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EVALUATION OF INTERVENTION IN THE FIELD OF REGIONAL DEVELOPMENT

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Traditionally, RDA activity or public intervention in the field of regional development is only evaluated against the number of jobs created or retained.

The (predictable) changes caused both by economic globalisation and the quest for competitiveness gains should encourage public managers and funding parties to identify other parameters than simply jobs to measure the impact of their action. Such parameters would be better suited to the challenges of endogenous development over the next five to ten years.

Below are some suggested parameters for consideration in this new context:

- return on investment;
- "opportunity cost"
- "value for money";
- value added;
- customer satisfaction;
- measuring the gap between objectives and outcomes;
- leveraging private investment
- contribution to changing the regional socioeconomic fabric
- sustainable development.

Some tools are to be considered as ex ante ones and some ex post. It should be stressed that the main role of RDAs is to change or improve the framework conditions in which the socio-economic fabric of a region is operating. This means to look how interventions are encompassing political goals such as entrepreneurship, innovation, R&D exploitation, job creation etc...

1. RETURN ON INVESTMENT

Public money is spent from budgets fed by direct and indirect taxes.

In the same way as business performance is measured by its return on investment, it would be judicious to evaluate the effectiveness of public sector intervention in support of the economy in terms of the tax revenue it generates. Such an analysis could be performed at the level of both strategic programmes and individual measures.

Below are two examples of tax return on public investment in the stock of two hi-tech start-ups. These examples are based on data published in the January 2005 issue of the French magazine *L'usine nouvelle*. The tax impact of €14,976 and €48,766 invested respectively by *Poitou Charente Innovation* and *Spiralex Rhône Alpes Création* can be determined as explained below.

Calculation of the theoretical tax ROI of equity invested in start-ups.

Example #1

Company: *Technovax*

Opening capital: €72,000

Employment: 2

Turnover: €300,000

Assuming that the staff earns the guaranteed minimum income, wage costs amount to €29,120 per annum (2 x €8/h x 35h/week x 52 weeks), plus around €9,610 in statutory employer charges (33%).

Assuming that the company's profit margin is 10%:

Cost price: €270,000

Purchases: €233,270 (€272,000 – €38,730)

VAT on purchases: €233,270 x 21% = €48,993

Taxes amount to a minimum of €58,603 (€48,993 + €9,610)

Tax ROI: 3.9:1

Example #2

Company: *Leirias Technologies*

Opening capital: €195,065

Employment: 14

Turnover: €450,000

In this example, the data is:

Wages: €203,840

Statutory employer charges: €61,152

Profit margin: 10%

Cost price: €405,000

Purchases: €140,008

VAT: €23,335

Tax ROI: 1.7:1

The return on investment concept can also be applied to measure the number of jobs supported as well as the growth created in the regional economy.

With regard to the growth created in the regional economy, RDAs can undertake an analysis based on the balance sheet of enterprises which got their support. RDAs can compare performance trends of a sample of enterprises supported and not supported. Both IGRETEC (B) and ALMI Företagspartner (S) found out that enterprises having been supported present better balance sheets than the others. Of course, all the growth cannot be claimed by RDAs, but at least a contribution for such better competitiveness situation can be awarded to the services provided by the RDAs.

2. "OPPORTUNITY COST"

Opportunity cost is a concept that covers the double notion of acting V. abstaining and choosing one method of action rather than another.

Evaluating RDA action in light of this concept asks the following questions:

- ✓ Is action always validated based on potential recipients' actual—as opposed to supposed—needs?
- ✓ Do beneficiaries perceive the actual advantages of proposed action or are they simply leveraging an opportunity?
- ✓ Is RDA intervention strategic or opportunistic?
- ✓ Is the cost of intervention commensurate with expected positive outcomes (i.e. does it address a market failure, improve awareness of some innovative concept, meet solvency needs on a specific market segment, etc.)?
- ✓ Could the cost of intervention be reduced via alliances with other partners (economies of scale) or through subcontracting or merger with other existing measures? Does intervention replicate—or overlap with—others existing measures?
- ✓ Are grants legitimate? Would it not be useful—from the point of view of public spending—to consider other alternative forms of intervention including (soft) loans or even repayable advances?

An analysis of answers to these questions may yield financial flows that may in turn generate a tax ROI or enable the determination of expected value for money.

3. "VALUE FOR MONEY"

Using the concept of "value for money" requires a thorough examination of the comparative advantages of the different existing forms of intervention:

- ✓ grants, loans, guarantees, interest rate subsidies;
- ✓ subsidy rates;
- ✓ shared V. tailored services;
- ✓ cost per job created by an SME supported by a subsidy V. FDI;
- ✓ direct intervention V. outsourcing.

RDAs should be able to demonstrate which projects or programmes bring good value for money in matching the demand of their shareholders.

For instance, this approach should help answer the question "Is it better to give grants to universities to develop schemes in favour of SMEs or to provide money to SMEs to buy services from universities?"

The basis for costing opportunity is provided by the steps of a value-added scale of regional development tools.

The steps have been built according to the following two criteria :

1. Comparative advantages in investing in the tool
2. Contribution of the tool to bring the region in a knowledge-based economy.

The scale presented below includes five steps from lowest to highest value added.

Value scale steps	
1.	Grants and tax exemption granted to multinational businesses (FDI) "Touch and go"-type services for business developers Creation of industrial parks
2.	Creation of incubators and provision of enterprise real estate Creation of techno parks Baseline advisory services (audits, internationalisation, etc.) Business retention services
3.	Guarantee funds Repayable short-term loans for innovative SMEs Clusters Research and innovation infrastructure
4.	Technical and technological centres Advanced SME support services, including proof the concept and investment readiness Networking of technological enterprises Logistics centres
5.	Support for venture capital funds (seed, etc.) Support for patenting and exploitation of the research results Support for intangible investment (designs, intellectual property rights, etc.) University/SME interfaces Spin-offs, spin-outs Formal and informal networks of key stakeholders Business angels networks (BANs)

However, the value scale can only be effective provided that it rests on a favourable environment based on:

- ✓ Good governance
- ✓ Public-private partnerships
- ✓ A mid-term strategy
- ✓ A vision shared by all key stakeholders
- ✓ Strong leadership
- ✓ Working in a supply chain approach to deliver advanced support services to enterprises.

4. **VALUE ADDED**

Based on the argument that in every country these days, regional competitiveness rests on:

- innovation;
- talent and quality in human resources;
- cooperative networks;
- proof of concept and awareness of methodologies that are inadequately disseminated at regional level;
- attraction of private investment;
- the regional contribution to the eradication of market failures;

the effectiveness of intervention can be measured in terms of financial value added. It is useful to consider and quantify benefits in terms of capacity building in areas including collective learning, social integration as well as environmental protection and the preservation of endogenous resources. For the sake of congruence, there is a corresponding need to deduct from this financial value added the costs incurred due both to resistance to change among key stakeholders (amount of aid paid to ailing companies) and to delays inherent to the decision-making process.

The contribution of a programme to the competitiveness and the profitability of the local economy can be measured by the added value created. Often this parameter is related to the incentives provided for local infrastructure, firm productive investments and innovation. From a regional point of views, trends year after year are the most significant data to draw lessons.

5. CUSTOMER SATISFACTION

Any form of public spending to foster economic activity should be followed by a customer satisfaction survey. In order to be objective, such a survey should be divided into two parts: one on recipient satisfaction, distinguishing between occasional and loyal users and another one of potential recipients who did not access support. This second part is essential in the sense that, while beneficiaries of public subsidies can reasonably be expected to express general satisfaction with the public support they have received, understanding the reasons why other potential beneficiaries did not leverage available support is more revealing.

Indeed, even when recipients are not pleased with public services, very few of them dare openly express dissatisfaction because they are anxious about possible retaliation. Evidence of this can for instance be found in the disastrous management of some European Commission programmes (late payments, audits and more audits—sometimes leading to arbitrary or dogmatic conclusions being drawn—, lack of adequate means to achieve expected outcomes, publication of calls for proposals at preposterous times of year—31 December or in August—, excessively lengthy decision-making processes, etc.) without anyone ever daring to either file a formal complaint with DG Competition on grounds of abuse of dominant position or publishing an objective memorandum exposing donor failures and voicing customer frustrations. And it can reasonably be inferred that the same attitude predominates at all other administrative levels (national, regional, local).

Evaluating customer satisfaction should also enable comparative analyses to be conducted on delivery mechanisms (calls for tenders, direct management, etc.) as well as on the nature of support: subsidies V. loans with or without counselling and/or support measures complementing finance.

6. MEASURING THE GAP BETWEEN OBJECTIVES AND OUTCOMES

In any organisation these days, modern management requires setting both annual strategic objectives and specific targets either for centres of competence or for individuals.

Therefore, it is possible to evaluate RDA performance by measuring the gap between objectives and outcomes, as well as resulting gains or extra costs.

It is worth noting in this respect that Gérard Morange, along with other RDA managers under the umbrella of UCAR, are investigating the possibility of granting incentive bonuses to the executive staff of RDAs in proportion of performance against predetermined objectives. This work illustrates the relevance of the evaluative approach.

7. LEVERAGING PRIVATE INVESTMENT

In the face of diminishing public budgets and increasingly scattered public intervention, the latter's effectiveness should be measured in terms of its ability to leverage private investment. RDAs can play an important role as private investment accelerator including with universities and research centres.

This method could be implemented at different levels including:

- (i) RDA budget or individual cost centres;
- (ii) Individual strategic programmes;
- (iii) Individual measures;
- (iv) Individual public-private partnerships.

The effectiveness of intervention could also be measured on the basis of the multiplying effect of initial public investment.

8. CONTRIBUTION TO CHANGING THE REGIONAL SOCIOECONOMIC FABRIC

The European regions will no longer be competitive if they do not support the conversion of their territories. Therefore, the public policies will have to measure the way this change is supported rather than count the number of jobs lost in traditional sectors.

With a view to measure this change, the data to be collected might be as follows :

- amount of investment in research and innovation infrastructures
- support to be given to enterprises in order to introduce new products and services on the market
- number of enterprises assisted in order to access RTD or technology transfer fundings
- number of jobs created in new activities
- assessment of the means how enterprises are involved in policy implementation.

RDAs and other public sector bodies have to detect new needs and provide new services and activities in order to respond to those new needs.

9. SUSTAINABLE DEVELOPMENT

Another assessment criterion might be the contribution to sustainable development. The following criteria to be taken into account in this case are :

- Quality of jobs created
- Rational use of energy and natural resources
- Environmental constraints
- New activities (eco-innovation)
- Equal opportunities (education, training, professional reinsertion)