EUROPEAN CONFERENCE ON EVALUATION PRACTICE IN THE FIELD OF STRUCTURAL POLICIES


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INTRODUCTION

1. This paper describes 2 Thematic Evaluations: one completed 4 years ago and the other due to be finished by mid 1998, of the Business Development measures in structural funds Programmes in Scotland.

2. The first, the Thematic Evaluation of Business Development measures contained in the Structural Funds Programmes in Objective 2 areas of Scotland - 1989-93 carried out during 1994, covered the two Objective 2 areas of Eastern and Western Scotland and examined in detail the Business Development measures within those Programmes. This proved to be a very valuable and successful study but was solely based on a bottom up approach which, while useful in itself and serving the purposes of the time, constrained to a certain extent its value for future policy and strategy purposes.

3. Since that time, the monitoring processes within the Scottish Programme Partnerships have improved to such an extent that it is now possible for us to consider undertaking the evaluation of measures common to different Objective areas: monitoring information is now collected and collated in the same format across the 7 Programme areas of Scotland so that the data available is capable of comparison and contrast on a country wide basis. Because of this, when it was decided that another Thematic evaluation should be carried out it was agreed that rather than restrict the work to one or several of the individual Programmes in Scotland it should be done across the whole of Scotland.

4. The success of the earlier evaluation of the Business Development measures, the relatively narrow focus and the passage of time encouraged us to undertake new work, also of these measures but covering all of Scotland not only to identify how well implementation of these Programmes was currently progressing, draw wider comparisons and look further at good practice and inform our thinking for Programmes post 1999. In addition to extending the geographical scope of the work, we also decided that we would add value if we further extended the theoretical scope by looking at the issues not only from the bottom up but also from the top down. Using both of these approaches in the same study is expected to provide us with a wider view of the efficiency of the measures from the point of view of the Member State and the Commission at one end of the spectrum and to the individual project or SME at the other.

5. The bottom up approach is well known and is the method most commonly used in evaluation: the top down approach is so-named because it uses aggregate data for an econometric estimation. The estimation itself will attempt to determine a series of relationships between standard variables (including employment gains, etc.) and whether or not an area receives Structural Funds.
This presentation will compare and contrast the methodology of the 2 Thematic Studies describe the value of each to the differing levels of user, from Central Government to individual project level and offer a view on the value of the 2 quite separate approaches for Structural Funds purposes

BACKGROUND

Structural Funds Programmes in Scotland

7. Structural Funds spending affects 85% of the population of Scotland under Objectives 1, 2 and 5b which are funded from the European Regional Development Fund and the European Social Fund: some EAGGF in 5b; and EAGGF and FIFG in Objective 1. Scotland also benefits from a number of Community Initiative funding including KONVER, RETEX, LEADER, PESCA, etc. Altogether funding amounts to more than £200m per year. As implementing authority, The Scottish Office is responsible for the operation of Structural Funds in Scotland.

8. In the period 1989-1993, there were 2 Objective 2 Programmes covering the 2 industrial areas of Western and Eastern Central Scotland. These 2 separate Programmes contained the broad objective to promote the economic development of their areas. The Programmes were administered and implemented as partnerships between the EC, The Scottish Office and a range of local bodies and organisations eligible for funding, including the local authorities, Local Enterprise Companies (LECs) and Enterprise Trusts. Agreed strategies for promoting regeneration were pursued through specific Sub-Programmes (or Priorities) which concentrated resources on particular activities, including business development, industrial sites and buildings, transport infrastructure, environment, tourism and research and development. Projects which involved Training of young people, unemployed people and others was undertaken through the European Social Fund.

9. These 2 Objective 2 Programmes were implemented by means of 8 separate CSFs which comprised:

- the Strathclyde Integrated Development Operation (SIDO) 1989-91;
- the one year (1993) Western Scotland Operational Programme;
- the Western Scotland RENAVA and RECHAR Community Initiative Programmes for 1990-1993;
- the 1989-1991 Eastern Scotland CSF, which was organised round 4 separate Operational Programmes for Central, Lothian, Tayside and Fife;
- the 1992-93 Eastern Scotland CSF, which covered the same 4 Regions; and

Evaluations

10. During these 5 years, various interim assessment exercises had been carried out by the Commission, The Scottish Office and the Partnerships in each partnership area which had provided an overall idea of the capacity of each form of intervention. However, given the level of aggregation that was necessarily imposed by this system of assessment, it was possible by these methods only to achieve a very partial vision of the varied impact of Structural Funds interventions. This method also
confined the information derived from each body of work to the individual programme on which it was based - allowing no comparison or contrast between and among areas and Programmes. Our desire to have a more definitive horizontal vision could be brought about from cross sectional studies dealing with one theme or one priority across a number of Programmes.

11. In addition from 1994 new Structural Funds Programmes were due to be set in place and these new Programmes would have to take cognisance of the findings of evaluations and the experience implementation of the older Programmes. In particular, given the emphasis within the eligible Objective 2 areas on promoting regeneration and improving employment quality and availability and the conscious move towards softer business support measures it was necessary that the new Programmes gave due priority to Business Development as an issue. In order to do this it was important that any decision which would impact on the areas for a number of years in the future, be based on a robust analysis and estimation of the effect of the previous Programmes and not on a subjective notion of what the effects might have been.

12. At this stage, it was felt that a sectoral or thematic study of one or more of the Priorities might lead to useful information and help to identify how well the Programmes had achieved their objectives and which activities contributed best to achieving targets. In the course of discussion as to which priority should be chosen as the subject of this evaluation work a general shift in emphasis was identified as having taken place within these programmes during the years of delivery away from physical infrastructure, which had been deemed the more important area of emphasis when the Programmes were being drawn up, and into business development measures. The evidence for reaching this conclusion was mainly circumstantial, based on the evidence of those managing the programme and the personal experience of Programme partners. In order to verify exactly what had taken place in the course of these 5 years of Structural Funds interventions it became obvious that a rational unbiased study should be commissioned.

**Thematic Evaluation 1994**

13. Against this background, The Scottish Office decided in 1994 to carry out an evaluation on the theme of Business Development Measures in Objective 2 areas of Scotland during the period 1988-1993. Business Development was technically defined as the promotion and development of new and expanding businesses, particularly small and medium size enterprises. The support took many forms including information, advice, trade promotion, finance, subsidised consultancy, technical services and managed premises. It tended to be non physical i.e. did not involve large capital expenditure, and involved a mixture of recurrent and one-off expenditure, unlike most other priorities which involved capital spending. The Terms of Reference for the study indicated that the principle objective of the study was to provide an evaluation of business development activity over the period 1988-1993 with a view to informing the strategy and allocation of funds under the Programmes which were being revised during 1994. The study was expected to analyse both the business development sub-programme as a whole and the different types of business support (or measures) within it. For the former, the study was expected to assess:

i. the contribution of business development to CSF and Programme Objectives;

ii. the extent of synergy among business development projects; and
iii. the effect of participation in partnership on co-operation among local development agencies.

14. For the latter, the study was to evaluate the following measures:

1. Information and advice to businesses;
2. Specialist consultancy services;
3. Business start up and after care support;
4. Direct financial support;
5. Ongoing support for business development; and

15. The objectives of the study were:

i. To compare the performance of individual projects within each category and to identify the main factors affecting their performance; and

ii. To draw lessons from the performance of different measures which would inform future business development strategies and guide the appraisal of individual project applications.

16. The study involved 4 major components of original work which are described in detail below. In addition, Business Development was analysed at 2 levels: first, it was considered at an aggregate level, by looking at descriptive information for all the projects within each of the 5 Operational Programmes, across the 2 CSFs and for Central Scotland as a whole; and secondly, individual projects within the sample 32 were evaluated in more detail, based on evidence from the projects themselves and a survey of assisted businesses (or end beneficiaries). The results were used to compare projects against each other and to make comparisons between different types of project. The criteria against which the projects and sub-programme were assessed can be broadly summarised under 3 headings: strategic issues, operational issues, and economic effectiveness. The focus was originally intended to be restricted to the micro economic effects, rather than strategic or operational issues, however during the course of the study it became apparent that the economic effects were conditioned by strategic and operational considerations, which needed to be taken into account and examined as well.

17. Projects under examination were categorised in such a way as to reflect important differences in the levels and form of support to businesses. The classification was arrived at after reviewing the project application forms and following discussions with programme managers. The categories were not completely self contained and some judgement had to be exercised in allocating projects to particular categories, particularly where the project descriptions were vague. In addition
some projects provided several different forms of support spanning more than one category. In these cases, projects were classified according to their dominant activity.

**Study Procedure**

18. The first stage of the study involved a familiarisation exercise on the part of the consultants carrying out the work, to review the ERDF guidelines and regulations, the Regional Plans, CSFs and Operational Programmes for each region and to interview key Programme Managers for contextual knowledge and understanding. This stage also permitted tentative conclusions to be drawn about the rationale, objectives and strategies pursued in each region.

19. This was followed by an assessment of the 281 business development projects approved between 1988 and 1993. The object was to obtain an overview of the business development sub-programme, to identify where resources were allocated in practice, and to review basic characteristics of the entire population of projects.

20. The third stage involved a more detailed analysis of a sample of 32 projects. The sample was selected to be broadly representative of the population of projects and was based on: project type; organisational type (a range of local authority, LEC and other local agencies); longevity (with a focus on those operating in 1992-93); and 60:40 west:east split to reflect the larger ERDF funds going to Western. The sample accounted for one in seven (13.5%) of all business development projects and 12% (£3.83m) of total approved expenditure. The projects were examined through extended interviews with Project Managers and a review of supporting documents, Committee Reports, monitoring information and any previous evaluations that might have been undertaken. Managers were probed at greatest length about project outputs and achievements against objectives, with as much quantitative and qualitative supporting evidence sought as possible.

21. Stage 4 involved a telephone survey of 200 firms supported by these projects, based on lists of 15-20 assisted firms supplied by Project Managers. The purpose of the interviews was to assess the impact of the support provided. A target of 6 interviews was set per project, and more than this for large projects with many recipients. On average nearly 8 firms were surveyed for each of the 26 projects that supplied details of assisted firms.

22. Finally during the course of the study selected interviews were held with key informants in each region to explore some of the strategic issues in more depth and to review the emerging evidence.

**Conclusions and recommendations**

23. Evidence from the study indicated that the business development measures made a useful economic contribution, by promoting the start up, growth and survival of SMEs on a fairly large scale. They had a positive effect on company strategies and performance, and did so in a cost effective manner. Their effects were apparent in increased sales turnover and the saving or creation of about 2,200 jobs. Beyond these achievements, there was considerable diversity of experience in terms of the strategic, operational and economic effectiveness of projects. On the whole it was found that project objectives were too general and mechanisms for achieving them were not very
carefully planned. Few projects showed evidence of need or demand for the proposed service or consulted other local organisations beforehand. Instead there was a tendency for projects to stand alone, justified in their own terms rather than in relation to other support services. The quality of the targets set for individual projects was generally poor and monitoring at that stage did not appear to be taken seriously. There was generally more variation in effectiveness between projects within each category of business support than between different categories of project.

24. A number of recommendations were made within the body of the report as to ways in which the effectiveness of ERDF business development support might be improved including through the formulation of more focused business development strategies in each region, sharper objectives, a clearer idea of how these might be achieved and a more positive framework to guide the allocation of resources. It was felt that this would help to ensure a more balanced distribution of funds and a wider, more complementary set of business support services. Existing advisory groups were recommended to adopt a larger and more constructive role, beginning with reviews of specific business services within their region to investigate areas of overlap and shortfall in provision.

25. Short termism appeared to be a widespread barrier to good practice. It was recommended that consideration be given to ways of extending the time horizons of all organisations involved in the partnership. It was also recommended that there should be more regular and frequent co-operation among the agencies involved as well as among business support organisations.

26. It was also suggested that there was scope for improvement in the quality of project applications. The approval process should be made more demanding of project sponsors and clear guidelines should be made available to them indicating what was expected. The emphasis should be on sponsors justifying projects in their own terms and as fully as possible with, where possible, agencies specifying targets for level of business support activity and outputs. There were also suggestions concerning improved performance indicators relating to measures of activity, intermediate outputs and anticipated outcomes.

27. This valuable and extremely successful study was used to inform the SPDs which were written in the course of 1994. The findings formed the basis from which the Programme Planning Team created the Objective 2 Programmes 1994-96. The form and scope of the Programmes were designed taking into account the information on importance of Business Development Measures in the area which was contained in the evaluation report. The weight given to these measures was directly attributed to the evidence of the evaluation and indeed the inclusion of this data was one of the main reasons why the Programmes were so well received by the Commission and proved so acceptable to the Partnership as a whole and to the local business communities of the relevant areas.

28. In addition the information collected by the report was also utilised by the relevant Programme Monitoring Committees in drawing up and agreeing the selection criteria and scoring and weighting systems for their areas. The Advisory Groups, for their part, used the selection criteria and data contained in the Report in their deliberations on individual project applications in order to give the requisite amount of weight to projects submitted under the Business Development measures.
29. The management of the Programme was directly influenced by this report in the priority and general level of importance granted to business development measures. The fact that knowledge and data in relation to how the measures had performed in the past was based on evidence derived from a full and wide-ranging report, obviously gave those managing the Programme a stronger sense of how the future Programme should perform that had been the case previously.

NEW THEMATIC EVALUATION

Approach

30. As can be seen, however, this 1994 study was solely based on a bottom-up approach which, while useful in itself, constrained to a certain extent the Report’s value for future policy and strategy purposes. In light of the study and its successful outcomes, The Scottish Office was convinced of the value of Thematic Evaluation as a concept and was prepared to consider this form of evaluation as a tool to evaluate Structural Funds in the future. Again because of the success of the earlier work we were also prepared to consider extending both the scope and the format in future work.

31. The current Structural Funds regulations came into force on 1 January 1994 and will last until 31 December 1999. So far as Scotland is concerned, there is one large Objective 1 area covering all of the Highlands and Islands of Scotland; 2 Objective 2 areas covering Eastern and Western Scotland and 4 Objective 5b areas covering most of the remaining rural parts of the country.

32. The 6 year Programmes (Objectives 1 and 5b) reached their halfway mark at the end 1996/beginning of 1997 and the first 3 year period of the Objective 2 areas concluded at the end of 1996, with the new 3 year period running from 1997 to 1999. The time seemed right therefore to begin a further piece of thematic evaluation work during early 1998. This could take account of the work undertaken within the structures of the Objectives over more than half of their overall implementation time while at the same time be available to inform the forthcoming work due to begin on the reform of the Structural Funds post the year 2000.

33. Based on the lessons learned since the original study and on thinking on thematic evaluation since 1994, the study has been designed to take the elements of comparability further and to look more deeply and thoroughly into all aspects of evaluation practice in this field. Because thematic evaluation must, by its very nature, be comparative and composite, it must be supported by studies carried out on the basis of the same methodology and dealing with the same subject within a number of geographical zones. Our Thematic Evaluation has been articulated around 3 principle components: firstly descriptive, secondly, analytical and thirdly drawing together composite data from the different areas and comparing them.

34. As the 7 Structural Funds Programmes in Scotland either passed their half way mark in implementation terms in 1997 or, as in Objective 2 Programmes, began new Programmes in 1997, The Scottish Office felt that the time was once again right to look again at how Programmes were performing. This was in general terms a requirement of the SPDs but we were keen for the reasons which follow on to go further. This was felt to be a necessary, indeed integral part of the
implementation process and given the importance of business development measures within each of the 7 SPDs in Scotland and the existence of the original study which provided very full details for comparative purposes, it was decided that the new thematic evaluation should once again concentrate on Business Development Measures.

35. The circumstances had however changed considerably since the previous study was undertaken in 1994. First of all, the Single Programming Documents currently in place are far more comprehensive and coherent documents than had been the case in 1989-93. This means that they are far easier to assess and compare for evaluation purposes. In addition, the monitoring systems and processes now in place in all 7 Programme areas are, in all main essentials the same. The same monitoring information is collected and collated across the whole country making the task of comparison and contrast of the resulting data easier than previously. This was the result of the Core Indicators exercise which we carried out in Scotland during 1995 and which was described in detail in my paper to the 2nd Evaluation Conference in Berlin in December 1996. Therefore in order to make full use of the monitoring data available and to take account of changing circumstances since 1994, it was decided to extend the scope of the new Thematic Evaluation to all of the Business Development Measures contained in all 7 programme areas in Scotland.

36. At the same time it was felt that that more value could be achieved from a study which took a wider view and it was decided to extend the study to take both top down and bottom up aspects into account. The Top down part of the new study is designed to use a number of more sophisticated methods such as econometrics to ensure a more rounded study with outcomes that will inform policy development, strategy and priorities for future funding. The top-down econometric appraisal is a complement to the standard bottom-up evaluation methodology. It is a method for confirming or rejecting the results obtained from the bottom-up appraisal. While the bottom-up evaluation concentrates on project appraisal, the top-down approach is an overview of measures and programmes for the whole of Scotland. The exact methodology of the top-down approach is to estimate value-for-money parameters relating business starts to whether or not an area receives European funding. The expectation is that these parameters will vary between measures so that comparisons may be made. From this results may be compared with those from the standard bottom-up appraisal.

37. Using both of these approaches in the same study is intended to provide a wider view of the efficiency of the measures from the point of view of the Member States and the Commission at one end of the spectrum to the SME perspective at the other end.

Methodology

38. The initial approach being taken in this study, mirrors the earlier study in 1994, is to examine the effects of similar measures within different objectives however the study then goes on to cover all areas of Scotland where structural funds operate. We intend that this study will allow conclusions to be drawn regarding:

i. The economic effects of those actions with a business development focus on participating businesses and the local business community with reference to appropriate baselines and counterfactuals;
ii. The degree to which such actions are meeting their objectives;

iii. The effectiveness of these actions and which factors influence their effectiveness;

39. Recommendations based on this analysis, for achieving efficient and effective use of resources under future Programmes.

40. The specific theme to be addressed is business development. In the past the evaluation of structural fund programmes has concentrated on possible inefficiencies in the allocation of the funds to recipients - a rather mechanistic approach. The tendency, therefore, has been to focus attention on project sponsors at the local and regional level. This “thematic evaluation” of business development measures has no direct interest in the performance per se of project sponsors. On the contrary the focus shifts directly to the client group, i.e. those businesses (firms) which benefit from structural funds under the heading “Business Development”. The emphasis will be on the benefits that structural funds grants bring to individual business. Both ERDF and ESF actions which have an effect on business development will come within the scope of this evaluation although actions funded by FEOGA and FIFG are excluded. The scope of the measures included in the study range from those in Objective One through to those in Objective 5b areas and include not only straightforward business development measures, but also tourism measures, community development measures, ESF measures and communities measures which contain a business development focus.

41. Specifically, the final report should include the following:

(i) Collation and assessment of key firm level data relating to business development measures (as defined above). (For example, amount of spend, dates of spend. The consultant should list the key data they propose to collect in the tender document).

(ii) An assessment of the outputs attributed to the set of business development measures. By outputs (in this setting), we mean the number of businesses assisted, changes in turnover and profit rates, for example. The consultant should identify other relevant outputs in the tender document. The consultant may also wish to discuss the expected final economic impacts of the measures and how these may be quantified.

(iii) An assessment of those factors which may affect the economic outputs of the business development measures, for example, local economic environment and size of business involved. The consultant should identify those factors which have the potential to influence the effectiveness of the measures and state how these factors will be built into the analysis;

(iv) An analysis of the possibilities for competition and synergy between different business development measures and priorities;

(v) Consideration should be given to grossing up the net economic effects to the Programme level (see methodology).
42. Specially we expect that the final report will include the collation and assessment of key firm level data relating to business development measures, an assessment of the economic outputs attributed to the set of business development measures - by economic outputs in this setting, we mean the number of businesses assisted, changes in turnover and profit rates and any other relevant outputs; an assessment of those factors which may affect the economic output of the business development measures for example local economic environment and size of business involved. We hope to be able to identify those factors which have the potential to influence the effectiveness of the measures and state how these factors will be built into an analysis. An analysis for the possibilities for competition and synergy between different business development measures and priorities and some consideration to grossing up the net economic effects to the programme level.

The ‘Bottom-Up’ Approach

43. Two separate tasks are envisaged. First, the consultant will conduct a desk-based study of available published material and use this material to draw conclusions regarding the aims and objectives identified above. It is expected that the consultant will produce a report summarising this desk-based study relatively early in the research period (see timetable). The results from this first task should be used to inform the second stage.

44. In the second part of the research, the consultants will be expected to collect information (using a postal survey) from firms that have been assisted under the set of measures given above. The consultants will assess the performance of business development measures in aggregate terms. The effectiveness of this approach depends on how the sample of firms is constructed and the quality of the monitoring data. This approach should also be supplemented by a small number of in-depth case studies, which would include face-to-face interviews with assisted firms.

45. It should be noted that Survey Control Unit approval will have to be sought for the postal survey. The consultant should build this factor into the timetable for the project (see paragraphs 18 and 19 below).

46. The results of previous evaluations and current management information are held by the LECs, SE and HIE. It will therefore be useful to contact these organisations and review the extent of the information they hold. In particular, firms which have been previously approached in the course of other European evaluations should be avoided where possible. The consultants should say how they will design the sampling framework with a view to the exclusion of firms previously sampled. The consultants should also discuss how they will ensure that the sample includes a representative number of SMEs.

47. The consultants will be provided by the Partnership Executives and ‘in house’ Secretariat with a list of the projects receiving funding under the measures identified above. These lists can then be used by the consultant to identify individual firms through contact with project sponsors. The consultants should discuss the sampling framework to be used. The variables by which the sample will be stratified (size, location, for example) should be discussed. The consultants should also indicate the number of firms to be approached given the stratification of the sample and the time constraints of the project. Methods for improving response rates should also be discussed.
48. The disadvantages of the ‘bottom-up’ approach may be summarised as:

(i) problems of choosing a representative sample.

(ii) the determination of a counterfactual (this is discussed further below).

(iii) the general inadequacy of a lot of monitoring information.

49. The determination of a counterfactual is problematic. The requirement of a counterfactual is essential as it provides a baseline for evaluation. In this instance the proper baseline would be a geographical region(s) which has not benefited from some form of assistance. This is not only European assistance, but any form of extra-regional assistance. The control region would have to belong to the same socio-economic mix as those regions receiving structural funding. The difficulties of obtaining an exact control region is recognised. However, the consultants will be expected to consider this issue, and address in the tender document how they propose to construct a counterfactual.

Top Down Approach

50. This bottom up approach is the one most often used in evaluation of structural fund programmes and will allow consultants to assess the performance of business development measures in aggregate terms. The effectiveness depends on how the sample of firms is constructed and the quality of the monitoring data and will be supplemented by a small number of in-depth case studies. Consultants will receive lists of projects receiving funding under the measures and will be used by consultants to identify individual firms through contact with project sponsors. There are however disadvantages to this bottom up approach for example the problems of choosing a representative sample, the determination of a counterfactual, and the general inadequacy of a lot of monitoring information. The second part of the study will be the top down appraisal which is so named because it will use aggregate data for an econometric estimation. The estimation itself will attempt to determine a series of relationships (if they exist) between standard target variables (including employment gains etc.) and whether or not an area receives structural funds. Data on target variables for English regions that do not qualify for structural funds will also be included to provide appropriate counterfactuals.

51. A ‘Top-Down’ approach involves using aggregate information (in this case at the level of priorities and measures) to evaluate the programme of measures as a whole. It is in essence an econometric appraisal of how the measures are performing throughout Scotland. As it is providing an overview of business development measures, it is referred to as ‘top-down’. However, it should not be viewed as a panacea. Econometric analysis is only as good as the actual data itself. On the contrary, both ‘bottom-up’ and ‘top-down’ approaches should be combined as complements to one another.

52. There are a number of models that may be suitable for a ‘top-down’ approach. In the following short paper, two models are reviewed. They have been chosen because the questions that
they seek to address are particularly important. The expenditure model measures how a target variable (for example, the impact on the local unemployment rate) is influenced by the measures or grants. It is possible then to establish value-for-money comparisons between measures. In the second model, the limited dependent model, the wider question is addressed of whether the receipt of business development grants has contributed to the success of the economy.

An Expenditure Model

53. The expenditure model attempts to determine the effect of business development expenditure on different target variables. Suppose that it is the aim of business development Measures 1 and 2 is to increase the number of business starts. This success or failure of this objective can be investigated by estimating the following equation:

\[
\text{Business Starts} = a + b\text{SPEND}_1 + c\text{SPEND}_2 + Z;
\]

where:

- \(\text{SPEND}_1\) denotes the money spent on Measure 1;
- \(Z\) denotes the control variables for Measures 1 and 2.

54. The control variables control for the ‘dead-weight’ effect. This is the effect on the business starts in the absence of European funding. It is plausible to assume that a number of firms would have started-up in the absence of business development grants.

55. The parameters \(b\) and \(c\) then measure the effect on the rate of business starts from an additional amount of grant expenditure. For example:

\[
\text{Business Starts} = 30 + (0.1)\text{SPEND}_1 + (0.2)\text{SPEND}_2 .
\]

56. The parameters \(a = 0.1\) and \(b =0.2\) state that Measure 2 (for the same amount of money) generates twice as many business starts as Measure 1.

57. The advantage of the expenditure model is that it allows for value-for-money comparisons between measures with limited data requirements. The expenditure model may be used to establish ‘relative’ value-for-money criteria which makes it a powerful tool for determining where future business development grants should be concentrated. It cannot be used to establish ‘absolute’ value-for-money criteria; nor can it determine whether or not business development measures at a Scotland-wide level have been successful. At the Scotland level, it is possible that European grants are not ‘net’ to the Scottish economy, but rather their main effect is to redistribute activity from prosperous to poorer regions. This phenomenon is known as ‘crowding-out’ and may be tested using the following limited dependent model.

A Limited Dependent Model

58. The objective of the limited dependent model is to determine a relationship between the economic aims of the funding and its overall success or failure. The following equation analyses any
association between a region receiving business development funding and the economic objectives of the measures; for example, the rate of patent protection, business starts and the incidence of marketing in the region:

\[ Y = a + b \text{PAT} + c \text{START} + d \text{Mkt} ; \]

where:

- \( Y = 1 \) if the region receives business development funding;
- \( Y = 0 \) if the region does not receive business development funding;
- \( \text{PAT} \) denotes the rate of patent protection claims per region;
- \( \text{START} \) denotes the number of business start-ups per region;
- \( \text{Mkt.} \) denotes the amount of marketing expenditure per region.

59. If coefficients \( b, c \) and \( d \) are greater than zero, then this implies that an increase in all three variables is associated with a region receiving business development funding. If the same coefficients are less than zero, then there is no association between business development funding and its set of economic aims. A third possibility is that only a proportion of the coefficients are greater than zero.

60. This result implies that business development measures may be successful in achieving some but not all of their pre-stated aims. Therefore, the limited dependent model may be used as a tool to re-target funding in the future by objective.

61. One caveat is that this model makes no inferences on any causal links between variables. The limited dependent model cannot distinguish between regions experiencing economic improvements as a result of business development contributions and regions that are already ‘doing well’ and as a direct consequence are in a stronger position to receive funding. Therefore, a series of causality tests are required to test the exact nature of this relationship.

62. The advantages of this model is that it is effectively a test of the complete Business Development Programme. Unlike the expenditure model, where one particular measure is tested against another, the limited dependent model addresses the larger question of whether the Business Development Programme is viable in Scotland.

63. A final caveat to both models is the problem of suitable control variables (areas). It is envisaged therefore that prosperous English areas should be included in the dataset. This would provide an appropriate counterfactual as these areas do not receive any form of European grants.

**Management**

64. The work is being carried out by consultants engaged by The Scottish Office. Their work will be overseen by a Steering Group and, to ensure that it accurately reflects the situation in all 7 Programme areas in Scotland, the Steering Group will consist of representatives of all the Partnerships in all 7 Programme areas. The Steering Group were responsible for finalising the Terms of Reference, identifying and selecting the consultants as well as for general oversight and management of the work while it is in progress.
65. The first part of the work will consist of a desk study of all of the previous work carried out by Scottish Enterprise National, the Local Enterprise Companies, Highlands and Islands Enterprise and the local Authorities, among others to identify exactly what work has been done on this area in the past.

66. This work will provide a better understanding of what has taken place in Scotland by the different agencies and what work has been undertaken to evaluate its impact and effect. Once the data held by these agencies and organisations has been reviewed by the consultants, they will produce an interim report for the Steering Group describing their findings and explaining how what they have found will impact on the study itself. They will also produce a timetable for their future work showing how their findings will inform and impact upon it. At this stage we will be best placed to decide whether the study should be expanded, extended or refocused to produce the best end result for our purposes.

Conclusions

67. The scope of such horizontal or themed studies is of considerable importance since they can offer a global vision of interventions in the defined area (which can be one or more Programme areas, a whole country, or, indeed a number of countries) and permit comparative analyses not only at the level of programming practices in different Programme areas, but also comparing the financial resources used and the degree of effectiveness of different measures in specific environments.

68. They also make it possible to identify types of intervention, forms of management and financing which are innovative and original; compare all of these factors with more classical modes; and estimate the degree of transferability to other areas of measures and methods or working which offer a high degree of potential success proven in other areas.

69. The work will be done thoroughly and robustly offering concrete conclusion and recommendations for the future especially if those result show that well focused and designed Business Development measures have the best chance of leaving a legacy of sustainable development in the long term. The results of a well focused, good quality study will be the best indicator of the past use the funds have been put to in Scotland and also the best indicator of the way forward for the funds for the future, post 2000. It will be relevant regardless of whether the areas involved in the study maintain their existing eligibility or fall under the proposed transitional arrangements.

70. However it is obvious from Agenda 2000 that the Commission wishes to see that Member States are being more innovative in engaging communities in the implementation of structural funds. It is certainly intended that the outcome of the current report will be used by those involved in implementation and administration of Structural Funds in Scotland to assist in pulling together their plans for the future of whatever Funds Scotland will allocated post 2000. The whole practise of Partnership in Scotland involves the inclusion of all of the players on the Structural Funds fields in creating plans for the future of their areas. The information and conclusions derived from the Thematic Evaluation (and to a certain smaller extent, the earlier Evaluation) will inform this process and play a large part in assisting the local advisory groups and Planning teams to allocate funds
within whatever Programmes are available, to prioritise the projects that come forward, to encourage and inform debate on the future development of their areas, etc.

71. At the higher level, the information and conclusions from the Evaluation work will also be used to inform the case made to the Commission by Scottish Partners for assistance to Scotland in the future. The data and up to date detail of the case will be substantiated by fully researched and robust conclusive evidence of the circumstances in Scotland which will lead to the case being not only better presented but based on factual circumstances, not on hearsay or subjective ideas.