

Executive summary

This summary presents the main findings of the **Priority Axis 3 impact assessment - Business Competitiveness of the Operational Program "Competitiveness and Cohesion 2014-2020" (OPCC)**. The evaluation was conducted in the period from April 2018 to April 23, 2019 by a consortium consisting of Ecorys Croatia Ltd. as lead partner and Ecorys South East Europe Ltd. as partner in accordance with the agreement with the Ministry of Regional Development and EU Funds (MRDEUF).

The goal of the evaluation was to produce an analysis, present the findings and provide recommendations that MA can use in order to improve the quality, design, implementation and sustainability of operations financed under PA3, taking into account the optimal combination of grants and financial instruments, achievement of indicators' targets and specific objectives defined in the OPCC.

This evaluation is a mid-term evaluation and is structured on the basis of three themes and the seven evaluation questions as presented in the table below:

Relevance	
EQ 1.1.	What is the scale of complementarity with other available instruments for SMEs' support (outside OPCC)?
EQ 1.2.	How relevant are the public Calls published until now for the goals of PA3?
Effectiveness	
EQ 2.1.	Will the goals set for PA3 be achieved until the end of 2023?
EQ 2.2.	Will planned financial implementation of PA3 be achieved until the end of 2023?
EQ 2.3.	Which are the effects of the provision of support to business competitiveness under PA3?
EQ 2.4.	Which are the effects of the support through financial instruments in comparison with grants?
Sustainability	
EQ 3.1.	Are the effects of projects implemented under OPCC sustainable?

The evaluation included calls within PA3 of the OPCC and it refers to direct grant award procedures, open grant calls (schemes) and the use of financial instruments (loans and guarantees).

The evaluation covered all procedures with at least one signed contract until the cut-off date - June 30, 2018.

1. Implementation of evaluation

The entire research process has been divided into three consecutive phases in order to utilize planned methods and research techniques in the most efficient manner:

1. Preliminary phase: exploration of issues.
2. Quantification phase: an explanation of the phenomenon identified in the preliminary phase (eg, great interest for some calls for proposals) and verification of hypotheses related to the issues. The main hypotheses that were checked out were as follows: (1) PA3 is addressing needs and is complementary with other financial supports; (2) Calls are relevant for PA3 specific goals; (3) the implementation is in accordance with the plan and the target values will be achieved by the year

2023; (4) the allocated budget will be absorbed; (5) Positive effects of support exist or are likely to be in place; (6) financial instruments have an added value; (7) measures are being implemented with a goal of ensuring sustainability of results.

3. Review and Evaluation Phase: Drafting of final conclusions and recommendations.

The evaluation methodology was defined on the basis of evaluation questions and involves methods of data collection and analysis that are mutually complementing.

The main data sources used were the OPCC documents, administrative data and monitoring data (MIS, Contract Register, Quarterly and Annual Reports), strategic documents and plans, statistical data, external studies and previously conducted analyses. The above-mentioned secondary data sources were complemented by primary data collected during the evaluation through interviews with key stakeholders, online survey, focus groups and counterfactual analysis.

21 interviews were held with representatives of the following institutions: MRDEUF, HAMAG BICRO, CBRD, MEEC, AIK, commercial banks included in the implementation of PA3, RDA, CFCA, CCE, CCC and CAE.

Online survey of the beneficiaries: An online survey of the grant beneficiaries, financial instruments recipients, grant and financial instruments beneficiaries and consultants was conducted. The online survey of the beneficiaries was supplemented by telephone interviews for the purpose of collecting data for counterfactual study, due to the fact that the number of respondents participating in the online survey was insufficient. 2085 potential respondents were invited to participate in the survey and 225 (11%) of them have participated (46% grant beneficiaries (103), 23% financial instrument final recipients (52), 14% grant beneficiaries and financial instrument final recipients (32) and 17% consultants (38) who provided support to entrepreneurs).

Four **focus groups** were held: Two focus groups with financial instruments final recipients were organized to discuss the relevance of financial instruments and their effectiveness: one focus group with the guarantees recipients and another focus group with the loan recipients. Two focus groups were organized with sectoral representative institutions (sectoral associations within CCE, CCC, CEA) to discuss the relevance and effectiveness of implemented measures as well as sustainability of projects / operations financed through PA3.

Counterfactual analysis was used under EQ 2.4. The purpose of the analysis was to compare two groups of SMEs': those who used grants within the PA3 (test group) and SMEs' of similar characteristics (the same location (county), number of employees and sector according to National Classification of Activities (NACE) with the only significant difference: SMEs' in this control group did not use grants. In this manner it was possible to study the contribution of the grants provided through PA3. In order to limit the scope of the analysis and select a relatively homogeneous group of SMEs', the Call "Improvement of competitiveness and efficiency of SMEs' through Information and Communication Technology (ICT) in areas with development specificities", KK.03.2.1.03 was selected.

The following types of **analysis** were conducted: stakeholder analysis, intervention logic analysis and mapping of objectives and Call indicators related to PA3 specific objectives, analysis of indicators, statistical data analysis and projections, analysis of differences, complementarity analysis, case studies.

2. Main findings

Relevance

The PA3 programming process involved a large number of stakeholders. During this process, a large number of SME-targeted measures have been considered, which has predefined the wide scope of support under PA3. Taking into account the structure of entrepreneurship in Croatia, and in particular the entrepreneurship indicators 2012-2013 which were the basis for PA3 programming and which pointed to a deep crisis and a low level of investment, a wider access to PA3 calls seems justified. It was necessary to stimulate the overall investment and development climate through easier access to larger and smaller entrepreneurial investments.

Intervention logic of the supports under PA3 is well constructed with clear links between goals, investment priorities and indicators. PA3 objectives are appropriately covered by Calls so they contribute to achievement of goals. However, the analysis has shown that certain indicators are not included in all Calls for which they are relevant.

PA3 measures are relevant for strengthening the competitiveness of SMEs' through:

- allowing significant increase in size of entrepreneurial projects due to a larger amount of available support;
- supporting entrepreneurs in the realization of their business and development phases of their projects, either with support of grants and/or financial instruments;
- increasing availability of support to all SMEs' and the ability to strengthen their competitiveness, regardless of where entrepreneurship is headquartered.

Support under PA3 may be considered relevant in terms of encompassing basic SMEs' needs - 64% of grant beneficiaries participating in the online survey stated that they do not have business needs that are not covered by PA3 measures. This share was even higher (83%) in the group of respondents who used grants and financial instruments within PA3. Most relevant were the procurement of equipment and machinery, the construction of new facilities, investment in training of employees and modernization of the manufacturing process. Entrepreneurs expressed the need to reduce the minimum amount of grants in the Calls below 1 million HRK, and as an additional disadvantage they have indicated non-financing of VAT through HAMAG-BICRO loans/guarantees.

In Calls with higher value of support (more than one million HRK of grants), a large number of beneficiaries still come from higher added value sectors (eg. innovation-based manufacturing industries, etc.), which indicates that investments through PA3 also significantly contribute to structural changes in entrepreneurship and enable them to strengthen those segments of the economy that are more competitive in the long run and can be one of the cornerstones of development.

On the level of beneficiaries and on the level of overall results, synergistic effects can be produced due to the complementarity of PA3 measures with many other measures available to SMEs'. In other words, a combination of measures can produce more significant synergistic effects in a way that accelerates the achievement of specific goals and increases the results and the effects of the measures.

There was a synergy between the support within PA3 and other measures, such as: tax incentives aimed at reducing income tax rates (initial investment support and incentives for research and development), then venture capital and business angels investments and measures of other OPCC axes - in particular with measures PA1, PA4 and PA9 and local de minimis support of a narrower

scope, with a smaller financial contribution and a geographical focus on the appropriate administrative area.

PA3 support through financial instruments is largely complementary in terms of target groups and sectors with the support provided by international financial organizations (risk capital, guarantees, EIB loans, EIF, COSME, etc.). The financial instruments of international financial organizations available to entrepreneurs in Croatia are mainly focused on innovative enterprises and innovative newly established companies and specific sectors or socially desirable investments (e.g. ICT, clean technology, start-ups). There is also a partial correlation between a smaller number of financial instruments and PA3 measures in terms of amount and purpose. Due to above mentioned, it would be useful to make a new analysis of the financial market to take into account changes and new circumstances. The results of the analysis can be used to fine-tune the financial instruments supports under PA3.

An important issue identified through research and interviews is that entrepreneurs do not have enough information on the support provided, particularly with regard to the delimitation of grants and financial instruments. A review of documents has shown that many ambiguities can be attributed to insufficient understanding of Call and credit policies, which can be relatively easily solved by providing more information.

It was also found that the entrepreneurial awareness of complementarity of PA3 measures with other measures in terms of meeting the different needs was weak (around 64% of respondents did not use grants outside PA3, 70% of respondents do not know if PA3 measures are complementary to other support measures for entrepreneurship). This weakens the potential for achieving synergistic effects. Providing more and more comprehensive information on the various types of aid available to small and medium-sized enterprises at the regional level would increase SMEs' ability to create synergies and would result in mutual reinforcing of available support.

Effectiveness

The analysis shows that there is a high likelihood that most of the result indicators will achieve the target values until 2023. An overview of the achievement of the objectives of the result indicators is shown in the table below.

Mark	Results	Measure	Target value 2023	Achieved q2 2018.	% of target value 2023
SG 3a1 and 3a2 indicators					
CO01	Number of enterprises receiving support	Enterprises	3,360	1,084	32.3%
CO03	Number of enterprises receiving support different to grants	Enterprises	2,507	1,025	40.9%
CO04	Number of enterprises receiving non-financial support	Enterprises	2,650	0	0.0%
CO05	Number of start-up receiving support	Enterprises	340	508	149.4%
CO07	Private investments matching public support to enterprises (resources which are not non-returnable)	EUR	87,500,000	39,329,160	44.9%
CO08	Increase of employment in companies receiving support	FTE*	2,848	2,647	92.9%
3a21	Equipped and/or built infrastructure	m ²	66,000	0	0.0%
3a22	Supported BSOs'	Number	72	61	84.7%
SG 3d1 and 3d2 results					
CO01	Number of enterprises receiving support	Enterprises	3,070	1,589	51.8%
CO02	Number of enterprises receiving grants	Enterprises	2,870	643	22.4%
CO05	Productive investment: Number of start-up receiving support	Enterprises	140	186	132.9%

Mark	Results	Measure	Target value 2023	Achieved q2 2018.	% of target value 2023
CO06	Private investments matching public support to enterprises (grants)	EUR	313,000,000	134,835,111	43.1%
CO08	Increase of employment in companies receiving support	FTE*	4,540	0	0.0%
CO27	Private investments matching public support to enterprises in innovation and R&D projects	EUR	180,000,000	514,097	0.3%
CO28	Number of enterprises receiving support in order to implement products new to the market	Enterprises	110	60	54.5%
CO29	Number of enterprises receiving support in order to implement products new to the company	Enterprises	250	60	24.0%
3d11	SMEs' receiving support for internationalisation	Number	500	41	8.2%

* FTE

Indicators exposed to the risk of achieving target values are marked in yellow. However, it is still possible that these indicators will achieve their targets once the projects that contribute to them are completed. Contributions from the planned new Calls are also expected.¹

There is one indicator that is unlikely to achieve its target value, namely CO27 - Private investment that responds to public support in innovation or research and development projects. The target value of this indicator was overestimated during programming. Implementation shows a significantly lower demand for innovation support than expected. Therefore, it is recommended to consider reducing the target value of CO27, particularly because in mid-2018, a significant amount of resources was reallocated from 3d2 to 3a1 and 3a2.

It is recommended to check data on CO02, CO08 and 3d11 since there is a possibility that the achievement is higher than reported because there are Calls that contribute to these indicators, but their contribution was not measured. The trend analysis suggests that the target values of most result indicators are likely to be achieved and that some indicators will significantly exceed the targets. Only in the case of indicator 3d21 "Innovative SMEs' compared to the total number of SMEs" the available data is not sufficient to make reliable conclusions. It is therefore recommended that special attention should be paid to the monitoring of the data on which this indicator is based in order to take appropriate management decisions.

The financial performance of PA3 implementation is in line with expectations. It is likely that the allocated financial resources will be absorbed up to the end of the programming period (2023).

Implementation of SO 3a1 started relatively late (2017), especially the HBOR credit line (2018), due to the time needed to select commercial banks for crediting SMEs'. However, the results are already above planned. Contracting of funds within SO 3d1 is in line with the planning. Contracting in other two SOs' is somewhat below planning (88% for SO 3a2 and 53% for SO 3d2).

The greatest risk associated with financial implementation is not in the absorption of funds but in possible financial corrections that can be imposed on grant beneficiaries due to their inability of achieving the goals.

There is a favourable implementation structure of financial instruments in which HBOR and HAMAG BICRO participate, and it allows higher flexibility in asset management and absorption.

¹ It is to be noted that the evaluation has taken into consideration the values of indicators with the cut off date 30th June 2018. However, the recent data on value of indicators for the second half of 2018 and first quarter of 2019 shows significant increase in valued and substantiates the experts' opinion that it is very likely that the target values of almost all indicators would be achieved by the end of the programme implementation period.

PA3 is still in implementation, so it is too early to judge about the effects. So far, the following effects have been achieved and proven: improved access to public finances; increased capacity of SMEs' and increased sales revenue.

Counterfactual study between the test group (support within the ICT Call) and the control group (SMEs' of similar features that did not receive support through OPCC) shows that at this stage of intervention the main economic outcome involves the introduction of new services on the domestic market (statistically significant for the model). No other effects were confirmed through the counterfactual study because a large number of projects are still under implementation. However, it is possible to assume that more net impacts will be visible after projects completion.

The following additional effects have been identified: increase in profit; employment support and increased capacity to apply for/manage EU funds. Furthermore, as an effect of support within PA3, the internal organization of SMEs' has been improved. A more strategic approach to planning of entrepreneurial activities and greater operational efficiency is visible.

The effects associated with an improved business environment, increased exports and the creation of new employment are also planned and expected, but are still difficult to prove.

Effectiveness could be further increased by increasing the efficiency of the grant award procedures (shortening the time needed for the assessment of applications and the payment of grants).

Sustainability

It is anticipated that projects that receive support from PA3 have a satisfactory sustainability. The beneficiaries consider grants to be very useful and they plan (or have already realized) additional own investments to maximize effects of the support or to improve the project results.

In the case of most of the measures the online survey carried out shows that the share of respondents who consider project results to be useful exceeds 90%. The share of entrepreneurs investing additional own funds is also high (72%) and as many as 91% of respondents are planning new investments in the next three years either through project co-financing or through their own funds.

Majority of companies that have been awarded with grants are in sectors important for the economy of the Republic of Croatia, sectors that are mostly stable or have growth activity and have relatively good export potential. However, in general, the prospects for sustainability of SME operations are largely dependent on the development of the economy of the Republic of Croatia, which is still recovering from a long-lasting economic crisis.

On the other hand, it is possible to expect that political and financial support to the objectives and measures of the PA3 will continue. Particularly there are good prospects for continuation of support for the following measures: financial instruments and measures directed at the development and growth of SMEs' in domestic and foreign markets.

The greatest risks to project sustainability are related to difficulties in finding skilled and experienced workers, financial instability, market changes and, to some extent, over-estimated business support expectations. However, these risks were largely unrecognized and not taken into account when planning the projects.

The share of entrepreneurs who do not recognize the risks that could hamper the successful implementation of the projects or consider that such risks do not exist is relatively high, at around 56%. Therefore, improved risk awareness among beneficiaries will improve project sustainability and, consequently, sustainability of PA3 support.

3. Recommendations

Below are listed the main recommendations:

- Institutions in the PA3 implementation system and bodies responsible for SME support policy could consider the following:
 - to cover the gap existing between loans ranging from € 50,000 to € 100,000 in order to increase the maximum amount of ESIF small loans since the existing offer (guarantees) is not equivalent to loans.
 - to analyse the current complementary measures with the PA 3 and elaborate new or enhance the existing measures (national, regional, local) with a lower grant value limit in order to take into account the limited financial capacity of micro enterprises and, on the other hand, the high demand for such grants by Croatian entrepreneurs.
- The need to further invest in improving BSO human resources and support increasing capacities of BSO staff through implementation of trainings and soft skills trainings should be considered. In the future, the possibility of delegating certain grants allocation functions to BSOs' (e.g. small value grants) to relieve existing institutions in the system, should be considered. Priorities should be given to the activities of strengthening capacity and standardizing the processes of grant allocation.
- The managing authority should retain the current approach of public funding through financial instruments and grants. In order to better direct the support, the demarcation between grants and financial instruments could be improved. For this to be optimally determined, there should be an intensive communication between relevant ministries, agencies, banks, employers' organizations, experts and other stakeholders. In principle, financial instruments should ensure a wider availability of funding which is relatively quick and simple. They should serve more mature SMEs with more stable businesses for meeting their needs in relation to market changes (need for new technologies, expanding the production facilities, reacting to the increased demand or new and specific clients, etc.). On the other hand, grants should promote structural changes in the SME sector and should be much more selective in terms of target beneficiaries and project activities. They should cover riskier investments but strategically very important, such as promotion of start-ups, innovation projects, development of high added value products or services to enhance the knowledge-based economy, etc. They should also support the growth of SMEs so they can more easily reach the stage of stable business which is then appropriate as user of financial instruments.
- Updating financial market analysis is recommended in order to provide relevant information needed to fine-tune existing support through financial instruments and its programming over the next programming period 2021-2027.
- The Managing Authority could consider measures to speed up the assessment process of project applications, which could include the following:
 - Increasing the number of employees working on the assessment
 - Engaging external assessors
 - Training for assessors (representatives of managing and control system institutions) before the assessment process, to ensure equal access and a uniform quality of assessment
 - Enable mutual exchange of information and experiences among assessors as well as debates on potential problems in order to achieve tighter institutional capacity building in MCS for project appraisal
 - Maintaining the originally published dates in the Indicative Annual Call for Proposals

- It is necessary to ensure full compliance between monitoring and reporting documents, and these documents are: Quarterly / Annual Reports and the Contract Register/MIS. Currently, MIS data differs from the data presented in the quarterly reports (differences usually relate to the reported values of indicators). This is particularly apparent in the data related to indicators CO02 "Production investment: Number of companies receiving grants" and CO08 "Production investment: Increase in recruitment in companies receiving support" which have not been aligned. It is necessary to check all Calls and include all relevant indicators and, if necessary, correct the indicator values. It is probably the same situation with the CO02 indicator. Indicator fiches should be more clearly described or revised (taking into account all possible changes in the monitoring of indicators achievement methodology), and end users should be informed about the changes mentioned. Particular attention is needed in monitoring the indicators 3d12 "Export share of SMEs' in total exports of goods" and 3d21 "Innovative SMEs' compared to the total number of SME's".
- The Managing Authority should consider reducing the target values of CO27 and increasing the target values of CO05, CO08 and 3a22 for IP 3a, as well as CO05 for IP 3d based on a detailed analysis of the prospects for achieving target values and allocated resources for measures that contribute to the respective indicators. The targeted value of CO27 should be reduced because, despite planned Calls that could significantly contribute to the benchmark values, current value of EUR 180,000,000 is not likely to be achieved.
- It is recommended to implementing bodies to reinforce risk awareness among grant beneficiaries and final recipients of financial instruments. This could be achieved through additional information, trainings and workshops on risk management and project sustainability. IBs' can implement these measures in co-operation with entrepreneurial support institutions that have experience and capacity for implementation as well as close contacts with entrepreneurs in the county. These actions would enhance project sustainability prospects as it will allow users to recognize risk, formulate and then take measures to prevent or mitigate risks.
- MRDEUF could consider measures to address the sustainability risk associated with difficulties in finding workers with appropriate skills. Employers, due to demographic outbreaks, could face higher labour costs, because the labour force may not be available directly in their county or city, as they originally planned in the project. In case that required profile cannot be immediately found on the labour market, additional training of employees may be required in order to adopt the necessary skills. It is therefore recommended to consider introducing measures to support integrated projects that include support under PA3 and support for employee training within the OPCC or within OPEHP. OPEHP focuses on job preservation and workforce capability in order to achieve greater labour productivity and wider employment opportunities, so that co-ordination between OPCC and OPEHP will achieve synergistic effects. Useful information on these measures could be provided by entrepreneurial support institutions.