

9th
Evaluation
Conference
in Prague

Cohesion Policy:

Common Path to Results and Impacts

The impact of ESIF funding designated to SMEs on socio-economic development

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EVALUATION
UNIT NCA

SMEs played a vital role as recipients of support from ESIF in 3 thematic objectives (out of 11) defined in the Partnership Agreement 2014-2020

Short name of thematic objective	% from total allocation of EU funds
TO1: Research and Innovation - SMEs represented a significant share	12 %
TO2: ICT – support to SMEs not very significant	5 %
TO3: SME Competitiveness – only SMEs	4 %
TO4: Low Carbon Economy – SMEs represented a significant share	10 %
TO5: Climate Change Adaptation and Risk management	2 %
TO6: Environment and Resource Efficiency	11 %
TO7: Sustainable transport and network bottlenecks – support to SMEs not very significant	30 %
TO8: Employment and Labour Mobility	6 %
TO9: Social Inclusion and Poverty	9 %
TO10: Education	10 %
TO11: Institutional Capacity Building	1 %

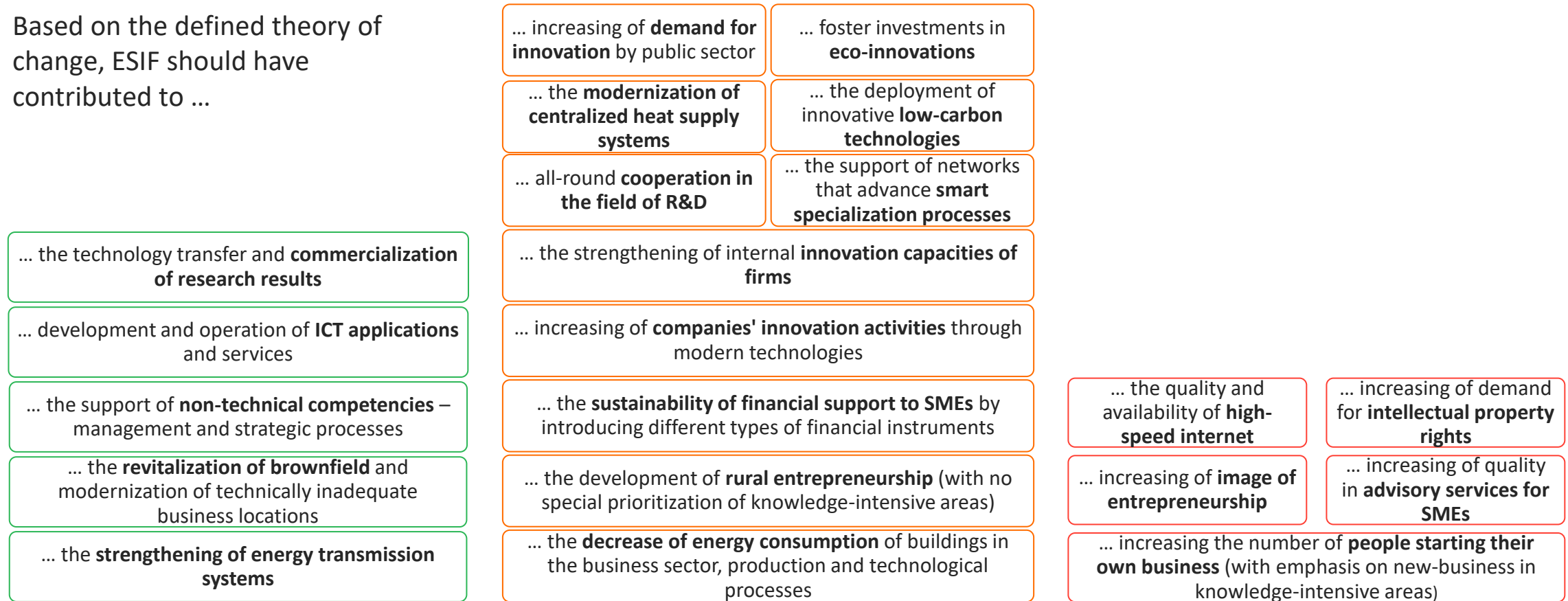
According to the pre-defined Theory of Change supporting of SMEs should have had and impact on achieving higher competitiveness of the economy, foster transition to a low-carbon economy and support the development and introduction of innovations

	Competitiveness	<ul style="list-style-type: none"> • SMEs create around 40% of the GDP of Czechia with the number gradually increasing towards the EU average of 58% • Czechia is currently on the 18th place in the Global Competitiveness index, right after Canada, Iceland and Saudi Arabia 	<p>Number of projects: 8,929*</p> <p>EU contribution: 53.147 bn. CZK</p>
	Transition to low-carbon economy	<ul style="list-style-type: none"> • The industry consumed about one-third (28%) of all energy consumed in 2022 in Czechia 	<p>Number of projects: 4,093*</p> <p>EU contribution: 19.160 bn. CZK</p>
	Support of SME innovations and transfer of technologies	<ul style="list-style-type: none"> • Increase of 7.3 percentage points in the number of innovating companies between 2016 and 2020 • Increase of 19 percentage points in the innovation score between 2015 and 2021 	<p>Number of projects: 5,252*</p> <p>EU contribution: 26.455 bn. CZK</p>

* Denotes the number of projects physically implemented or in advanced stages of implementation

The funding programmes designated to SMEs should have contributed to 21 objectives from which five were satisfactorily achieved

Based on the defined theory of change, ESIF should have contributed to ...



More successful objectives

Less successful objectives

Result no. 1: ESIF had no impact on the formation of companies in knowledge-intensive sectors

- Two basis for the analysis had to be considered:
 1. Exactly **0 funding programmes supporting the formation of companies in knowledge-intensive sectors** was implemented
 2. Only **7% of all the funding distributed to SMEs were actually „drawn“ by SMEs operating in knowledge-intensive sectors** (while the overall proportion of such companies is 26% from the entire population of SMEs in Czechia)
- Did we get evidence that there might be at least an **indirect effect** (e.g., by assuming that availability public funding might motivate people to create their own businesses)? **NO**
 - » As depicted in Figure 1, **no relationship between the grants distributed to SMEs and incorporation of companies operating in knowledge-intensive sectors** were observed

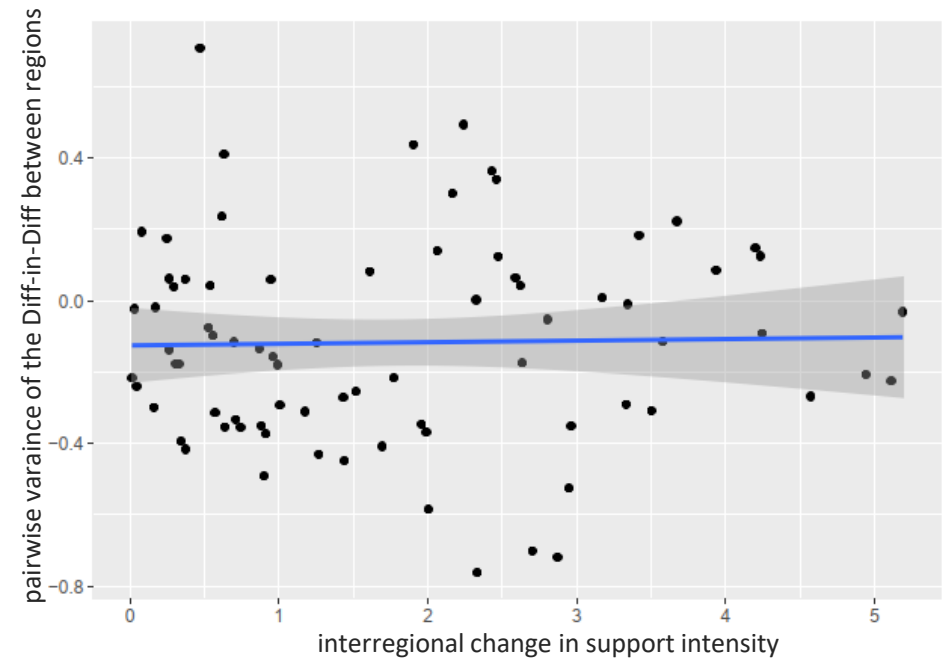


Figure 1: Visualisation of the relationship between cross-regional differences in differences the use of EU funding dedicated to SMEs and incorporation of new skill-intensive companies

Result no. 2: Based on mapping of use of funds for SMEs from the regional perspective, it appears that strong governance of the business environment might have some implications for the number of companies applying successfully for the funds

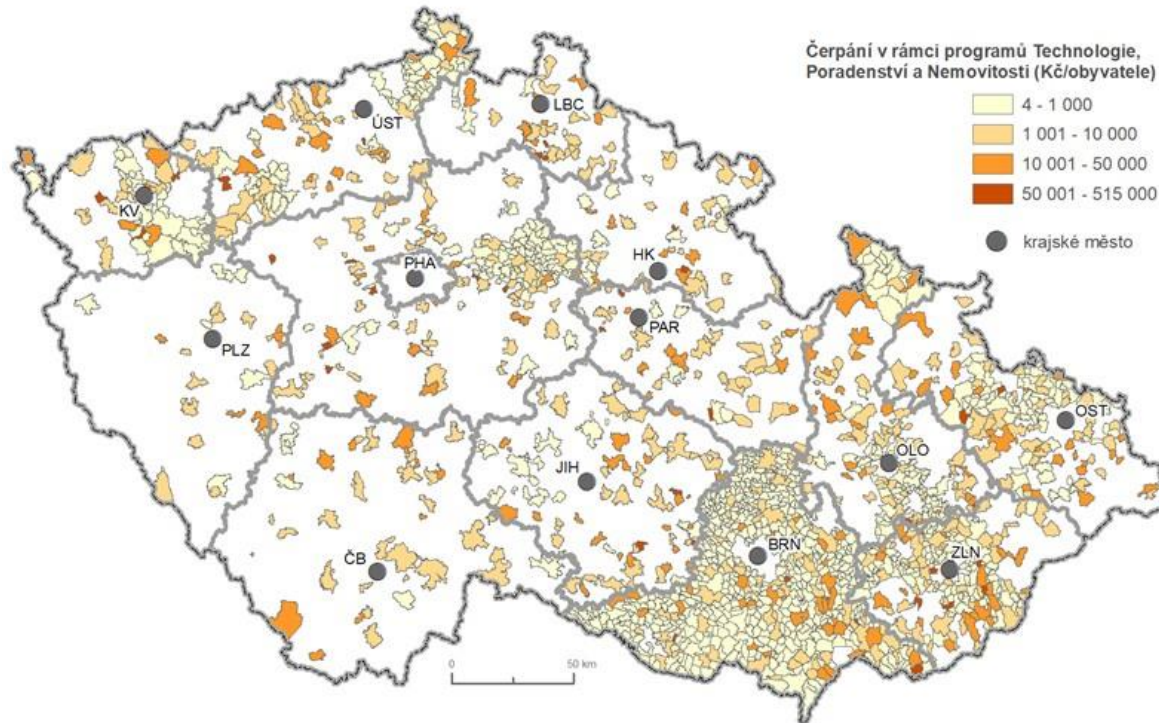


Figure 2: Mapping of the use of funds by SMEs across “rural” municipalities across Czechia (denoted in CZK per inhabitant)

- As visualized in Figure 2, the funds were **mostly distributed among SMEs in the South-Moravian and Moravian-Silesian Region** which are among the regions with highest GDPs per capita
- Both regions also represent regions with strong **successes in implementing the Regional Innovation Strategy** (inspired by success stories from Western EU countries)
- Our evaluation of selected activities of the Regional Innovation Strategy 3 of the South-Moravian Region pointed out that **most of their relatively small programmes oriented towards SMEs had a significant impact on their economic performance** (also 1 out of 2 companies was successful in acquiring EU funding from OP EIC after their participation in of the programmes of the South-Moravian Innovation Center)



These findings underline the importance of quality governance of business and innovation strategies on the development of SMEs

Result no 3: There is evidence that ESIF could have a “stabilizing” effect on business development

- Based on a dynamic panel-data analysis, we found a **positive relationship between the intensity of funds to SMEs with a lag of one year*** and the number of active SMEs controlling for median salaries, unemployment, presence of large companies and spending on company R&D
- These results provide evidence that rather than having an impact on the formation of new companies in skill-intensive sectors, **ESIF had a stabilizing effect on existing companies** (in other word, represent a “helping hand” for established companies)
- A robust analysis of the entire sample of companies supported by ESIF showed that **57.2% of companies supported operated in the manufacturing sector**. In addition, the **average age of the companies supported was around 20 years**, indicating that more established companies were supported
- These results underline **the necessity to include more “small” scale programmes for SMEs** which are less restrictive for start-ups and micro enterprises (it is worth to note, that 1 mil. CZK of funding might represent a very high commitment for a company with an annual operating income lower than 5 mil. CZK)

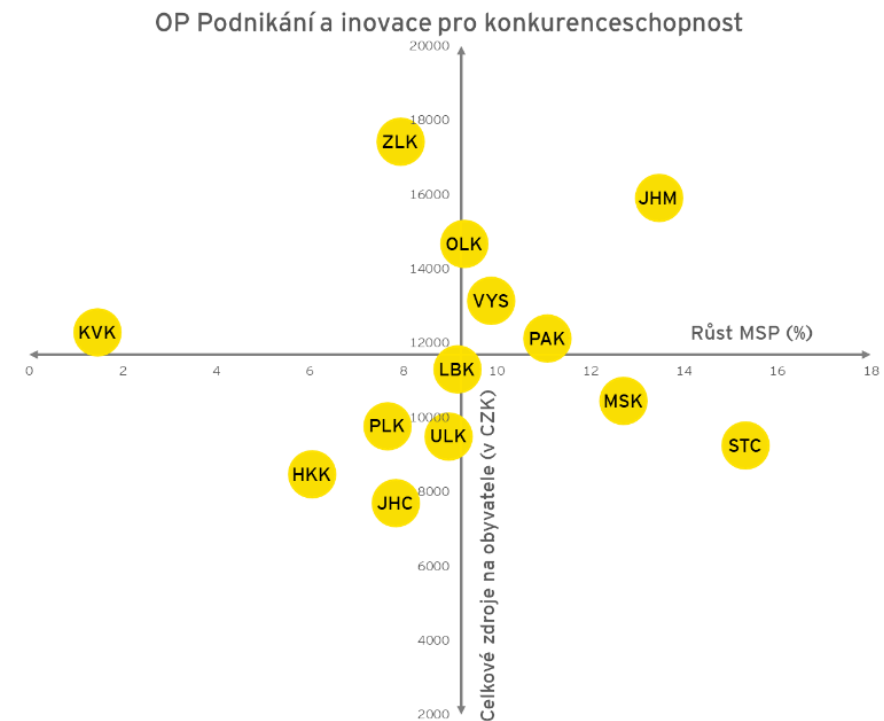


Figure 3: Relationship between the use of funds for SMEs and change in the number of active SMEs between 2014 and 2022

* A lag of one year was assessed as a sufficient time factor, since the effects of getting a funding should be seen in a relatively short-term period

Result no. 4: From the different green and low-carbon technologies for which SMEs could demand funding, the most popular ones were those which are less-risky and do not bring any high value to the overall transition to a low-carbon economy

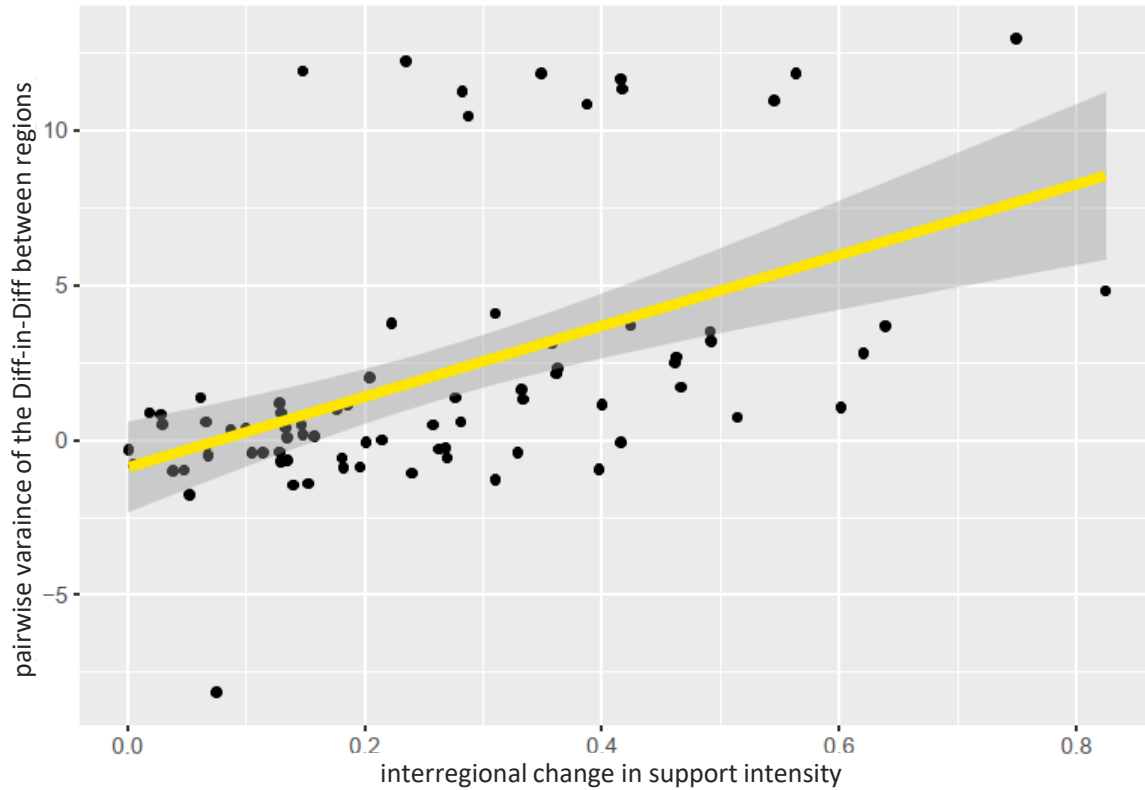


Figure 4: Relationship between the use of funds for SMEs to purchase electro cars and change in the number of registered electro cars between 2014 and 2022

- A **high interest from SMEs was for programmes** supporting installation of **photovoltaic systems** to partially switch to greater use of renewable energy and programmes offering significant funding for purchasing of **electro cars**
- As shown in Figure 4, **ESIF significantly contributed to the total numbers of electro cars purchased by SMEs** across Czechia (using the CR-SEQDD method)
- The results suggest that **without public funding, SMEs would not be motivated to purchase electro cars** or install photovoltaic systems to such extent as was the case when EU funding was available
- In general, there was a consensus among the expert group that **EU-funded grants should not be used to finance non-risky low-carbon technologies**, as these can be financed by more sustainable means of financing, e.g., financial instruments

Result no. 5: ESIF mostly contributed to the development and use of technologies of lower grade

- A significant increase in innovation activities of enterprises in the Czech Republic can be observed even in international comparison. However, as shown in Figure 5, the impact of ESIF on these trends was not statistically confirmed
- The following observations were drawn from the monitoring of data:
 - » Projects supported by ESIF focused primarily on lower-order innovations that do not have such an impact on the development of innovation capacities
 - » ESIF support did not specifically target the introduction of advanced modern technologies supporting higher order innovation or the introduction of eco-innovation
 - » It was observed that the support had a visible impact on the development of cooperation between companies and the academic sector. No such link was found between support and the development of business-to-business collaboration in support of innovation uptake.

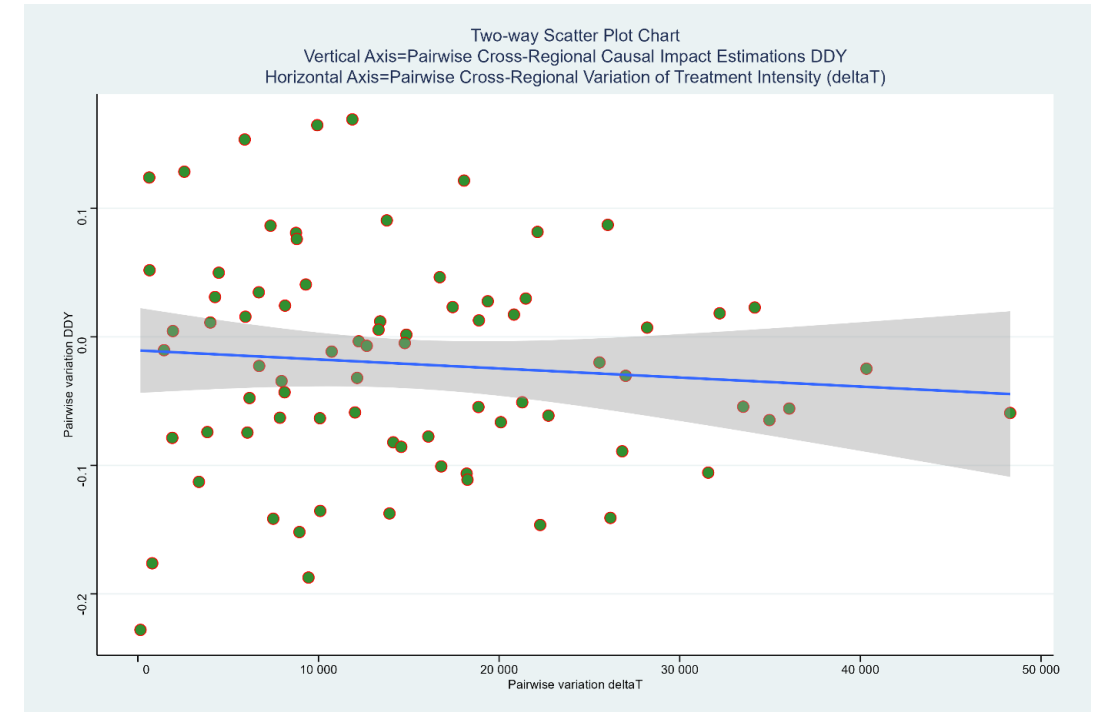


Figure 5: Relationship between the use of funds for SMEs to foster innovations and change in the number of innovating companies between 2014 and 2022

Limitations and further research

Limitations of our evaluation

Many **datasets included only observations on the national level**. Thus, some limitations to the applied research arise from the bare fact that there was a lack of relevant data.

Many **synergic links defined in the „theory of change“ remained untested**. Thus, the quantitative research did not really test indirect effects of ESIF on selected socio-economic factors (e.g., general support to SMEs on quality employment).

Restrictive selection of suitable identification strategies due to strict conditions in the Terms of References of the Contract (e.g., the use of the „novel“ counterfactual method CR-SEQDD turned out to have multiple limitations for our research).

Short time-interval from physical implementation of projects did not allow to conduct analyses which would investigate long-term effects of ESIF on SMEs.

Recommendations for future research ...

Deeper analysis on how **relevant institutions in the public sector could intervene in combatting the middle income trap** that Czechia (and other Central European countries) is currently facing.

There is still room for more thorough analyses, looking also at topics such as **horizontal principles or impact of public funding to SMEs beyond the formation and survival of existing SMEs** (e.g., impact on employment, economic growth).

Thank you for your attention and feel free to ask any questions!

- Links to the studies:
 - Evaluation of Thematic Objective 1 (R&D and Innovation), Objective 3 (Competitiveness of SMEs), Thematic Objective 4 (Transition to a Low-carbon Economy) and Impact of the Cohesion Policy on Selected Socio-economic indicators of the Partnership Agreement 2014-2020: [DotaceEU - Výsledková tematická evaluace Dohody o partnerství 2014-2020: shrnutí](#)
 - Final Report on the Regional evaluation of the Partnership Agreement 2014-2020: [DotaceEU - Výsledková evaluace přínosů evropských fondů na regionální úrovni](#)
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