and towards revival and resilience) illustrated that ERDF funding can be both flexible and responsive to changing needs. From an operational perspective, the transition to remote service provision was particularly effective with there being minimal negative impact on those businesses participating in support, particularly within Priority 2.
- 3.11 For those operating in SO1.2 there was often a need to access specialist equipment in laboratories which led to a pause in activities at the height of social restrictions. Indeed, 46 per cent of survey respondents in receipt of support from that SO described support being delayed or becoming unavailable as a result of the pandemic. More widely, the pandemic brought with it a degree of caution that had a mixed effect on participant businesses, with some embracing the opportunity and diversifying accordingly as part of the response effort to the crisis, whilst others have held back from investment and growth plans due to the additional uncertainty.

Activities

- 3.12 Amongst participants there was a high level of awareness that the support that they had received was ERDF-funded, particularly amongst participants of SO1.2. Almost one third of participants sourced the support through an online search (up from six per cent in the previous programme), illustrating the growing importance of the Internet and social media in promotional and engagement activities. That being said, a further fifth of respondents became aware of support via word of mouth, illustrating that more traditional forms of promotion and awareness raising also remain important.
- 3.13 Starting or growing a business remains a prominent driver of engaging with the programme, with other influences being reflective of the goals of each SO. Amongst those who enrolled in provision following the outbreak of COVID-19, there was a (statistically significant) marked shift upwards for those seeking support to access finance, and, conversely, a (statistically significant) fall in the proportion of respondents seeking advice on office space.
- 3.14 Marketing & promotion and business planning were the most prominent types of support received; amongst more established businesses, however, there was a greater emphasis on customer engagement. Amongst those in receipt of innovation support, nearly half (46 per cent) received support for R&D, product development, and innovation, whilst 42 per cent received commercialisation and knowledge transfer support.
- 3.15 Across all survey respondents, almost three quarters (73 per cent) were “very satisfied” or “quite satisfied” with the quality of support received, and 69 per cent with the way in which

the support was provided. The most common reason that drove satisfaction and dissatisfaction related to regular (or a lack of) communication.

- 3.16 Over 80 per cent of survey respondents felt that their expectations were (at least) met, whilst almost two thirds (60 per cent) of survey respondents stated that the support had surpassed their expectations. Key influencers on levels of satisfaction and expectations were themes in relation to the knowledge and experience of the advisor, the relevance of advice, the speed of response, and follow-up engagement. Rates of dissatisfaction were highest amongst respondents who had received support through SO2.4. The primary driver of dissatisfaction related to a perceived lack of responsiveness, with over one fifth of respondents feeling that there was insufficient follow-up engagement or tailoring of provision. This level of dissatisfaction regarding follow-up engagement alongside the high rates of participant expectations being exceeded may indicate the need to consider how the services on offer are pitched to participant businesses.

Performance against target indicators

- 3.17 It is evident from stakeholder consultations, feedback from lead beneficiaries and participant businesses that operations within SO1.2 were most impacted by the COVID-19 pandemic. This led to a decommitment of funding and a shortfall against several project indicators including new-to-market and new-to-firm products, patents registered, and employment generated. The SO has performed particularly strongly in relation to partner cooperation, and this was reflected in the business survey where of those receiving innovation support, more than one third (37 per cent) reported developing collaborative relationships with Higher Education Institutions (HEIs), other academics and other businesses.
- 3.18 The collaborations with research institutions appear to have typically gained limited success in the commercialisation of products. This is partly associated with the target indicator for the number of registered patents being considered, which in hindsight is inappropriate for the programme, but also a sense that the barriers to commercialising products have not been overcome with the support on offer, particularly for microbusinesses.
- 3.19 A lack of financial support was typically identified by stakeholders and businesses as being one of the key barriers to commercialisation of products and services. Several stakeholders felt that stronger alignment of support provision with Innovate UK will be important in addressing this gap given the relative lack of other funding options (for example, Horizon Europe) currently available.

Recommendation

Support services need to ensure close alignment and good access to Innovate UK and other innovation orientated resources to ensure that Welsh businesses gain their fair share of opportunities to secure this investment.

- 3.20 For SO2.2, the operation overachieved on support to established businesses, furthermore, related research² indicates the support has a strong impact on survival rates for start-ups. However, despite national economic indicators for the economy suggesting increased entrepreneurial activity, operations under SO2.2 are short of target on the number of new enterprises supported. This is likely to be linked to the pandemic and the cost of living crisis leading to a greater degree of caution associated with starting a business.

² Munday, M and Roche, N. (2021) *Quantifying the economic impact of Business Wales*, Cardiff University

- 3.21 The operation relating to superfast broadband exploitation has met all targets associated with SO2.3 and reflects the acceleration in demand for support with ICT adoption and exploitation brought about by the pandemic and its legacy.

Recommendation

Digital support provision should form part of the mainstream offer for business support given its central role in driving economic competitiveness.

- 3.22 For support delivered through SO2.4 whilst the target indicator for non-financial support to enterprises looks likely to fall short of target under SO2.4, outcome indicators for employment and export growth are performing strongly. This suggests a more effective use of resources than anticipated with a larger proportion of growth orientated businesses than expected.

Outcomes and impacts

- 3.23 More than three quarters (77 per cent) of surveyed businesses have implemented at least one action as a result of receiving the support, which were typically aimed at improving sales and marketing, targeting new customers and increasing skills in the business.

Innovation

- 3.24 Of the 446 unique businesses (45 per cent of business respondents) that had developed new products or processes, almost three quarters (72 per cent) considered the support to be important in the development of these.
- 3.25 Before engagement with the programme, only 20 per cent of products were ready for market, with more than half (59 per cent) at the initial development or proof-of-concept stage. Whilst stakeholders and performance indicators illustrated challenges with the commercialisation of products and services, prior to engaging with SO1.2 provision, only 20 per cent of respondent businesses perceived their products or services ready for market. Following the support, 56 per cent of respondents felt that their products were fully commercialised (being sold or offered to customers). When asked to consider the impact of their new products on sales, two thirds (65 per cent, 92/141) stated they had witnessed an increase in sales, with one third of those (33 per cent, 30/92) estimating that their sales had increased by more than 31 per cent.

New enterprises

- 3.26 Almost one quarter of survey respondents set up a business as a result of the support that they received through the programme. The latest monitoring data shows that within SO2.2, just over 6,000 (6,043) new enterprises have been supported. Almost one fifth of respondents (19 per cent) felt it “unlikely” (12 per cent) or “very unlikely” (seven per cent) that they would have set up their business in the absence of the support. **Amongst SO2.2 participants this equates to 643 aggregated additional businesses started as a result of the support received.**

ICT Exploitation

- 3.27 Almost one quarter (23 per cent) of respondent businesses have implemented changes to their ICT Infrastructure in the time since receiving their support. When these businesses were asked to state changes that they have made, almost three quarters (73 per cent) referenced the development of an online presence via social media marketing and promotional activity. Furthermore, two thirds of respondents introduced or improved their company website.

- 3.28 Slightly more than one third (34 per cent) had either introduced fibre/cable broadband (17 per cent) or increased their use of it (17 per cent) over the last five years. Of these respondents, however, 11 per cent (and 20 per cent of SO2.3 respondents) attributed this change to the support they received.

Employment growth

- 3.29 Amongst survey respondents, 10 per cent stated that they had created or safeguarded jobs as a result of the support. Modelling the reported numbers of jobs created against the number of estimated unique participants for each SO suggests that almost 10,000 self-reported FTE jobs were created as a direct result of the support.
- 3.30 The counterfactual impact evaluation (CIE) identified statistically significant employment growth amongst supported businesses. The impact of the support was felt primarily in the first two years since receiving the support and the effect diminished over time.
- 3.31 Through the CIE, the data indicates that supported businesses created new jobs in the three years after support, representing 10,585 years of employment. The employment over and above that observed in comparable businesses is 4,023 years of employment, this additional employment is estimated to be as a result of the ERDF funded support. When the rate of additionality is applied to all businesses in the SOs included within the CIE (SO 1.2, 2.3 and 2.4)³ this equates to just over 12,000 aggregated additional years of employment as a result of ERDF funded support.
- 3.32 The fact that the survey is reporting lower figures than those contained within the CIE (despite including those from SO2.2) is at least in part linked to one analysis analysing the number of additional posts, whilst the CIE has analysed the number of employment years⁴. **Collectively therefore, it is estimated that the support across the SOs led to aggregated additional employment (that would not have taken place in the absence of support) of at least 10,000 jobs.**

Turnover and productivity

- 3.33 Amongst survey respondents around one third felt the actions undertaken following receipt of support had led to increased turnover and profitability whilst 45 per cent felt that they had led to an increase in productivity with little variation by SO.
- 3.34 Within the CIE modelling however, turnover growth, when measured across all SOs, was not statistically significant compared to the counterfactual. When analysed at a more granular, SO level, however, turnover amongst businesses supported by SO2.4, (SME Growth) grew more quickly than the preferred control group. The extent of the difference in growth rates between those in receipt of support through SO 2.4 and the comparator groups was statistically significant in each of the three years after receiving the support. **Additionality of the support compared to the preferred comparison group equated to 78 per cent additional turnover growth over those three years for SO2.4 participants.**
- 3.35 Expectedly when analysing support across the four SOs, given growth in employment but a lack of commensurate growth in turnover, supported businesses experienced a decrease in real productivity as it is function of turnover and employment - turnover per employee. This is concerning given the persistent productivity gap evident in the Welsh economy when compared to the UK average. Across all SOs and particularly within SO2.4, however, there

³ SO2.2 was excluded from the CIE as there were insufficient numbers with relevant information to be included in the CIE.

⁴ One person in employment for two full years is equal to two employment years.

is a substantial uptick in productivity three years on from the base year, indicating a catchup effect. That being said, none of the changes are considered statistically significant.

Recommendation

That sales generation be considered as a performance indicator (alongside employment) in future business support provision to help address the productivity gap between Wales and the other regions of the UK.

Future provision

- 3.36 Stakeholders and participant businesses provided various perspectives on what nature of support would be useful in future programmes. Businesses voiced concerns surrounding the socioeconomic situation and the impact that it was having on their appetite to invest. What is more, there were challenges associated with sourcing suitably skilled staff amidst a concern that remote working meant that Welsh businesses were competing against a wider pool of employers for qualified applicants. Primarily, given the socioeconomic uncertainty, businesses desired financial support. Moreover, there continued to be a desire for marketing and promotional support. Almost half of respondents spoke of a need for support to reduce overheads, providing further evidence of support associated with environmental sustainability, whilst the adoption of technology to sell to customers and to maximise their work-life balance was also a key area of interest. These latter elements were reflected by several stakeholders who felt that it was important that digital and technological adoption be more mainstreamed within the support offer.
- 3.37 As outlined earlier in the report, the importance of closer alignment of innovation support with other business support provision was also seen as an important area of focus. Furthermore, support will continue to need refinement to reflect the contemporary socioeconomic situation, given its continued turbulence.
- 3.38 In reflecting on future provision stakeholders were mindful of the shift in governance structure for the Shared Prosperity Fund, which sees local authorities determining the nature of investment in activity locally.
- 3.39 For some stakeholders this was felt to be an opportunity to develop local, targeted provision and to pilot innovative initiatives; however, several spoke of the important role the Welsh Government should play in the retention of strategic 'backbone' provision that the localised offer should complement. In the 2014-2020 programme, backbone initiatives enabled the embedding of provision that was consistently branded. This was complemented by the negotiation period on project applications to ensure a coalescence of projects and help reduce confusion and the potential for overlap or duplication in the marketplace. Looking forward there are concerns that local authority-led service provision will lead to the proliferation of a variety of initiatives that may heighten confusion surrounding the support available and lead to something of a 'postcode lottery' in the nature of provision available to businesses.

Recommendation

There remains a critical role for Welsh Government to play in the coordination, alignment and promotion of local authority-led business support activity, working alongside regional teams to reduce the risk of heightened confusion and complexity regarding the offer arising in the marketplace.

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Views expressed in this report are those of the researchers and not necessarily those of the Welsh Government

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Mae'r ddogfen yma hefyd ar gael yn Gymraeg.

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