

Evaluation of results and impact of EU funded investments in the field of support to business during the programming period 2004-2006

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SUMMARY

In this Report, assessment is provided about the impact of the EU SF funding on the business in Latvia during the planning period 2004-2006. The Report sets out conclusions about the impact of the funding on the national economy, creation of new businesses, promotion of innovation, as well as several business indicators in various sectors, comparing companies which have received the funding to companies which have not received it. The Report also examines the performance indicators of the activities, the supply and demand of the funding, as well as the business support examples in other countries.

The research methodology is focused on two pillars – (1) activities that had clearly identifiable, direct or indirect impact on business were analyzed, and (2) the quasi-experimental approach – difference in differences – was used for determining the impact of the funding, when within the framework of the period under study the performance of the group of businesses that have received the SF support was compared to the development of businesses that did not receive the SF support (control groups were composed of the groups of businesses which consisted of similar enterprises which did not receive the SF support).

Several significant sources of information were used for the research. Firstly, the database of the Ministry of Finance “ES SFKF VIS” (the EU funds management and information system) was used, which comprises the information on the beneficiaries of the EU funding and the amount of the funding. Secondly, “Lursoft” Ltd. data on the financial performance of the companies during the period from 2004 until 2009 were used. Thirdly, representable surveying of the funding beneficiaries was carried out, thus finding out personal opinion of the funding beneficiaries. These data gave an opportunity to examine the connection between the received funding and business performance indicators which were affected by the funding, as well as to gather information from the companies about the significance of this funding, substantial obstacles and gains.

It was found out that the funding had a positive impact on the business environment – the total impact on GDP from 2004 to 2009 from the LVL 400 million EU SF funding which was allocated for the business support was LVL 659.22 million, which constitutes 0.84% of the total GDP in this period of time. The effect was slowed down by the high marginal propensity to import (the growth of import in the country divided with the growth of disposable income – i.e. the amount of money which is used for the import from each extra disposable LVL), thus in this period of time the multiplier coefficient has only been approximately 1.65 (LVL 1 invested from the EU funding made an increase of LVL 1.65 to the GDP of Latvia).

After evaluation of the performance of individual companies, it can be concluded, that greater support from 2004 to 2008 has facilitated turnover in 20% of companies, profit in 16% of companies and the number of employees in 10% of companies. The growth of other companies cannot be related to EU SF support.

Significant problems have been observed in the measurement of performance indicators, monitoring of them and reaching of the set indicators. Besides, it has not always been possible to reach the initially set aims of the activities. For example, for the promotion of innovations three activities were purposefully created, but the results of the survey of the companies' representatives showed that only about half of the beneficiaries of these activities introduced innovations, but at the same time innovations have been created in other activities, which were initially meant for other aims.

This kind of emergence of additional innovations cannot be evaluated negatively; however it indicates that the reaching of the performance indicators is chaotic. It must be stressed that creation of innovations mainly has been financed in such sectors as sawing, planing, impregnation, manufacturing of joinery and carpentry goods, textile weaving, manufacturing of other wearing apparel, manufacturing of other timber goods, manufacturing of corky, straw, and weaved goods, car maintenance, housing in hotels and other similar accommodations, which according to EUROSTAT methodology of sector innovativeness classification can be evaluated as sectors with low capacity of technology and knowledge, although previous world-wide experience shows that most significant innovations originate in sectors with high capacity of technology and knowledge.

Keeping in mind the future reviews, it is essential to gather data about the beneficiary companies and their performance annually, juxtaposing those companies of the sector which have not received the support, in order to examine both the effect of the support, and the crowding-out of the support, which gives the beneficiary companies an opportunity of squeezing out smaller companies of the sector. Selected data must comprise such indicators as company's turnover, profit, equity capital, export share and the number of employees.