EXECUTIVE SUMMARY

Mid-Term Evaluation Knowledge Development and Innovation within Dutch Operational Programs ERDF 2014-2020

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1. Introduction

From the European Regional Development Fund (ERDF), four regional structural fund programs were awarded to the Netherlands by the European Commission over the period 2014-2020. Each of these programs covers one part of the country (North, East, South, West) and has its own Management Authority (MA). In most cases, this MA concerns a regional institution, which is responsible for the implementation and management of the program. The national coordination is in the hands of the Dutch Ministry of Economic Affairs and Climate. Although the programs vary according to content and purpose, two objectives within these programs are identical for all four parts of the country: (i) a better knowledge position of Small and Medium-sized Enterprises (SMEs) and (ii) more innovation and valorisation in SMEs. In mutual consultation, the Dutch Management Authorities have agreed to carry out an interim evaluation of these two objectives.

In view of the fact that this mid-term evaluation took place in 2018, three years after the start of the ERDF program, but also five years before all projects are formally completed, the focus of this evaluation is on the process rather than on the results. In other words, the Management Authorities do not aim to know the magnitude of the intended effects, but rather the 'how and why' they come about. This means that it is a theory-based impact evaluation and not a counterfactual impact evaluation. For this evaluation, two core research questions have been formulated:

(1) Do the Managing Authorities succeed in selecting those projects that potentially contribute to the two shared objectives of the programs being implemented?

(2) Does the intervention logic underlying the program work with regard to the two joint objectives?

To answer these questions we have used a combination of quantitative and qualitative methodologies. On the one hand, a database has been created with both granted and rejected projects, which is used to analyze factors that determine the scores of the expert committees during the selection stage. On the other hand, a combination of questionnaire research and multiple case study research was used to analyze the execution stage.

In this executive summary, we first give an overview of the most important research findings. We then go deeper into our recommendations, formulating an answer to the question: "What are the most important lessons the four Dutch Operational Programs can learn from one

another and from the evaluation in terms of the intervention logic and the effectiveness of the instruments?"

2. Main results

2.1. Do MAs succeed in selecting projects that contribute to objectives?

Knowledge and Innovation Consortia dominant in ERDF program. When looking at the objectives of the projects, we can conclude that the majority of projects fall under the denominator Knowledge and Innovation Consortia. These are projects in which a group of SMEs and/or knowledge institutes work together to achieve knowledge sharing and innovation. In these projects, we observe an explicit connection with at least one of the central objectives (i.e., knowledge development (objective B) and innovation/valorisation (objective C)). In addition, respondents indicated that the ERDF program occupies a unique position in the Dutch funding landscape for these types of projects. The unique position of ERDF in the Dutch funding landscape was also reflected in the survey, where applicants of granted projects were asked what would have happened if they had not received ERDF funding. According to the respondents, 35% of the approved projects would not have been implemented without this funding. A large majority of the respondents indicated that independent financing of the project or looking for alternative financing would be (very) difficult.

In addition to Knowledge and Innovation Consortia, we identified two other types of projects: Knowledge Transfer Clusters and Individual Development Trajectories. Knowledge Transfer Clusters are partnerships that aim to improve the knowledge position of SMEs by transferring knowledge to SMEs. Individual Development Trajectories are projects, in which one SME receives co-financing from ERDF to support the individual development of risky products or services. For these two project types, the alignment with the overarching program objectives is less clear, partly because of the existence of alternative financing options. For example, Dutch SMEs can also use the MIT knowledge vouchers to realize knowledge transfer from knowledge institutes. In addition, the Dutch WBSO tax scheme offers an alternative to stimulate individual development trajectories.

Room for higher ambition level. When we classify the projects according to ambition level, we can conclude that most projects aim to build a financially sound business activity with regional spillovers. Although this level of ambition is formally in line with the ambitions of the current ERDF program, several interviewees indicated that there is a lack of projects with a

higher ambition level. These are projects that attempt to generate a substantial leverage in combination with a leadership position at the national or even international level. According to these interviewees, the assessment process should be adjusted so that not only the regional impact is paramount.

Expert committee as crucial gatekeeper. Our analyses consistently point to the expert committee as an important gatekeeper in the current ERDF program to guarantee the selection of high-quality projects. By applying econometric estimation techniques, we find evidence that the expert committee weighs projects against each other within specific calls or tenders. Although each project is formally assessed separately, we find evidence that the expert committee weighs projects against each other within the same call or tender. In particular, we observe that, when an expert committee identifies a promising proposal with a high score, the scores of other projects that are considered less promising go down. These findings indicate that the expert committee actively tries to differentiate between high and low-quality projects. The activist role of the expert committee, which seeks to select promising projects, was also highlighted in the interviews. Interviewed experts underlined their role as independent gatekeepers, who have the responsibility and expertise to identify promising projects and distinguish them from low-quality projects.

Differences between regions in operation of the expert committee. At the start of the Operational Program ERDF 2014-2020, it was agreed that the various expert committees within the different regions would use the same criteria to evaluate projects. At the same time, we see a number of striking differences between the regions with regard to the procedural implementation of the expert committees' assessment activities. One striking difference is the extent to which pitches (i.e., applicants get the opportunity to briefly present and defend their project proposal for the expert committee) are used. In the Western region, pitches are a standard aspect of the evaluation process. In the Southern region, they recently started experimenting with pitches. In the Northern region, pitches have been recently introduced in the preliminary application phase within a new call on innovation ecosystems. The expert committee in this region also gives the opportunity for further explanation at the meeting if it is not fully convinced of an application. The expert committee then asks additional questions and invites the applicants to provide an explanation of these questions during the next meeting. No pitches are used in the Eastern region.

In general, both experts and project managers are satisfied with the use of pitches. Experts indicated that such pitches allow getting a better feeling for the enthusiasm, experience and expertise of the applicants. Project managers, in turn, indicated that the pitch provided the

opportunity to explain those aspects that are difficult to grasp on paper. Several interviewees therefore stressed the need for more intensive use of pitches in the assessment process.

Risk of empty proposal pipeline. There is a strong feeling among the various expert committees that the quality of the applications has risen sharply over the years. Especially the quality of the business case has clearly improved. It is important to stress that, as part of the analysis of project assessments, we could not find any relationship between typical call-specific factors such as the type of call, the duration, minimum or maximum subsidy values and the subsidy ceiling on the scores of the business case. This indicates that the expert committees have played a crucial role in this quality improvement.

At the same time, however, it was pointed out that the quantity of proposals is sometimes disappointing. In this context, we have identified a number of bottlenecks that threaten the quantity of applications: (i) the relatively low awareness of ERDF in the SME landscape, (ii) the image problem of ERDF as a complex and bureaucratic program, (iii) reluctance among SMEs to be formally involved in this type of project and (iv) the presence of content-based and geographical restrictions that complicate the composition of relevant consortia.

Conclusion. Do MAs succeed in selecting projects that contribute to the objectives? Based on the various analyses, our answer to this question is affirmative. The vast majority of projects are Knowledge or Innovation Clusters, with a clear connection to at least one of the central objectives (i.e., knowledge development and innovation/valorisation). In addition, the expert committee successfully plays its role as a gatekeeper, clearly distinguishing between projects that may or may not contribute to the core objectives. At the same time, we see a number of challenges (guaranteeing the independent role of the expert committee, higher ambition levels, and disappointing quantity of proposals) that can be addressed by the Management Authorities. In the section on recommendations, we give specific suggestions on how this can be accomplished.

2.2. Does the intervention logic work?

Satisfaction with realized results. We have analyzed the extent to which projects actually achieve the expected results. In order to measure the realized outcomes of projects, we measured three different factors in the questionnaire survey on a five-point scale: (i) perception of project success, (ii) perception of economic impact and (iii) perception of cooperation impact. For all three aspects we see that the average score is between 3 (= neutral) and 4 (= rather agree). By running a regression analysis on the variance of these outcome scores and by

interviewing relatively successful and less successful projects, we have been able to identify two central factors that substantially influence the functioning of the intervention logic: (i) the design of the application process and (ii) the presence of formal frameworks.

The design of the application process. During the application process, it is important that the partners cooperate intensively with each other. The more intensive the collaboration during the application phase, the better the project scores on the different outcome factors (project success, economic impact, and cooperation impact). Intensive cooperation during the application process ensures an 'experienced' application where each partner has a good understanding of her responsibilities. In this way, the probability of difficult discussions after approval of the project is smaller. Intensive cooperation during the application process also seems to be a good predictor of the involvement of partners during the actual execution of the project. At the same time, we see that the involvement of intermediaries in the application process has a negative effect on the realized outcomes of the project. This negative effect is most pronounced when looking at project success. Involvement of intermediaries is particularly problematic when they play a leading role in the project. This creates the risk that a project is accepted while the actual executors of the project do not know what content is promised and who is responsible for which tasks. Intermediaries can nonetheless have an important supporting function in the application process, especially if the applicants have little or no experience with the ERDF program.

The presence of formal frameworks. For projects in which several partners were formally involved, the relational quality of the collaboration proved to be an important predictor of project success and economic impact. Relational quality points to the presence of open communication and mutual trust between the partners. It was striking that interviewees put a strong emphasis on formal frameworks to guarantee such relational quality. In particular, interviewees emphasized the importance of (i) clear contractual agreements between the partners with good follow-up by a formal steering committee, (ii) explicit structures (LivingLab, IP infrastructure) to stimulate valorisation, and (iii) a management style aimed at achieving explicit results that are formally established by the partners. In short, formal structures were seen as an important structural foundation for achieving open and trustful cooperation.

Administrative overload in application and execution process. In the survey as well as in the interviews, administrative overload emerged as an important problem. This concerns overload in both the application process and the execution process. Interviewees indicated that this not only leads to unnecessary frustration, but also endangers the core ambitions of the

ERDF program. First, the administrative inconvenience jeopardizes the 'acceleration' effect of ERDF funding. An important ambition of the ERDF program is to accelerate the building of new structures for knowledge development and innovation. However, this acceleration effect is threatened by the administrative overload. For example, project managers indicated that the formal start of projects is sometimes strongly delayed by administrative complexity after the project has already been approved. This creates the risk that the accumulated energy slowly fades away before the project can actually start. In addition, it was indicated that the demanding bureaucracy during the implementation phase takes a lot of time, which cannot be spent on the content of the project, triggering delays. Second, interviewees indicated that the administrative design of the ERDF program does not align with the context of SMEs, the most important target group for this program. In this way, the threshold for SMEs to participate in ERDF-related projects becomes even higher. Moreover, there is a risk that the financial benefits of such projects will not outweigh the administrative costs for SMEs.

Conclusion. Do projects succeed in actually realizing the expected results? The data from the questionnaire survey provide a rather positive picture of the intervention logic; a majority of the respondents indicated that they are relatively satisfied with the (preliminary) results of the project. Our analyses also indicate that projects, in which the various partners are strongly involved in the application process and that make extensive use of formal frameworks, are better able to achieve the expected results. At the same time, we find that interviewees consider the administrative overload to be an important factor that can hamper or delay the achievement of expected results. We will return to this in the recommendations.

3. Recommendations

What are the most important lessons the four Dutch Operational Programs can learn from one another and from the evaluation in terms of the functioning of the intervention logic and the effectiveness of the instruments? Based on our analysis, we formulate a number of recommendations that can be summarized with the slogan: Strict, Ambitious and with Mutual Trust.

3.1. Strict

We advocate maintaining a rigorous selection process in which only project applications that really fit within the central objectives and that are of high quality will be financed. Below we discuss three specific suggestions to ensure a strict selection policy.

Ensure independent expert committee. When the Operational Program ERDF 2014-2020 was introduced, it was decided to work with independent expert committees that assess the project applications. Our analyses indicate that the expert committee is an important element in maintaining a strict selection process. We provide empirical evidence that the expert committee takes an active role in differentiating between projects. Although projects are in principle assessed separately, our results indicate that experts weight projects against each other within specific calls or tenders. In this way, promising projects are clearly distinguished from low-quality projects. In the interviews, the advantages of the independent expert committee were also emphasized.

It is important, however, to ensure that the expert committees retain their independent position. Interviewed experts reported several examples of explicit or implicit external pressure (a politician who promotes a certain project, remarks about allocation of resources across provinces, pressure to increase the number of approved projects). Although the interviewed experts explicitly indicated that this pressure was rather counterproductive, vigilance in this area is to be recommended. Our analyses indicate that such administrative interference would be problematic, especially due to competition and ranking between different projects. It is therefore extremely important that the scoring process of the expert committee takes place without external pressure.

The central role of the expert committee also means that conflicts of interest must be avoided. Each expert committee has a protocol to avoid this. However, there is room for further tightening up this policy. For example, we encountered examples where a member of the expert

committee was also involved as an applicant in projects within the same call. Although the expert in question did not participate in the assessment of his or her own project, our findings indicate that projects are assessed as a group in which the scores on different projects influence each other. Given this interaction between projects, we recommend a tightening of the policy, such that an expert who is involved as applicant of a particular project within a call cannot act as evaluator of other projects within the same call. To make this possible, it is advisable to have a flexible cohort of assessors. In this way, an assessor with a conflict of interest in a specific call can easily be replaced.

Broader introduction of pitching. We also advocate a broader introduction of pitching, whereby applicants have the opportunity to defend their project during a meeting of the expert committee. Our process analysis indicates that the advantages of pitching (i.e. clearer picture of commitment and expertise of the applicant, expert committee can test the strength of the application, the applicant gets a chance to explain uncertainties) are greater than the possible disadvantages (i.e. creating extra subjectivity and taking extra time from committee and applicant). The introduction of pitching is especially relevant for large projects that fall under the objective of 'Strengthening innovation and valorisation'. In the Venture Capital world, pitching is a standard component of the decision process on risky innovation projects. It is rather counterintuitive that such a best practice is not generally applied for substantial public investment decisions within the ERDF program.

Reluctant policy for resubmission of applications. Within the different regions, there is the possibility to resubmit rejected proposals. Especially in the Western region, this option is used frequently. Our analysis shows that applicants who resubmit a rejected project receive a significantly higher score from the experts committee than new projects. This points to a learning effect, which is positive in itself. Yet, there is also the risk of a negative spillover effect. The models used in the analysis of project assessments indicate that higher scores for projects that are being resubmitted, at the same time, lower the scores of other projects that are submitted for the first time. In other words, revisions implicitly raise the quality standard employed by the expert committees, making it more difficult to achieve a high or even a satisfactory score for new project proposals, which meet this quality standard. This can ultimately lead to a situation where it is extremely difficult for new applicants to obtain a positive evaluation the first time. Our process analysis further points to a number of additional risks when allowing resubmissions. For example, the experts indicated that there is a risk that their role shifts from independent assessor to involved project coach. Another risk is evaluation fatigue within the expert committee, as a result of which resubmitted projects are assessed more leniently. This

implies that the higher scores of resubmitted projects are not always due to a learning effect, but are sometimes caused by a more compliant attitude of the experts towards such a project. We therefore call for vigilance in connection with the re-application of proposals. In some cases, due to the learning effect, good reasons might be present to give proposals a second chance. However, the question is whether it really makes sense to give applicants more than two opportunities. Formally banning multiple re-applications is legally difficult. However, expert committees and Management Authorities can send clear signals to applicants based on their feedback.

3.2. Ambitious

Although most funded projects seem to fit well with the central program objectives, our analyses indicate that there is still room for more ambitious projects. It is unrealistic to strive exclusively for projects with a substantial financial leverage that are groundbreaking at the international level. However, we do see opportunities to increase the average ambition level of projects. We formulate three specific suggestions that can help.

Encouraging awareness about the need for ambition. Over the past few years, the Management Authorities and other stakeholders have put a lot of effort into communicating the importance of a clear financial business case when submitting project applications within the ERDF program. These efforts have had their results. The various expert committees indicate that the quality of the business case has clearly improved over time. We call for an additional awareness initiative on financial and geographical ambition, where potential applicants are encouraged and challenged to submit ambitious projects that can make a real difference in terms of structural development. In this context, it may be interesting to use a number of specific exemplary cases that illustrate how specific ERDF beneficiaries have used money to develop a business activity that has become an international frontrunner.

Use of generic frameworks. Applicants can only come up with ambitious projects if they get sufficient room to (i) develop the accurate focus in terms of content and (ii) choose the partners that are most suitable to execute the project. Our analysis indicates that the existing frameworks, within which projects must fit, are sometimes too restrictive to realize such an optimal project. Calls and tenders are sometimes aimed at specific sectors or technological domains. The most impactful projects, however, often lie at the crossroads of different sectors or domains or exceed geographical boundaries. In this way, demarcations can curb the creation of an ambitious project. In addition, applicants sometimes experience limitations in the choice

of partners who may be involved in an application. Although it is formally possible to involve partners from other regions / countries, this usually creates additional administrative complexity in the application. As a result, there is a tendency not to build up the optimal consortium in an application, which can negatively affect the ambition level. We therefore recommend the use of generic frameworks that give more space to applicants in developing their project.

Minimize turnaround time and complexity. Many sectors and technological domains are characterized by strong competition, where the realization of ambitious objectives requires swift and flexible repositioning. On the one hand, the ERDF program gives actors the opportunity to realize an acceleration effect through additional funding. On the other hand, we also have to conclude that the long lead time of the application process actually jeopardizes this acceleration effect. Reducing the lead time is therefore an important issue for the Management Authorities. This can be achieved by (i) building a flexible layer of employees who can support during peak times (i.e. when different calls have to be handled) and (ii) simplifying a number of procedural aspects in the application that often delay the application process.

More financially ambitious calls. We not only advocate more ambitious projects, but also more ambitious calls. Our analysis of project assessments indicates that the maximum subsidy percentage and the maximum amount of funding granted within a given call have a significant effect on the evaluation score of projects. In other words, projects, which are part of a call with a relatively high maximum in terms of (i) subsidy percentage or (ii) amount of funding granted, receive on average higher scores. An increase in the subsidy percentage by 10 percentage points raises the total score of projects by an average of 4.3 points and every one hundred thousand euros more in maximum subsidy raise the total score of projects by 0.8 points, both measured on a scale of 1 to 100. These are considerable differences, given that subsidy percentages range from 25 to 50 percent and the maximum funding amount ranges from two hundred thousand to two million euros. It indicates that calls with an ambitious financial framework succeed in absorbing higher quality projects. It therefore seems useful for Management Authorities to raise the maximum subsidy percentage or amount of funding for new calls in order to stimulate an extra influx of high-value applications.

3.3. From mutual trust

The ERDF program is financed with public money. It is therefore essential that spending on this program is adequately monitored and controlled for. We argue, however, for a different control culture that starts from the norm of mutual trust. This implies a shift in mentality where

it is assumed that projects, which have come through the initial rigorous selection, have the intention to make optimal use of the available resources for the project. In other words, the strict selection at the gate should be followed up by a more minimalistic project control structure. In such an alternative control structure, controllers do not check out of fear of being checked themselves. Instead, the intention is to follow up projects in such a way that they remain within an acceptable financial bandwidth. Progress reports can be a relevant instrument in this respect. However, these reports should mainly focus on substantive progress and should not be used for financial micro-management. It is important to note that we advocate a change in culture at the system level. Interviewees indicated that the bilateral interaction with the Management Authorities was predominantly positive. Above all, the problem seems to be that the Management Authorities themselves are bound by regulations of higher-level institutions (national and European), which make it difficult for them to implement a trust-based monitoring approach. Cultural change therefore requires the involvement of all stakeholders. We realize that this process will require a lot of time and energy. Therefore, we encourage Management Authorities to start removing the sharpest edges of the current control system first.