Lot 2 – Impact evaluation of ROP 2007-2013 interventions

Evaluation report
KAI 4.3 Support provided for the development of micro-enterprises

July 2019

Authors:

Andreea Savin   *Coordinator*

Vasile Strat   *Evaluation expert*

Eugen Perianu   *Evaluation expert*

Simona Nănescu   *Evaluation expert*

Contact person (on behalf of the consortium):

Alina David – *Project Director*

TABLE OF CONTENTS

ANNEXES (separate document)

Annex A – Specific literature
Annex B – Instruments applied
Annex C – Case studies
Annex D – Primary data collected

AIR	Annual Implementation Report
BI	Bucharest Ilfov region
C	Center region
ERDF	European Regional Development Fund
EU	European Union
FID	Framework Implementation Document
IB	Intermediary Body
KAI	Key Area of Intervention
MA ROP	Management Authority of the Regional Operational Program
MC	Monitoring Committee
NACE	National Economy Classification of Activities
NE	North East region
NW	North West Region
PEST	Political, Economic, Social, Technological Factors
RDA	Regional Development Agency
ROP	Regional Operational Program
SB	State budget
SE	South East Region
SM	South Muntenia region
SMEs	Small and medium enterprises
SMIS	Single Management Information System
SW	South West Oltenia Region
SWOT	Strengths, Weaknesses, Opportunities, Threats
W	West region

PREAMBLE

This document represents the evaluation report for project "Lot 2 - Impact Evaluation of ROP interventions 2007-2013", evaluation topic: KAI 4.3 Support for the development of small and medium enterprises", contract concluded between the Ministry of Regional Development and Public Administration, through ROP Evaluation Office within the Program Evaluation Unit "Contracting Authority" and "Beneficiary") and the consortium represented by Civitta Strategy & Consulting SA, Archidata, NTSN Conect and Structural Consulting.

PROJECT SYNTHETICAL INFORMATION

Project title	"Lot 2 – Impact evaluation of ROP interventions 2007-2013"
Contract number	12 of 14.01.2019
Contract/ Financing value	1.044.000 lei
Contract commencement date	21 January 2019

Project title	”Lot 2 – Impact evaluation of ROP interventions 2007-2013”
Duration	6 months
Contracting Authority	Ministry of Regional Development and Public Administration
Beneficiary	ROP Evaluation Unit
Provider	Consortium made up of Civitta Strategy&Consulting S.A, Archidata, NTSN Conect, and Structural Consulting.
Contact persons	Andreea Savin – Evaluation Coordinator **(Evaluation topic - KAI 4.3,** Support provided to small and medium enterprises**)** acomsa@archidata.it Phone number: + 40 728 019 417 Alina David proiecte@archidata.it Phone number: + 40 733 978 915
Project team	Andreea SAVIN – Coordinator Eugen PERIANU – Evaluation Expert Vasile STRAT – Evaluation Expert Simona NĂNESCU- Evaluation Expert

- **EXECUTIVE SUMMARY**

The purpose of this study was to identify and record the impact of the interventions financed under DMI 4.3, dedicated to the support given to micro-enterprises that considered the restructuring of undeveloped areas, with potential for economic growth, especially of small and medium-sized cities, following the creation of new jobs. The expected result indicator refers to the number of new jobs created in the supported micro-enterprises, thus reflecting the main objective pursued by the intervention.

Main findings

Taking into account the definition of the general objective of KAI 4.3 as presented by ROP documentation, the analysis of the specific literature and the consultations organised during the inception phase, the evaluation defined the following types of effects and related indicators targeted by KAI 4.3:

Effects targeted by KAI 4.3	Indicators related to the effects
Increasing competitiveness of the small and medium enterprises that received assistance	**Turnover** of the small and medium enterprises that received support
	Gross profit of the small and medium enterprises that received support
Creation of new job opportunities	**Net number of new jobs*** created at the level of the short and medium enterprises that received support *defined as the difference between the number of jobs available after the intervention and those existing before the intervention*

The gross effect of the intervention was analysed on the basis of the values of the indicators corresponding to the targeted effects, by comparing the values recorded **after the intervention (the average registered in the period 2016-2017)** with those recorded **before the intervention (the average registered in the period 2007-2008 period)**. As a matter of fact, the analysis of the gross effects reflects the evolution of the indicators in the period 2007-2017.

Gross effects of the assistance at the level of beneficiary firms, as an average value per firm.

Indicator	Evolution of impact indicators at the level of firms that received support in 2007-2017 (average value per firm)	Percentage increase over 2007-2017 (average per firm)
Net number of new jobs	+ 6,57	+201%
Turnover (lei)	+ 1.162.161	+240%
Gross profit (lei)	+ 126.417	+194%

Source: Evaluation processed data, based on the information obtained from the Ministry of Public Finance. Details are presented in Appendix B Tools used, Counterfactual Analysis

At the end of 2017 there were approximately[1] **12,300 more jobs created at the level of the companies that received support** compared to the moment before the implementation of the projects, representing an increase of approx. 33% compared to the number of 9,266 jobs created by the projects financed under KAI 4.3. This number of jobs derives from 2 sources: jobs created by the projects and maintained, namely jobs created after the completion of the projects. Although not all the jobs created by the financed projects have been maintained after the ex post period, overall, the jobs maintained plus those created subsequently led to these values at the level of all the companies that received financing under KAI 4.3.

Gross effects of the intervention at national level in the period 2007-2017 (percentage of the total number of companies financed at national level, situated on the afore-mentioned levels)
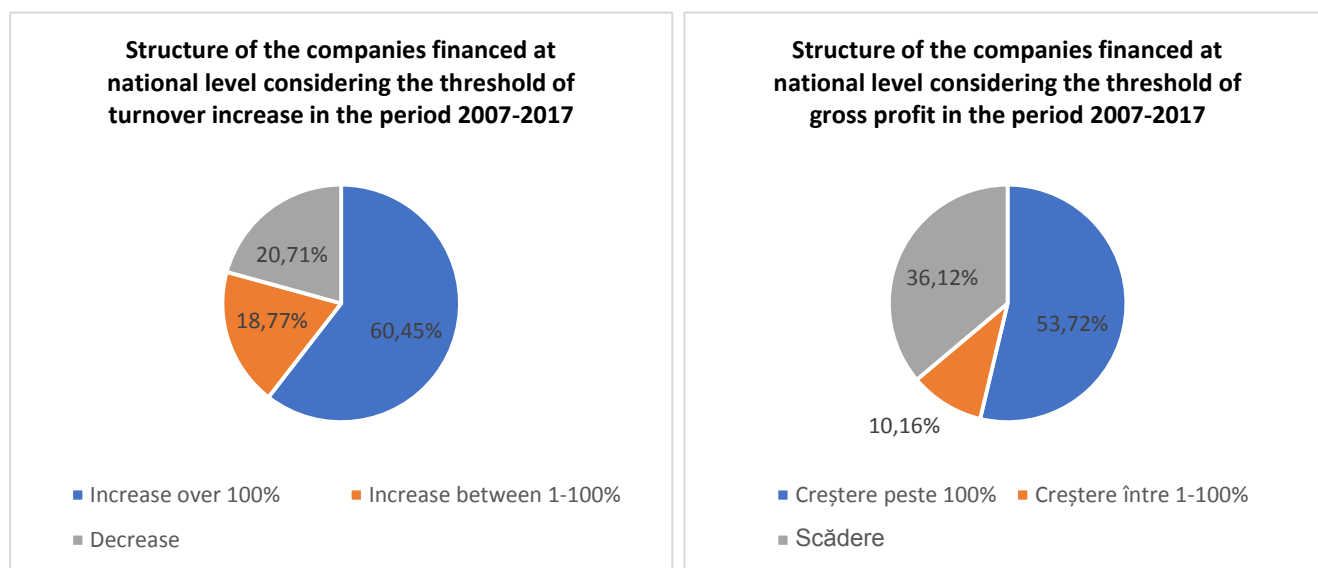
Source: data processed during the evaluation, based on the information obtained from the
Ministry of Public Finance
(Annex D Primary data collected)

Legend for the graphic: Legend of the graphic: Crestere peste 100% (increase over 100%), crestere intre 1-100% (increase between 1-100%), Scadere (Decrease), Stationar (No change)

---

[1] The figure is an approximation given that 8% of the financed companies did not submit their balance sheet in 2017, the number of employees in 2017 being yet unknown.

Structure of the companies financed at national level after the thresholds of employees increase in the period 2007-2017

4,47%
16,31%
19,61%
59,61%

■ Creștere peste 100% ■ Creștere între 1-100% ■ Scădere ■ Staţionar
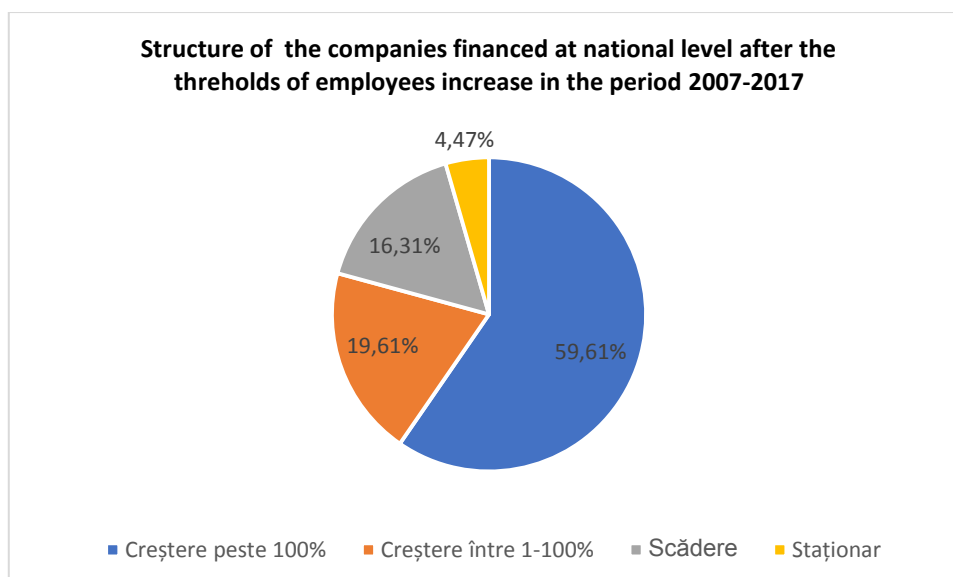
Source: data processed during the evaluation, based on the information obtained from the Ministry of Public Finance

(Annex D Primary data collected)

Legend for the graphic: Legend of the graphic: Crestere peste 100% (increase over 100%), crestere intre 1-100% (increase between 1-100%), Scadere (Decrease), Stationar (No change)

The dynamic analysis of the indicators, presented above, provides a picture that needs to be nevertheless put into contrast with the results of the qualitative analysis, thus enhancing the understanding of the situation and providing an interpretation which is closer to reality. At the level of the financed companies, three major categories of situations are distinguished as a result of the implementation of the projects financed under KAI 4.3:

- Approximately 50% -60% of the firms developed as a result of the assistance provided continued to develop after the end of the project (more than half of these companies continued to invest, either from ROP 2014-2020 sources, or from other financing sources);
- Approximately 30% of the companies recorded an increase as a result of the project, then came to a standstill, fluctuated or declined, some of them having an uncertain future;
- Approximately 10-15% of the companies have developed as a result of the project, then have declined significantly or ceased their activity.

The analysis of the net impacts of the assistance granted to SMEs under KAI 4.3 indicates an important impact, both at the level of the number of jobs created and in relation to the turnover and profitability. More specifically, the companies that received financing recorded a higher turnover, profits and more jobs compared to the companies that did not receive such support.

Net effect of the assistance provided to SMEs under KAI 4.3, as an average value per company

Impact indicators	Sample of analysed companies (number of companies that received / did not receive financing)	Development gap between the companies that received and the companies that did not receive financing in 2007-2017 (average per firm)	Statistic interpretation
Net number of new jobs	1545/1357	+ 4,07	*** (t=8,64)
Turnover (lei)	1545/1357	+ 527.060	*** (t=4,56)

7

Gross profit (lei)	1545/1357	+ 88.905	*** (t=5,01)

Source: data processed during the evaluation, based on data obtained from the Ministry of Public Finance (Annex D primary data collected)
*Statistically significant result - 1% *** (High Significance), 5% ** (Significant Significance), 10% * (Significance)*

The most important factors, both with positive and negative influence on the effects obtained by KAI 4.3 were:

Positive influence	Beneficiaries' capacity to develop relevant business plans for the market
	Payment settlement mechanism
Negative influence	The development and investment plans were not continued by the companies that received support in the business development context

The quantitative analyses identified no correlation between the amount of the grant and the results obtained (increase of turnover, gross profit, number of employees). This aspect, in correlation with the results of the qualitative analyses, indicates that it is not the value of the investment that determines the results obtained, but the management capacity of the beneficiary companies.

The non-reimbursable funds allocated under KAI 4.3 may be associated with capital investments or equity investments at the level of the beneficiary companies. The calculation of a rate of return of the investments made by KAI 4.3 (percentage of annual net profit from the amount of the grant) indicates a good value of this rate (an average of 16.85%) compared to international benchmarks in the field of financial investments (7% -10%). The calculated rate of return on KAI 4.3 is nevertheless a more general indication than a net figure, as many of the companies that received financing have also invested their own funds in addition to the financing received, either during the project or later. However, even under these conditions, even if the amount financed by the ROP would represent only half or only a quarter of the total investment, the rate of return would continue to be positive and have a reasonable level. In other words, the investment made by the ROP through KAI 4.3 was profitable. This is an important element to take into account for future financing schemes applicable to companies.

At macroeconomic level, however, the benefits of KAI 4.3 intervention are questionable. For example, the development of a company with the support of KAI 4.3 in a demand-squeezed market (e.g. in a certain demand-driven area or in a small city where demand is low) can lead to the attraction of new customers and to the creation of jobs at the level of the company that received support, but also to the loss of those customers by the competing firms and to the reduction of the number of jobs at the level of those companies. As a matter of principle, public sector involvement in the private sector is always justified for purposes such as creating a market-friendly framework, supporting market mechanisms, regulating the business carried out by private companies in areas where such support is needed, etc. Instead, intervention by providing direct financial assistance to companies must have a clear justification, e.g. market failures, priorities for the development of certain sectors deemed competitive at national or regional level, or some horizontal themes.

The EU priorities regarding SMEs support, indicate that this support is materialized through various actions, other than direct financial support. With regard to the financial support, the EU is promoting underline financial instruments (loans, guarantee schemes, participation to capital, etc.) and, in the case of grants, these are allocated for priority areas (for example, innovation, low-carbon economy, reduction of poverty in certain countries, etc.)

The country report of Romania 2019[2] of the European Commission states the need to develop the level of use of the non-financial measures and financial instruments, noting:

Non-financial measures addressing start-ups and innovative small and medium-sized enterprises (e.g. support services for enterprises or support for acquiring skills) remain underdeveloped. The use of financial instruments with an innovation component is limited, although a number of capital investment instruments have been created. The combination of grants from EU funds and financial instruments is largely unexplored.

Investments financed under KAI 4.3 aimed at developing the beneficiary companies by supporting the acquisition of modern equipment and technologies, relocating SMEs as business structures, constructing, expanding or upgrading production facilities. In order to further support the development of companies' competitiveness, they need to increase their capacity to develop new competitive products and services. This need is also indicated in the European Commission's Country Report Romania 2019, which mentions:

Private investment would require a qualitative improvement. Private investment is predominantly geared to replacement needs and capacity expansion and much less to the development of new products or services. According to a recent poll (EIB, 2018), firms invest the most in machinery and equipment and the least in research and development. Romania has not yet developed a coherent vision of the transition to higher added value activities. Existing policies (the National Strategy for Competitiveness, the National Strategy for Research, Development and Innovation and the 2014 Government Strategy for Small and Medium Enterprises) are poorly coordinated and do not contain adequate measures for companies to move forward in the value chain.

Conclusions and lessons learned

ROP 2007-2013 intervention through the assistance provided to SMEs under KAI 4.3 at a difficult time, in the context of the economic crisis, helped to create or maintain jobs. The net effect of the assistance is positive, the companies that received financing registering larger increases in turnover, profits and jobs than the companies that did not receive such support.

The experience of KAI 4.3 has shown that the selection criteria applied to the financing applications have led to the identification of a portfolio of financed firms that has proven to be profitable. The lesson learned relates to maintaining, as much as possible, the selection criteria used under KAI 4.3 for the future financing schemes applicable to companies (based on financial instruments, non-reimbursable funds or a combination of these two instruments).

At macroeconomic level, however, the benefits of KI 4.3 intervention are questionable. The intervention at the level of the market mechanisms by direct financial assistance provided to companies must have a clear justification, such as market failures, priorities for the development of certain sectors deemed competitive at national or regional level or some horizontal themes.

Recommendations addressed to MA ROP

1. In order to support SMEs in the context of possible future priorities in this area under the future regional operational program, ROP MA should take into account several types of

---

[2]https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-romania_ro.pdf.

activities, such as those promoted by EU policy regarding SMEs, and not only the direct support provided to companies.

2. The financial support should be provided to SMEs / micro-enterprises both in the form of grants and in the form of financial instruments.

3. The intervention at the level of the market mechanism through financial support provided directly to companies (both non-reimbursable and by means of financial instruments) should be given a well-defined and clear justification, for example:
   - In situations where market mechanisms do not function properly (demand, supply, financing mechanisms, etc.). Such situations may occur at national, regional level in certain areas or localities over certain periods of time;
   - For sectors identified as priorities for various reasons (part of the National Strategy for Competitiveness, part of Regional Intelligence Specialization Strategies, etc.);
   - For some horizontal themes identified as priorities for a variety of reasons (e.g. start-up support, continuity of support for previously financed companies to support large-scale growth, etc.).

4. The type of support provided should differ depending on the score obtained during the technical-financial evaluation of the financing applications, for example:

Level of score obtained	Type of support provided
Score over threshold 2	Non-reimbursable financing is provided
Score between threshold 1 and 2	Financial instruments are applied
Score under threshold 1	No support

5. Financial support for companies should support **various types of activities** aiming at increasing their competitiveness (e.g. the development of new products and services) not only infrastructure investments. Examples of support needs indicated by literature and by the experts in the field[3] include, without being limited to:
   - Development of new products and services
   - Access to new markets and internationalization (e.g. stimulate export, capital movements - i.e. helping companies to open subsidiaries in other countries);
   - Developing technology transfer processes (e.g. by stimulating links between research and business, supporting companies to develop prototypes, for internalising the research-innovation function for both product and process innovation).

6. It would be beneficial (and natural) to have operational programs at the level of region, or at least the possibility for each region to define their own eligibility and selection in order to establish eligibility and selection criteria appropriate to priorities that may differ significantly from one region to another (for example, SSI priorities vary across regions).

---

[3] Expert panel organized during the evaluation, June 27, 2019.

- **CURRENT SITUATION**

Support provided to SMEs of local / regional interest under KAI 4.3 aimed at restructuring undeveloped areas with potential for economic growth, especially small and medium-sized towns, envisaging the creation of new jobs. Financed operations included support for the acquisition of modern equipment and technologies for production, service and construction activities; acquisition of IT systems; support for the use of new technologies in the current activities of the SMEs; relocation of SMEs as business structures, together with the construction, expansion or modernization of the production areas of micro-enterprises. The projected output indicator refers to the number of newly created jobs at the level of the SMEs that received financing, thus reflecting the main objective of the intervention.

The allocation of the ERDF + state budget (SB) for KAI 4.3 was EUR 297.723 million, i.e. approx. 1,280,208,341 lei. Altogether, through KAI 4.3, 2,019 firms were funded through 2,103 completed projects during the period 2009-2016. A total number of 366 projects were finalised and 3 projects were under implementation at the time of the evaluation, of which 2 are currently being cancelled.

	W	BI	C	NE	NW	SE	SM	SW	TOTAL
Number of finalised projects/ region	173	199	201	306	364	218	413	229	**2103**
Percentage structure of the number of projects per region	8.23%	9.46%	9.56%	14.55%	17.31%	10.37%	19.64%	10.89%	**100.00%**
Contracted value FEDR + SB for the finalised projects (lei per region)	97.858.428	130.776.243	101.405.541	195.814.066	199.848.417	141.318.046	300.694.404	148.344.692	**1.316.059.837**
Financed value FEDR + SB for the finalised projects (lei per region)	94,047,685	120,516,068	98,914,580	192,242,003	194,533,618	137,488,107	290,866,752	143,560,272	**1.272.169.086**
Percentage structure of the financed values per region	7.39%	9.47%	7.78%	15.11%	15.29%	10.81%	22.86%	11.28%	**100.00%**

▪ **STAGES OF THE STUDY**

2.1.   DESCRIPTION OF THE EVALUATION METHODOLOGY

The specific character of the intervention (supporting SMEs in order to increase competitiveness) justifies the use of counterfactual analysis in order to determine the net effect of the intervention, supported by qualitative analysis (Theory-based Impact Assessment) in order to explain the results obtained through the financed projects. In order to apply the Theory-based Impact Assessment, the evaluation included a reconstruction of the Theory of Change (intervention logic) of KAI 4.3, which implied: reformulation of the expected effects and of some of the appropriate indicators used to analyse them; formulation of a set of assumptions representing all the elements needed for the intervention under KAI 4.3 to achieve the expected effects.

Regarding qualitative analyses, especially for case studies (Annex B Instruments applied, Case Studies), the use of the Theory of Change was essential to understand the mechanisms underlying the effects of the intervention and their sustainability. Thus, the case study at the level of beneficiaries was the key element of the evaluation, supplemented by focus groups at the regional level, in order to verify the qualitative aspects collected through case studies and, at the same time, to ensure the collection of information from an appropriate number of beneficiaries.

The two methods used in combination - **counterfactual analysis and theory-based evaluation** - allowed both the quantitative and qualitative analysis of the results obtained at the level of the financed projects and the explanation of the mechanisms underlying them, allowing the most relevant answers for the two questions evaluation.

2.1.1. DATA COLLECTION METHODS APPLIED FOR KAI 4.3

Desk research	Desk research aimed at familiarising evaluators with the key aspects related to KAI 4.3 (purpose, aspects regarding implementation) and the key synthesis issues from the literature.
Case studies	Case studies were essential for understanding the many aspects related to project implementation, the factors that produced the effects, the various approaches used by beneficiaries for the development of their own SMEs, and the way ROP interventions provided support throughout all this process.
Semi-structured interviews	The interviews aimed at collecting information and opinions from the main actors involved in the management and implementation of KAI 4.3 (ROP MA and IB).
Opinion poll	The survey quantified the qualitative aspects and assumptions in the Theory of Change, allowing the analysis of the extent to which these issues can be identified at the level of the population of financing beneficiaries.
Focus-groups	Focus groups supported the validation of the issues identified by the case studies, while providing additional qualitative information needed to address the evaluation questions.

Analysis of the data related to the physical and financial progress	On the basis of the collected data related to the progress of the projects, in particular in order to establish the number of beneficiaries and non-beneficiaries for the counterfactual analyses, the data on physical progress (implemented projects, financed values, achieved program indicators) and financial progress were analysed.
Analysis of the level of achievement of the indicators	The level of achievement of the program result indicator (the number of newly created jobs at the level of the financed SMEs) at regional level was monitored.
Theory of Change	The theory of change aims at identifying all the elements necessary to obtain a certain change and their formulation as assumptions which are further on used during the evaluation process. The theory of change is the method used for the theory-based evaluation, which aims at identifying the extent to which the results obtained are due to the intervention.
Counterfactual analysis	The effect of KAI 4.3. intervention was determined by counterfactual analysis at the level of the companies falling under the SMEs category.
Complementary analysis and interpretation methods	
SWOT and PEST analysis	These analyses supported the evaluation by interpreting the impact of the projects in the regional context in which they were implemented.
Analysis of the stakeholders diagram	In the case of this evaluation, stakeholder analysis has been used to organize the methodological activity (e.g. to select the most relevant actors for focus groups, as a reference list for interview invitations, etc.)
Territorial representation/ analysis of the results	This type of analysis allowed the results to be visualized following the implementation of the ROP projects at the level of each development region.
Experts panel	An expert panel was set up in order to discuss the findings, conclusions and preliminary recommendations of the evaluation.
Benchmarking	A Return on Investment (ROI) analysis was elaborated at the level of a sample of 1,545 beneficiaries.

2.2. ANALYSIS OF THE SPECIFIC LITERATURE

**Politics and theories in the area**

SMEs play a key role in the EU economy, accounting for over 99% of European companies and representing two-thirds of private-sector jobs. At the end of 2005, *the Communication of the EC, Parliament and the Economic and Social Committee and the Committee of the Regions "Implementing the Community Lisbon Program - Modern SME Policy for Growth and Jobs"* set the SME policy framework by integrating existing enterprise policy instruments, especially **the European Small Business Charter** and **the Action Plan for Entrepreneurship**, while ensuring transparency of European SME policy and synergy with other Community policies.

Improvement of the competitiveness of SMEs is one of the **11 thematic objectives** of the 2014-2020 Cohesion Policy. At the same time, SMEs benefit from additional investment in other thematic objectives, notably research and innovation, low-carbon economy and information and communication technologies.

Existing policies also reflect certain theories about the meaning of company's competitiveness and how to support the development of companies' competitiveness. Competitive advantage is a complex concept used in many areas and has numerous definitions depending on its level of approach. Approaches to competitive advantage vary depending on the different levels of concept analysis. Thus, some researchers approach the competitive advantage at firm level (Barney, 1991), transaction (Williamson, 1985) or activity (Dunning, 1993), others at the business unit (Rumelt, 1991), 1980) or even at the nation level (Porter, 1990). The OECD, for example, identifies a series of 6 possible strategies that SMEs can adopt to increase their competitiveness on the global market.

There are, therefore, a variety of ways to define or measure the competitiveness of a company, or to identify the most effective ways to support competitiveness. Various organizations or theorists have various proposals in this regard. The Global Competitiveness Firm (Prof. Michael Porter[4]) does not propose ways to measure competitiveness but describes the factors that influence it and proposes a series of strategies that a firm can adopt to develop its own competitiveness.

Source: https://ppt-online.org/42688
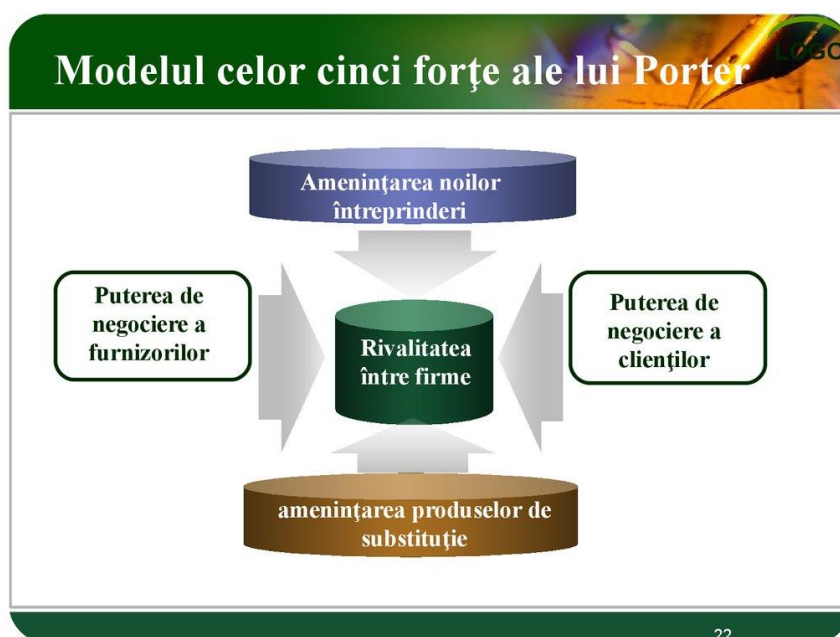
Support provided by the EU for SMEs

1. Creates a favourable business environment
2. Promote entrepreneurship
3. Supports access to new markets and internationalization
4. Facilitates access to finance
5. Supports competitiveness and innovation at SMEs level
6. Provide networks and information for SMEs
7. Support the start-up and development of SMEs

---

[4] Michael Porter, Professor at Harvard Business School and the director of the school's Institute for Strategy and Competitiveness.

Experiences in the area

Most studies on the effects of SME assistance have used a macroeconomic approach, very few studies addressed the microeconomic level, i.e. the level of assisted firms (Mirošník, et al., 2014). Studies conducted so far at the microeconomic level on the outcomes of interventions to support SMEs provide mixed results on the effects of assistance. Some studies find that the number of jobs and the product range are indicators that have been positively influenced by the assistance received (including the previous impact assessment of the KAI 4.3 identified the impact of assistance on the number of jobs). Instead, the findings on the impact on turnover are mixed (both positive and non-impact impacts). In terms of productivity as income per employee, some studies show a moderate increase, other studies find no effect or a negative effect (a weaker development of the companies that received financing compare to the companies that did not receive financing). Ex-post evaluation of ERDF assistance 2007-2013 reveals a positive effect of assistance to support SMEs during the crisis (e.g., job losses, accelerating the investment process thus contributing to increased turnover and profitability). There are studies that claim that, overall, the support received by the interventions did not lead to a superior performance of the All in all that received financing compared to the companies that did not receive financing. Overall, existing studies do not provide a convincing and consistent picture of the benefits of different interventions addressed to SMEs compared to other companies that did not access such interventions.

Evaluation in the area

The methodological experiences related to the impact evaluation of the assistance provided to SMEs have highlighted the difficulty of estimating the net effect in the absence of a counterfactual analysis, and the evaluations methods used rarely included counterfactual analyses.

Where counterfactual analysis is used, a careful selection of the control group is required. It is preferable to select impact indicators for which official data can be obtained (e.g. turnover, number of employees, labour productivity). An attempt to collect data directly from companies raises the question of the correctness of the reported information or, in the case of non-beneficiaries, the very low response rate to the questionnaire (for example, about 5% response rate during an evaluation carried out in Great Britain).

Theory-based impact evaluation is essential to understand the mechanisms that generated the results. The effects of the assistance are difficult to understand and are influenced by several factors, thus, the role of the evaluation in understanding what works and why becomes even more essential.

The main issues and consequences for the current evaluation

Given that the net effect of SME support interventions is difficult to quantify and analyse, given that the conclusions of other evaluations of SME assistance reflect mixed effects (both positive and negative, or lack of effects), it becomes essential to use both **counterfactual analysis** and **theory-based evaluation**, in order to quantify the net effects of assistance at the level of the beneficiary companies and in order to understand and explain how these effects have occurred. In the context of theory-based evaluation, case studies and focus groups play a key role in understanding the mechanisms that have led to the achievement of results and of the effects obtained beyond what is expressed in figures.

It is essential to clearly define the effects sought by the intervention and choose the most relevant indicators to quantify these effects. Given the absence of generally

available indicators to measure a company's competitiveness, this evaluation will use the industry-wide indicators to indicate company health, turnover and gross profit. At the same time, given that the objective of KAI 4.3 was to create job opportunities, the evaluation will use the net number of new jobs at the level of financed companies as indicator which is defined as the difference between the number of post-intervention jobs and those existing before the intervention.

2.3 DATA COLLECTION: APPLICATION OF THE EVALUATION METHODOLOGY

2.3.1. DATA COLLECTION METHODS APPLIED FOR KAI 4.3

All the evaluation methods presented were applied together in order to answer the 2 evaluation questions.

Desk analysis	- ROP-related Documents: Programming Document, Framework Implementation document, Annual Implementation Report, Monitoring Committee minutes, applicant guides, databases, etc. - Documents related to the projects that were the subject of case studies; - Specific literature (studies, analyses, etc.); - Relevant statistical databases and sources (Ministry of Public Finance); - Various other documents identified during the evaluation
Case studies	- Case studies were selected in cooperation with ROP MA and IBs, ensuring a balanced representation of the three fields for which support was provided (production, services, and constructions) and identifying at least 1 case study per region. - Number of case studies completed: out of the 12 planned, data were collected for 11 case studies.
Semi-structured interviews	- Interviews were carried out with the institutions involved in the management and implementation of KAI 4.3 (ROP MA and IBs). - Number of interviewees: 23
Opinion poll	Applied to beneficiaries, for the total population of 2,019 beneficiaries, obtaining 80 answers.
Focus-groups	- Focus groups were organized at regional level, with the involvement of beneficiaries' representatives and RDAs; - Number of organized focus groups: out of the 8 planned (one per region), 7 were organised.

2.3.2. METHODS AND TECHNIQUES APPLIED FOR ANALYSING AND INTERPRETING THE DATA AND INFORMATION USED TO ASSESS THE IMPACT OF THE KAI 4.3.

Analysis of the data related to the physical and financial progress	- Table representations, matrixes and graphs were used to highlight progress. - Both data obtained from the authorities responsible for program management and implementation (MA, IB) and data collected from other public institutions (Ministry of Finance) were analysed.
Analysis of the	The level of achievement of the program result indicator (number

level of achievement of the indicators	of newly created jobs at the level of the SMEs that received financing) at regional level.
Theory of Change	▪ The assumptions presented in the Theory of Change were formulated on the basis of the programming documents, the discussions with the actors involved in the programming and the implementation process in order to identify the implicit elements (not expressed in the programming documents but implicitly taken into account during the planning process) based on the experience of the evaluators. The formulated hypotheses of the theory of change, specific to the study, were also validated by the MA ROP. Subsequently, the assumptions presented in the theory of change were verified during the evaluation process by applying various evaluation methods (interviews, case studies, focus groups, opinion polls) in order to explore to what extent these were confirmed by the implementation practice.
Complementary analysis and interpretation methods	
SWOT and PEST	▪ The SWOT analysis was developed at regional level, based on data collected from the Regional Development Plans 2007-2013 and 2014-2020. PEST regional analysis supplemented the SWOT analysis and had the role of describing the exogenous influence factors identified (Politics / Policies, Economic, Social, Technological).
Stakeholder diagram analysis	▪ For the purposes of this evaluation, the stakeholder analysis has been used to organize the methodological activity (e.g. to select the most relevant actors for focus groups, as a reference list for the invitations to interviews, etc.)
Territorial representation / analysis of the results	▪ The analyses made it possible to compare some efficiency and effectiveness indicators between regions: total number of projects, project value, number of jobs, average number of jobs per project, average cost per job.
Experts panel	▪ An expert panel was organised in order to verify the findings, conclusions and preliminary recommendations of the evaluation. The participants were specialists in SME policy, SME development, SMEs financing and included representatives of MA AM ROP and RDAs.
Benchmarking	▪ A Return on Investment (ROI) analysis was elaborated based on a sample of 1,545 beneficiaries. The ROI was calculated as a percentage, based on the increase in the annual net profit during the period 2007-2017, compared to the amount financed.

The data collected covered the entire programming and implementation period of the KAI 4.3 interventions and included all the completed projects, as well as the post-closure phase of the interventions, in order to reflect the impact. Therefore, the period 2007-2018 period was considered, and in the case of counterfactual analysis data for 2007 and 2017 respectively were used, the data from 2017 being the most recently available at the level of the Ministry of Public Finance database.

Counterfactual analysis

The effect of KAI intervention 4.3. was determined by counterfactual analysis carried out at the level of the companies falling under the SMEs category. Counterfactual analysis was implemented by following three major steps:
- selection of a sample of from the category of financed SMEs – treatment group,
- selection of the counterfactual group of non-financed / untreated SMEs - counterfactual group,
- quantification of the effect (impact) by applying a comparative analysis at the level of the two groups.

The **Propensity Score Matching (PSM)** technique was applied in order to select the units falling under the counterfactual group. **The Difference in Differences** (DID) technique, which involves a two-step approach, has been applied in order to quantify the effect of KAI intervention 4.3. During the initial stage the difference between the two groups was assessed at the time before the intervention (T0) and also after the intervention (T1). During the second step the difference between the two differences calculated during the previous step for the two time points was evaluated. A detailed presentation of the methodology and the results of the counterfactual analysis is included in Annex B Tools used.

7.1.   METHODOLOGICAL CHALLENGES AND CONSTRAINTS

The main methodological challenges and limitations were represented by:

- Limited availability of the representatives of the beneficiary SMEs to take part in the focus groups organized at the level of the regions, especially due to the time elapsed between the finalisation of ROP 2007-2013 projects and the to the orientation of the beneficiaries towards the present, rather than the past.

This limitation was compensated by the fact that 7 focus groups were organised, the total number of 45 participants at national level being considered as adequate for the purpose of the evaluation. Another very important offset was represented by the case studies. Through in-depth quality analyses, the case studies have brought an essential contribution to understanding the effects of the projects and the mechanisms that have generated these effects. In respect to this evaluation method, the evaluation team noticed a very high degree of openness on behalf of the beneficiaries subject to the case studies to contribute to the evaluation.

- The application of the methodological tools lasted longer than estimated due to the complexity and the number of methods.

This difficulty has been mitigated by increasing the human resources allocated to evaluation process.

8. ANALYSIS AND INTERPRETATION

8.1. EVALUATION QUESTION 1: WHAT IS THE NET EFFECT OF THE INTERVENTION FOR KAI 4.3 AND WHAT ARE THE FACTORS WHICH HAVE ENTAILED THIS EFFECT?

The net effect (impact) of an intervention is defined as representing the change that can be attributed in a credible manner to an intervention[5]. The effects of the intervention of KAI 4.3 were analysed from the following perspectives:

- **Gross effect**: level of achievement of the objectives of the intervention. It cannot be attributed exclusively to the intervention;
- **Net effect**: the effect that can be exclusively attributed to the intervention;
- **Sustainability of the effects**: The extent to which the effects obtained have been maintained or amplified over time. An analysis of the sustainability of the effects is very relevant at this time when at least 3 years have elapsed since the completion of the projects, i.e. all projects have come out of the ex-post monitoring period.

In order to measure the net effect (impact) of intervention under KAI 4.3, it was necessary:

- *to establish the type of effect to be measured* (starting from what KAI 4.3 intended to obtain through its intervention);
- *to establish the most appropriate indicators needed for measuring this type of effect*.

The determination of the type of effect under analysis is necessary for any impact evaluation exercise, since not always the theory of the program clearly defines this effect. Usually and naturally, operational programs are documents that aim to incorporate a wide range of needs and desires within the framework set out by the strategic documents at EU level, and the result is that the effects pursued through the various types of program interventions are often more broadly defined. In such situations, one of the tasks of the evaluation, according to Evalsed Guide, is precisely to define more clearly the effects pursued by the various interventions.

According to ROP Framework Implementation Document, KAI Objective 4.3 is *Support to the Urban SMEs to Increase Competitiveness, Capitalize on Material Resources and Local Labour Force*, and the Program Output is Newly Created Jobs at the level of the Micro-enterprises that received support (No).

Taking into account the definition of the objective of KAI 4.3 presented in ROP documents, the analysis of the literature and the consultations organised during the initial phase, the evaluation defined the following types of effects pursued by the intervention of KAI 4.3 and related indicators:

Effects targeted by KAI 4.3	Indicators related to the effects
Increasing competitiveness of the micro-enterprises supported	**Turnover** of SMEs that received financing
	Gross profit of SMEs that received financing
Create job opportunities	**Net number of new jobs*** created at the level of the SMEs that received financing
	* defined as the difference between the number of jobs available after the

---

[5] Guidance Document on Monitoring and Evaluation - European Commission, Directorate-General for Regional Policy, March 2014

	intervention and those existing before the intervention

**Gross effect of the intervention**

The gross effect of the intervention was analysed on the basis of the values of the indicators related to the pursued effects, by comparing the values recorded after the intervention (the average of the period 2016-2017) with those recorded before the intervention (the average of the 2007-2008 period). Practically, the analysis of the gross effects reflects the evolution of the indicators in the period 2007-2017. The gross effect of the intervention is analysed at national level (all companies and projects financed under KAI 4.3) as well as at regional level.

Gross effects of assistance at the level of beneficiary firms, as average per firm

Indicator	Evolution of impact indicators at the level of the companies that received financing in 2007-2017 (average per company)	Percentage increase over 2007-2017 (average per firm)
Net number of new job opportunities	+ 6,57	+201%
Turnover (lei)	+ 1.162.161	+240%
Gross profit (lei)	+ 126.417	+194%

Source: data processed during the evaluation, based on data obtained from the Ministry of Public Finance (Annex D Primary data collected).

Overall, the assistance provided to SMEs under KAI 4.3 has contributed to creating or maintaining jobs, increasing the turnover and profit of the companies that received financing, all in times of economic crisis, thus at a time when support for economic activity was very necessary. At the same time, at the level of the companies that continued to develop after the finalisation of the financed projects, new jobs were created after the projects' completion, generated by the continuous development of the company.
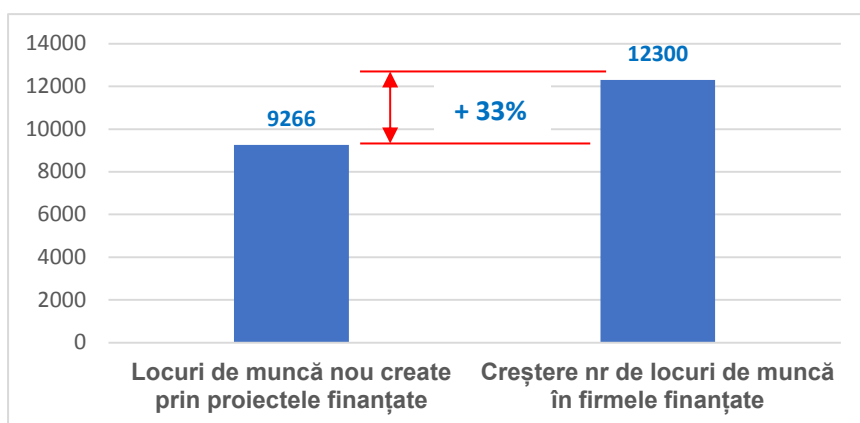
At the end of 2017 there were approximately [6] **12,300 more jobs at the level of the companies that received financing** compared to the moment before the implementation of the project, representing an increase of approx. 33% compared to the number of 9,266 jobs created by the projects financed under KAI 4.3. This number of jobs derives from 2 sources: jobs created by projects and maintained, namely jobs created after the finalisation of the projects. Although not all the jobs created by the financed projects have been maintained after the ex post period, overall, the jobs maintained plus the ones created subsequently led to these values at the level of all the companies benefiting from financing on KAI 4.3.
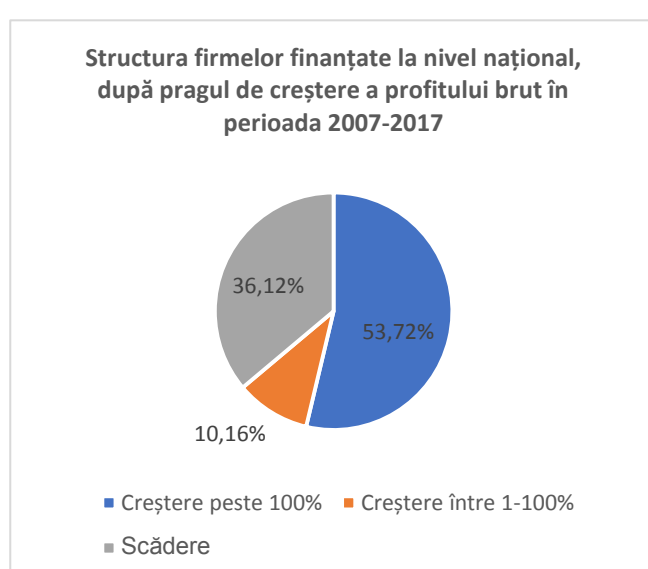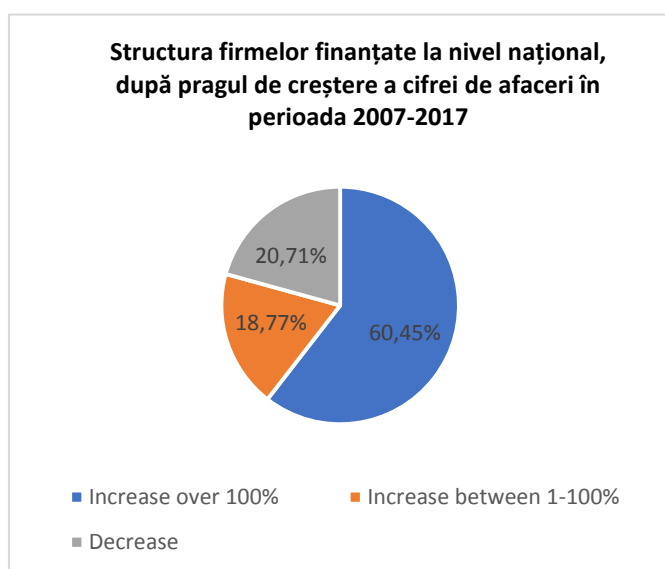
Source: data processed during the evaluation, based on data obtained from MA ROP, namely from the Ministry of Public Finance (Annex D Primary data collected)

The analysis of the gross effects of assistance at national and regional level in the period 2007-2017 (percentage of the total number of companies at national level or of the total number of companies at regional level, placed at the presented levels)

	National	BI	C	NE	NW	SE	SM	SW	W
TURNOVER									
Increase over 100%	60%	56%	61%	61%	63%	62%	61%	57%	61%
Increase between 1-100%	19%	16%	20%	15%	20%	17%	22%	17%	24%
Decrease	21%	27%	19%	24%	17%	21%	17%	26%	14%
Stationary	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%
GROSS PROFIT	National	BI	C	NE	NW	SE	SM	SW	W
Increase over 100%	54%	52%	54%	57%	54%	53%	57%	48%	52%
Increase between 1-100%	10%	10%	12%	10%	9%	7%	10%	10%	12%
Decrease	36%	38%	34%	33%	37%	40%	33%	42%	36%

---

[6] The figure is an approximation given that 8% of the companies that received financing did not submit their balance sheet in 2017, the number of employees in 2017 being unknown.

TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%
NO OF EMPLOYEES	National	BI	C	NE	NW	SE	SM	SW	W
Increase over 100%	60%	59%	53%	65%	58%	62%	70%	56%	51%
Increase between 1-100%	20%	18%	24%	16%	22%	23%	14%	22%	19%
Stationary	16%	17%	17%	14%	15%	13%	14%	16%	26%
Decrease	4%	6%	5%	5%	5%	2%	1%	7%	4%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%

Structura firmelor finanțate la nivel național, după pragul de creștere a cifrei de afaceri în perioada 2007-2017

20,71% — 18,77% — 60,45%

Legend: ■ Increase over 100% ■ Increase between 1-100% ■ Decrease

Structura firmelor finanțate la nivel național, după pragul de creștere a profitului brut în perioada 2007-2017

36,12% — 10,16% — 53,72%

Legend: ■ Creștere peste 100% ■ Creștere între 1-100% ■ Scădere

Source: data processed during the evaluation, based on data obtained from the Ministry of Public Finance (Annex D Primary data collected)

Legend for the graphic: Legend of the graphic: Crestere peste 100% (increase over 100%), crestere intre 1-100% (increase between 1-100%), Scadere (Decrease), Stationar (No change)

At national level, a high percentage of companies (60.54%) recorded an increase of more than 100% of turnover, and within this category about one third of the number of companies registered increases of thousands or tens of thousands %. Overall, the percentage of companies that registered the increase in turnover as a result of ROP assistance is of almost 80%. ROP assistance therefore had a positive gross effect on the level of most of the companies that received financing, in terms of higher turnover.

Similarly, a high percentage of companies (53.72%) recorded an increase of more than 100% of the profit, within this category approximately 40% of the number of companies registered increases of thousands or tens of thousands %. Gross profit increase was less visible than turnover increase, and the percentage of firms that experienced a fall in gross profits is higher than the percentage of firms with a decline in turnover. In other words, the turnover has evolved faster than the profitability of the companies that received financing. The main reason is, of course, the faster increase of costs than the increase in turnover, the costs generated by the creation of new jobs contributing to

the increase of the costs. The faster cost increase also points to a decrease in the internal efficiency of companies' activity, which is somewhat natural due to the inherent internal changes generated by the rapid development of the company. On the other hand, during the times when company growth slows down, internal processes can be stabilized, resulting in an improved business efficiency and a reduction of the costs, provided the management of the company has the ability to act accordingly. Another reason for the increase in costs is that many of the companies that received financing continued the investment process for company development, according to data gathered through focus groups and case studies (Annex C Case Studies).

Previous quantitative analyses provide an overview that needs nevertheless to be refined by the results of the qualitative analysis that enhances the understanding of the situation and provides an interpretation closer to reality. At the level of the companies that received financing, there are three large categories of situations generated by the implementation of projects under KAI 4.3, illustrated with examples from the qualitative analysis (focus groups and case studies):

Approximately 50% -60% of the firms developed as a result of the assistance they received
and continued to develop after the end of the project (more than half of these companies
continued to invest either from ROP funds 2014-2020, or from other sources);

Examples: A consultancy company that develops a new business direction in the field of kinetotherapy, in a locality where the offer on the profile market was inadequate, with very good results, with constant growth; Packaging production company that reorientates its activity on a new customer segment and extends its production capacity, with a steady increase in financial results; A medical services company that opens a new line of services in a locality where the market supply in the field was non-existent, with very good results, constant investment and steady development; A construction company founded by a former bank employee who, due to the project, has been able to survive during the difficult start-up period, has acquired the necessary experience, and subsequently, with the help of the equipment acquired through the project, has steadily developed; A service company (restaurant) that has used the financing for the development into the hotel industry through the construction of a hotel from scratch, achieving very good results and continuingits expansion, including through ROP 2014-2020 financing; A healthcare company that has expanded its equipment base to deliver superior service quality by investing from its own funds and constantly expanding its business; A vehicle service station that has diversified its activity from providing just wheel-related services before the project, to acquiring equipment that allows a much wider range of services, later on investing from its own funds and obtaining a constant development of the company.

Approximately 30% of the companies recorded an increase as a result of the project, then
came to a standstill, had fluctuations or declined, some having an uncertain future;

Examples: a vehicle service station set up shortly before the submission of the application, which subsequently records an increase of about 10 times the turnover of the project, then stagnates, most of the years after the end of the project, registering losses; a cosmetics parlour supported to resist on the market by the acquisition of new equipment, without recording a significant increase in the financial figures, later on the number of employees being reduced to zero, the company has redesigned part of its activity to another field and thus continuing the operation at a level similar to the one

before the project; a healthcare company that purchases new equipment, increases service quality and customer numbers, but then the development comes to a standstill, no further investment being made. a company providing IT services that is focusing on a new segment of services, is growing for a period, then falls down, the company's future being under question.

Approximately 10-15% of the companies have developed as a result of the project, then declined significantly or ceased their activity.
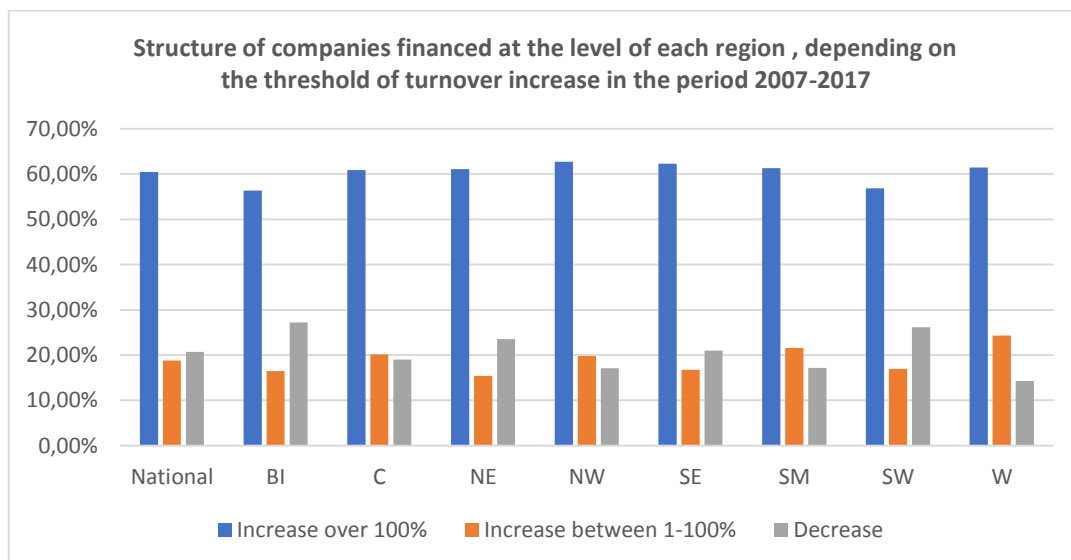
Examples: a packaging company is developing as a result of the project, then the growing competition leads to the company's decline to a minimal level of survival, the most likely scenario being to close the business, eventually with the sale of the existing assets; a beauty parlour set up shortly before filing the financing application, develops spectacularly as a result of ambitious plans of the owner and with the support of the equipment purchased through the project, is sold and then falls down due to the lack of management experience of the new owner, being closed in 2019.

The graph below illustrates the self-assessment made by KAI 4.3 beneficiaries on the results of the implemented projects, indicating a consistency with the quantitative evaluation carried out by the team.
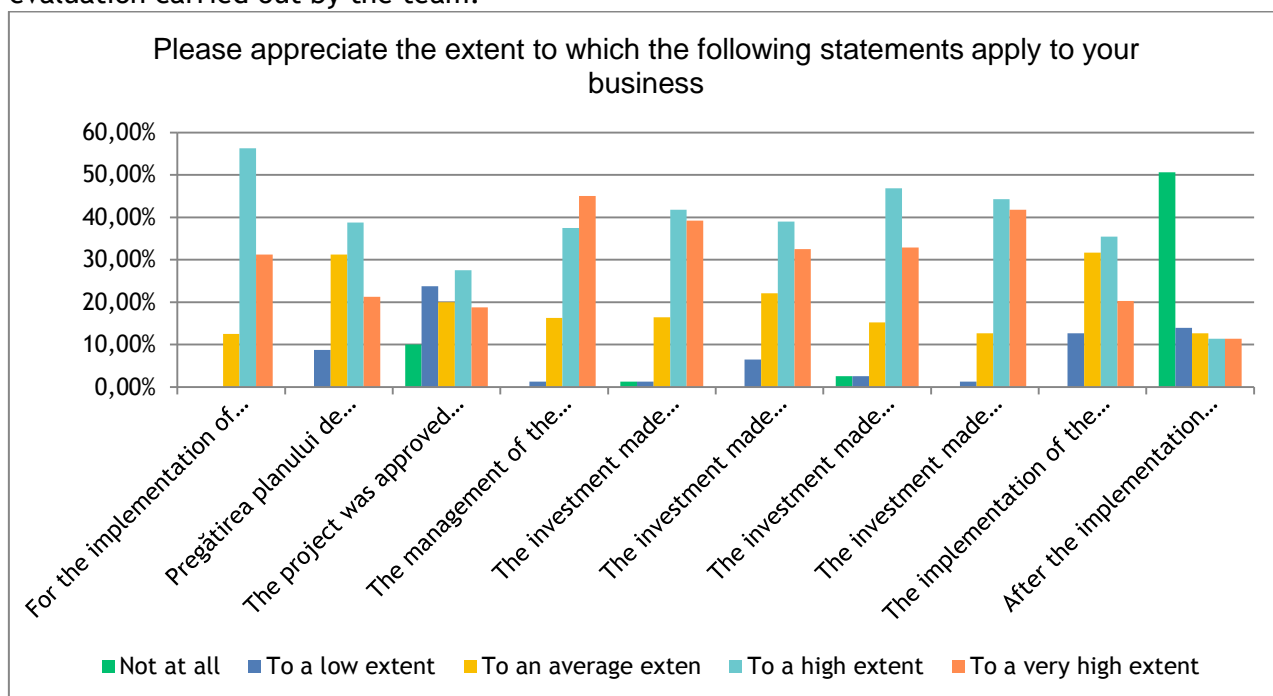
Source: Survey applied to the beneficiaries of KAI 4.3
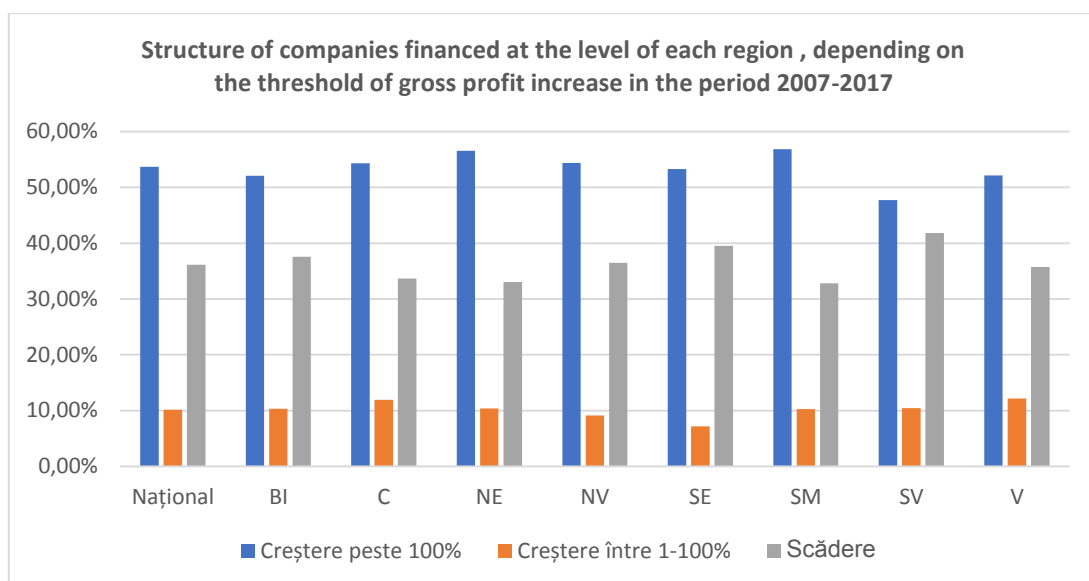*(Annex D Primary data collected)*

Analysis at regional level

Structure of companies financed at the level of each region , depending on the threshold of turnover increase in the period 2007-2017

Source: Data processed during the evaluation, based on the information obtained from the Ministry of Public Finance
(Annex D Primary data collected)

Several regions have recorded a high percentage of companies with over 100% increase in turnover: Northwest, South-East, North-East, South-Muntenia, West, Center. The smallest percentage of firms that registered an increase of more than 100% of turnover are situated in the Bucharest-Ilfov and South-West regions, these regions also having the highest percentage of firms that registered a decrease in turnover .

Structure of companies financed at the level of each region, depending on the threshold of gross profit increase in the period 2007-2017

Source: Data processed during the evaluation, based on the information obtained from the Ministry of Public Finance
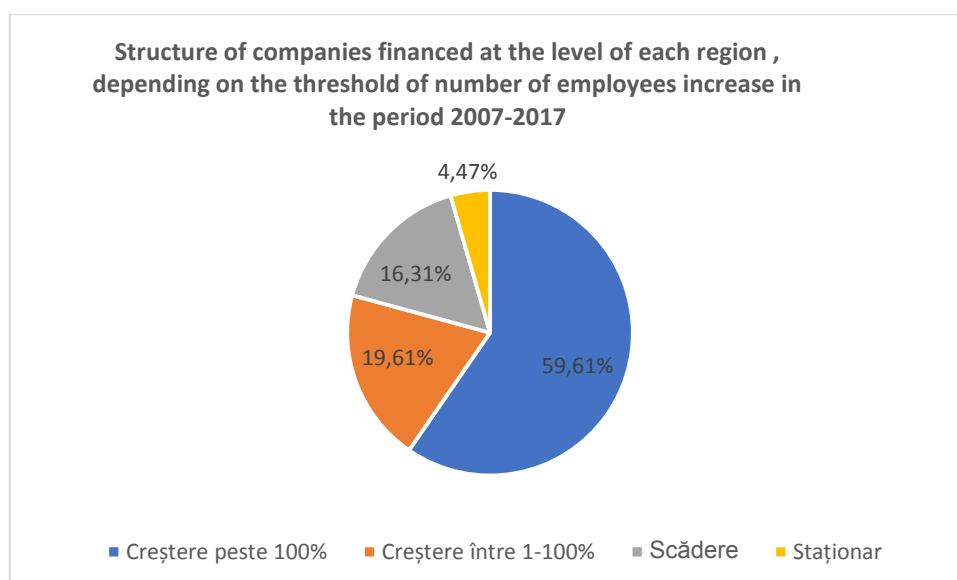*(Annex D Primary data collected)*
Legend for the graphic: Legend of the graphic: Crestere peste 100% (increase over 100%), crestere intre 1-100% (increase between 1-100%), Scadere (Decrease), Stationar (No change)

The regions with the highest percentage of companies that have registered more than 100% gross profit increase are North East, South-Mutenia, Center, Northwest. The smallest percentage of companies that have registered over 100% increase in turnover are situated in the South-West, Bucharest-Ilfov and West regions.

Structure of companies financed at the level of each region, depending on the threshold of number of employees increase in the period 2007-2017

Source: Data processed during the evaluation, based on the information obtained from the Ministry of Public Finance
(Annex D Collected primary data)
Legend for the graphic: Legend of the graphic: Crestere peste 100% (increase over 100%), crestere intre 1-100% (increase between 1-100%), Scadere (Decrease), Stationar (No change)

Similar to the situation related to the turnover, almost 80% of the companies financed at national level have recorded an increase in the number of employees, with about 60% of the companies having more than 100% of the number of employees. A small percentage of companies, 16.31%, registered a decrease in the number of employees. Obviously, this development can be attributed to the obligation to create jobs through funded projects. Nevertheless, if we take into account the fact for a large number of companies the 3-year ex-post monitoring period during which job maintenance was mandatory has elapsed, the number of jobs at the end of 2017 reflects a sustainable result of ROP assistance .
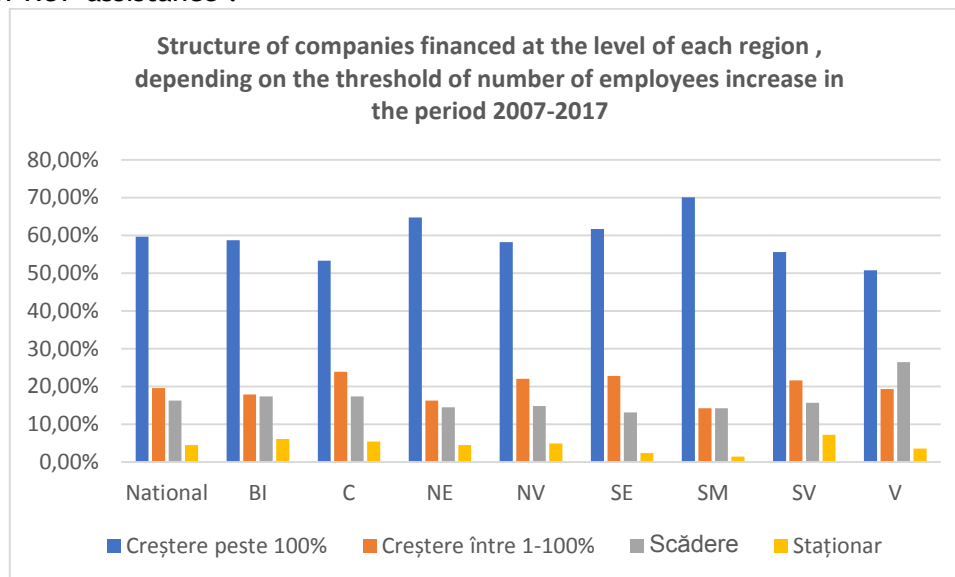
Source: Data processed during the evaluation, based on the information obtained from the Ministry of Public Finance
(Annex D Primary data collected)

Legend for the graphic: Legend of the graphic: Crestere peste 100% (increase over 100%), crestere intre 1-100% (increase between 1-100%), Scadere (Decrease), Stationar (No change)

The highest percentage of companies with over 100% increase in the number of employees are situated in the South-Muntenia, North-East and South-East regions, while West region records the highest percentage of companies that recorded a decrease in the number of employees.

To some extent, the gross effect of the intervention can also be analyzed through the program indicator values: Number of newly created jobs at the level of the SMEs that received financing. These values basically reflect a gross effect at a certain point in time, mainly during the implementation of the project and during the ex-post monitoring period. The values presented in the following table do not indicate significant differences between regions with regard to the average number of jobs created per project and the average cost per newly created job. The number of newly created jobs per region and the percentage contribution of each region to the total number of newly created jobs depend, obviously, on different budget allocations between regions.

Regional analysis related to the program indicator
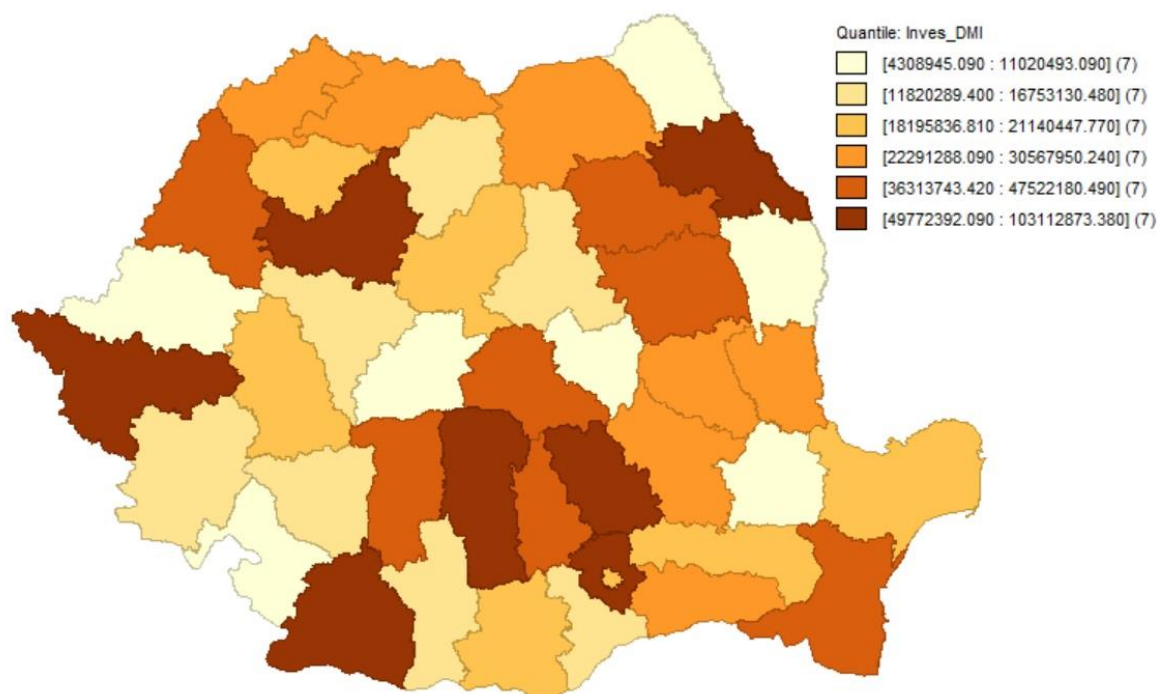*Number of newly created jobs at the level of the SMEs that received financing*

	W	BI	C	NE	NW	SE	SM	SW
Newly-created jobs	700	908	726	1379	1520	1055	1943	1035

Structures of jobs per regions	7.6%	9.8%	7.8%	14.9%	16.4%	11.4%	21%	11.2%
Average job opportunities per project	4.0	4.6	3.6	4.5	4.2	4.8	4.7	4.5
Average cost financed per newly created job opportunity (lei)	134.354	132.727	136.246	139.407	127.983	130.320	149.700	138.706

Source: data processed during the evaluation, based on information obtained from MA ROP

Variations of the values financed under the KAI 4.3 between counties
(the intensity of the color grows proprtionally with the increase of the amounts financed per county)

Quantile: Inves_DMI
[4308945.090 : 11020493.090] (7)
[11820289.400 : 16753130.480] (7)
[18195836.810 : 21140447.770] (7)
[22291288.090 : 30567950.240] (7)
[36313743.420 : 47522180.490] (7)
[49772392.090 : 103112873.380] (7)

Source: data processed during the evaluation, based on data obtained from MA ROP

There is a high concentration of financing at the level of the counties where 5 of the 7 growth poles (Iasi, Ploiesti, Craiova, Timisoara, Cluj) are located, which is explained by the relatively higher number of companies that have implemented projects under KAI 4.3 at the level of the growth poles. In addition to this concentration of assistance, there are smaller or larger intra-regional disparities between the counties within the regions. For example, Bacău and Neamț counties recorded higher absorption values than the counties of Vaslui and Botosani, which is explained by the lower development level of the latter. In the same way, Argeş and Giurgiu, for the same reason. Or, in the North West region, the same difference appears between Bihor and Bistrita Nasaud. This indicates a lower level of activity of SMEs at the level of the low-absorption counties and the need to support these counties as a priority for the future similar interventions.

Net effect of the intervention

Two complementary methods were used in order to determine the net effect of the intervention (i.e., the extent to which the change produced can be attributed to the intervention): **Counterfactual evaluation** (analysis of the results obtained by the companies that obtained financing vs results obtained by a group of companies that did not receive financing) and **Theory-based evaluation**.

Given the specific character of KAI 4.3, the evaluation has primarily relied on the counterfactual method in order to determine the net effect of the intervention. However, in order to allow an understanding of the mechanisms that led to the net effect, of the factors which have influenced the effects, in a positive or negative manner, and to be able to check the results of the analysis by qualitative counterfactual analysis, the team has also applied theory-based evaluation, namely theory of change[7]. The theory of change has detailed the mechanism by which one can obtain the effects pursued by the intervention on KAI 4.3 through a set of assumptions presented in the following section.

The net effects of the assistance provided to SMEs under KAI 4.3 were analysed by means of counterfactual evaluation, showing a significant impact, both in terms of the number of jobs created, as well as on turnover and profit. More specifically, companies that received financing have recorded an increase in turnover, profits and more jobs than the companies that did not receive financing (see Annex B, Tools used, counterfactual analysis).

Net effect of the assistance provided to SMEs under KAI 4.3, as an average value per company financed

Impact indicators	Sample of companies subject to analysis (number of companies that received financing/ number of companies that did not received financing)	Growth gap between the companies that received financing and the companies that did not receive financing in the 2007-2017 period (average per company)	Statistical interpretation
Net number of new jobs	1545/1357	+ 4,07	*** (t=8,64)
Turnover (lei)	1545/1357	+ 527.060	*** (t=4,56)
Gross profit (lei)	1545/1357	+ 88.905	*** (t=5,01)

Source: data processed during the evaluation, based on the information obtained from the Ministry of public finance (annex D primary data collected)
*Statistically significant result - 1% * (high significance), 5% * (acceptable significance), 10% (low significance)*

Factors that have generated or influenced the effects achieved

The assumptions presented in the theory of change represent the most important set of factors that generated the effects achieved through KAI 4.3. The results of the interrogation performed during the evaluation are presented below and reflect an average at national level, based on the information collected through several evaluation

---

[7] Evalsed (2013), Carol Weiss (1995).

methods: desk research, interviews, case studies, focus groups, opinion polls at the level of the beneficiaries (the opinion poll has also included a self-assessment of the achievement of the assumptions by the beneficiaries).

Results of the interrogation of the theory of change assumptions, as a national average

Assumptions underlying the Theory of Change related to KAI 4.3	Not at all	To a low extent	To an average extent	To a great extent	To a very high extent
The beneficiary has a relevant business plan: • based on a clear understanding of the market • that responds adequately to the needs of the market • based on a proper financial plan			■		
The business plan includes the necessary activities (both infrastructure development and related activities, e.g., marketing plan, organize, staff training etc.)				■	
During the existence of the company, the client accesses other sources of financing for business development as well			■		
The recipient uses the endogenous potential of local					■
The project provides support in a timely manner in order to implement the business plan			■		
When receiving the financing, the recipient shall implement the business plan					■
The management of the structure remains stable enough to ensure the implementation of the project					■
The beneficiary has the necessary management capacity for project implementation					■
The investment made with the support of the Regional Operational Program generates an increase in turnover for the company				■	
The company maintains an appropriate level of profitability			■		
The beneficiary has the necessary management capacity to implement its business plan			■		
The beneficiary can provide the resources needed to implement the business plan			■		
The beneficiary shall appropriately manage the resources to further support the development or maintenance of the activities, once the project is finalised			■		

Source: evaluation considerations, based on the information collected by means of quantitative and qualitative evaluation, including a self-evaluation of the achievement of these assumptions made by the beneficiaries

The chart below illustrates the self-assessment made by beneficiaries regarding the extent to which some of the assumptions of the theory of change are met.

Please appreciate the extent to which the following statements apply to your business
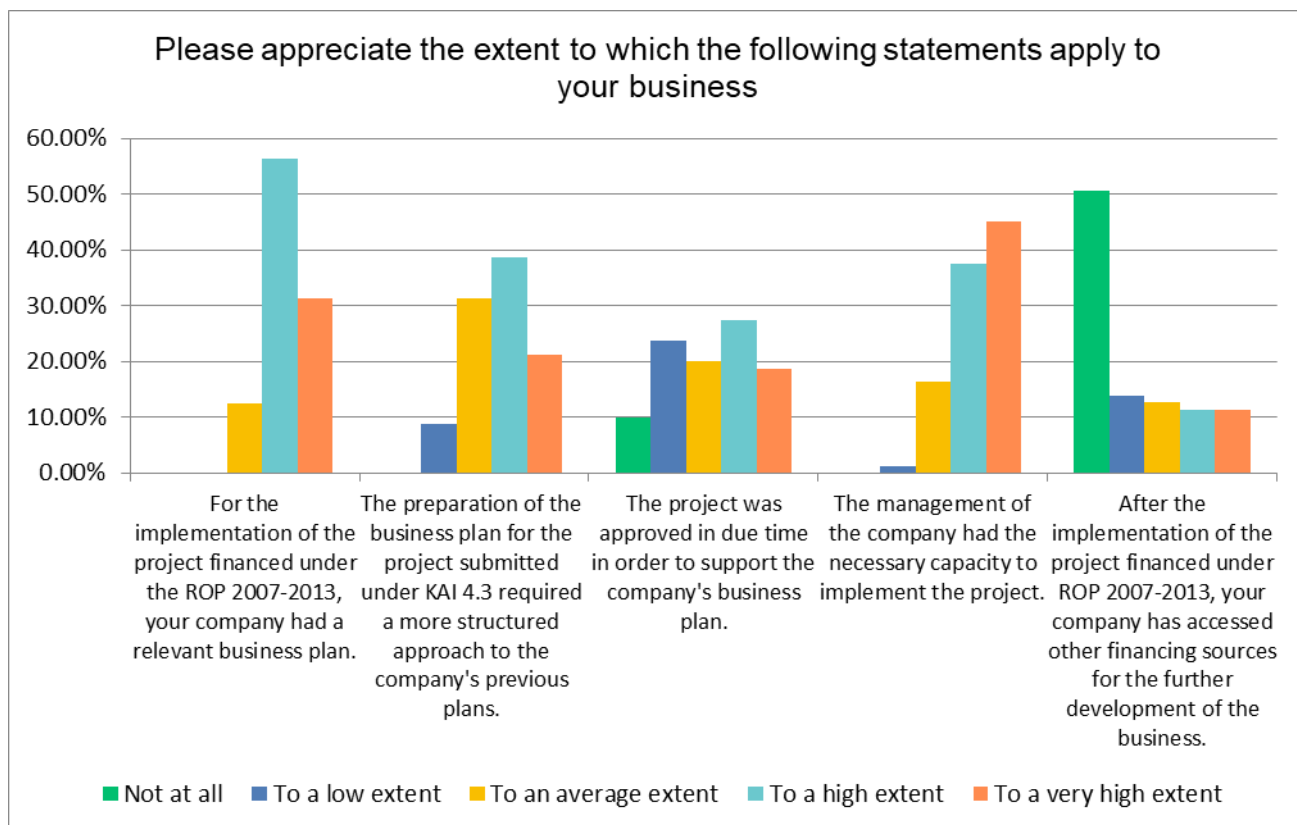
Source: survey carried out at the level of the beneficiaries on KAI 4.3 (annex D primary data collected)

The extent to which the assumptions of the theory of change were met is reflected by the following statement: to a large or very large extent, beneficiaries have implemented the business plan drawn up for the implementation of the project under KAI 4.3, had the management capacity required to implement the project and have obtained the increase of turnover of the company as a result of project implementation, at least in the immediate period following project implementation. On the other hand, the developed business plans had a medium level of relevance for the needs of the market (as an average, at the level of KAI 4.3, a little more than half of the beneficiaries had drawn up relevant business plans, while the other beneficiaries had drawn up business plans that were insufficiently relevant for the market) resulting in an average level of maintenance of the companies' profitability during the period after the project completion (as an average at the level of KAI 4.3), and an average number of beneficiaries were able to secure the necessary financial resources to support the continuous development of firm. In other words, the financial results of the companies financed in the period after the implementation of the project have constantly increased for part of the companies, while for the others, these results came to a standstill, fluctuated or decreased:

- Approximately 60% 50% of companies have developed as a result of the assistance received and continued to develop after the finalisation of the project (more than half of these companies have continued to invest, either from ROP 2014-2020, either from other sources);
- Approximately 30% of firms have developed as a result of the project, then came to a standstill, had fluctuations or declined, some of them having an uncertain future;

> - Approximately 10-15% of firms have increased as a result of the project, then declined or ceased their activity.

This situation is natural in a market mechanism, meaning there will always be companies that will fit into these categories. A positive aspect is the fact that more than half of the financed companies fall under the first category and at the overall level of this KAI the created jobs have been maintained and other jobs have been created as a result of project implementation and further development of the companies.

> **Overall, the results of the counterfactual analysis and of the interrogation of the assumptions presented in the theory of change indicate the net effect obtained at the level of the companies that received financing and demonstrate the contribution of KAI 4.3 to this net effect.**

Several other factors have also influenced the effects achieved at the level of the companies that received support by means of financing, these factors being presented below.

Factors with positive or negative influence on the implementation and effects of the KAI 4.3	
+	- The ability of beneficiaries to develop business plans relevant for the market - Capacity and motivation of the beneficiaries to continue business development and the investments in order to support business development, after the finalisation of the project under KAI 4.3 - Payment settlement mechanism applicable to the payment requests - The support provided by the monitoring experts, considered as very important
–	- Failure to continue the development plans and investments in business development by some of the companies that received financing - Procurement process (difficulties with the application, duration of the process) - The modified versions of the Guidelines do not highlight what has been changed compared to the previous version, making it difficult to prepare projects that comply with the requirements - Financial losses of the beneficiaries due to price increase in EUR or lei or other circumstantial factors (e.g. proof of renting an area for the project requested at the moment when the financing application is submitted, the rent being paid without a productive activity throughout the period before the approval of the financing application)

All the analysed factors were relatively uniform at the level of all the companies that received financing. The importance of these factors in terms of the intensity of their influence on the effects obtained was analysed by the evaluators on the basis of the information collected by the evaluation methods. The most important factors, both with positive influence and negative influence, are:

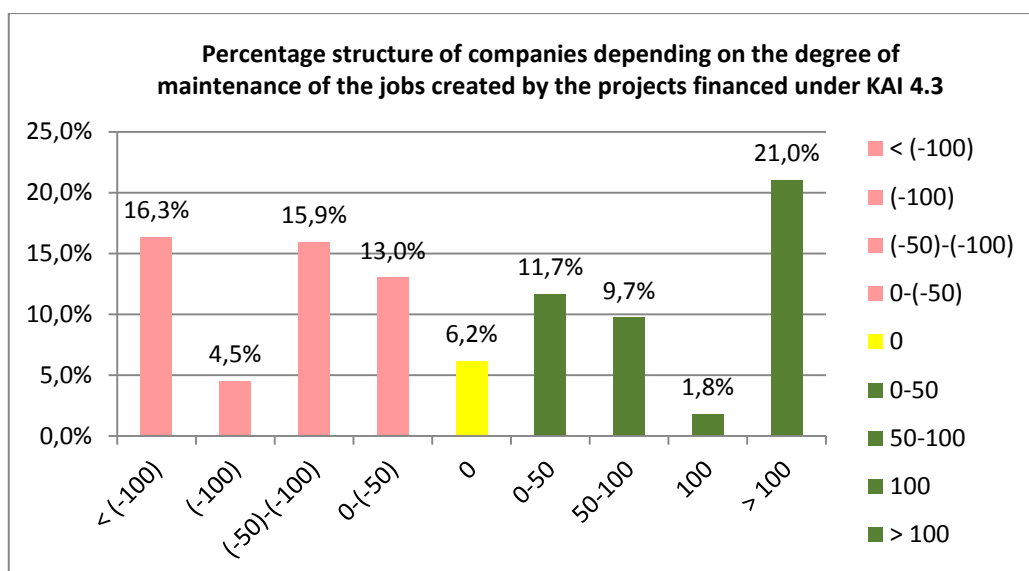| POSITIVE INFLUENCE	The ability of beneficiaries to develop business plans that are relevant to the market Payment settlement mechanism
NEGATIVE INFLUENCE	Failure to continue the development plans and investments in business development by some of the companies that received support

Sustainability of the effects obtained

At the end of 2017 there were approximately[8] **12,300 more jobs created at the level of the companies that received support** compared to the moment before the implementation of the projects, representing an increase of approx. 33% compared to the number of 9,266 jobs created by the projects financed under KAI 4.3. This number of jobs derives from 2 sources: jobs created by the projects and maintained, namely jobs created after the completion of the projects. Although not all the jobs created by the financed projects have been maintained after the ex post period, overall, the jobs maintained plus those created subsequently led to these values at the level of all the companies that received financing under KAI 4.3.

Based on the information collected during the focus groups and for the case studies (Appendix D Data collected) the evaluation team noticed that the sustainability of the effects obtained at the level of firms that received support broadly varies, following the same pattern previously presented. Specifically, the companies that continued to develop their business registered a constant increase of turnover, profit and number of employees in these situations, the results being sustainable and amplified later on after the finalisation of the project. Companies that came to a standstill or fluctuated after the project finalisation were able to maintain the turnover and the number of employees to a certain level, whereas the companies that declined failed to maintain the financial results and the number of employees.

The assumptions presented in the theory of change represent, by themselves, important conditions for the sustainability of the effects achieved. More specifically, in the case of the companies where the assumptions presented in the theory of change are put into practice to a significant extent, the sustainability of the obtained results is high. By contrast, in case of the companies where the assumptions presented in the theory of change are put into practice to an average or insignificant extent, the sustainability of the effects is also average or small. The analysis of the job sustainability created by the projects that received financing under KAI 4.3 at the level of a sample of 1,545 companies indicates the situation illustrated in the following graph.

---

[8] The figure is an approximation given that 8% of the companies that received financing did not submit their balance sheet in 2017, the number of employees in 2017 being unknown.

Percentage structure of companies depending on the degree of maintenance of the jobs created by the projects financed under KAI 4.3

Chart values:
- < (-100): 16.3%
- (-100): 4.5%
- (-50)-(-100): 15.9%
- 0-(-50): 13.0%
- 0: 6.2%
- 0-50: 11.7%
- 50-100: 9.7%
- 100: 1.8%
- > 100: 21.0%

Legend (right):
- < (-100)
- (-100)
- (-50)-(-100)
- 0-(-50)
- 0
- 0-50
- 50-100
- 100
- > 100

Source: calculations made by the evaluation team, based on data obtained from the Ministry of Finance (annex D primary data collected)

Legend

0	Financed companies that have entirely maintained the jobs created during the implemented projects.
0-50	Financed companies that have entirely maintained the jobs created during the implemented projects and created additional jobs by continuing the development after the project finalisation, with percentages ranging between 1-50% (i.e. If a company created 2 jobs in addition to the four already created by the project, it means that it managed to create 50% more jobs compared to those already created during the project)
50-100	Similarly, except that the percentage of new jobs that were created in addition to those already created by the project is ranging between 50-100%
100	Similar situation
>100	Similar situation
0-(-50)	Financed companies that succeeded in partly maintaining the jobs created by the project (the loss is ranging between 1-50% of the jobs created by the project)
(-50)-(-100)	Similarly, except that the percentage of jobs lost ranging those created by the project is between 50-100%
(-100)	Companies that have lost all the jobs created by the project
<(-100)	Companies that have lost all the jobs created by the project and in addition have lost jobs existing before the project implementation

Based on the data presented in the graph, one can notice that a percentage of 50.4% of the companies that received financing were unable to completely maintain the jobs created during the projects implemented, and a percentage of 44.2% of companies that received financing were unable create additional jobs, apart from those created in the context of the projects. A percentage of 28.9% of companies that received financing were able to maintain some of the new jobs created, 4.5% of the companies that received financing have lost all the jobs created through projects and a rate of 16.3% of the companies that received financing have lost both jobs created through projects and other jobs existing before the implementation of the project.

Overall, as mentioned above, in the context of KAI 4.3, the number of jobs existing at the level of the companies that received financing was 33% greater than the number of

jobs created through the projects implemented, indicating a proper level of sustainability.

Effects of the assistance provided by KAI 4.3 at macroeconomic level

It is extremely difficult to elaborate an analysis of the effects of assistance at macroeconomic level. The market mechanisms which companies apply are very complex, thus an analysis of the effects of the assistance in the context of the entire market (not just at company level) is difficult and multifaceted, with pros and cons.

For example, the development of a company in a demand-squeezed market (e.g. in a certain area or in a small city where demand is low) can lead to the attraction of new customers and to the creation of jobs at the level of the company that received support, but also to the loss of those customers by the competing firms and to the reduction of the number of jobs at the level of those companies. To the same extent, there is also a chance to create indirect jobs at the level of the providers used by the company that received financing. Theoretically and ideally, the development of company's capacity, of products and services, and the creation jobs represents an endless spiral, with ever-increasing consumption, therefore the development of a company and the attraction of new customers could be achieved without affecting the number of customers of the competing companies. In fact, consumption in certain periods, at the level of certain fields or certain areas may come to a standstill or may decline, which may generate a zero-amount effect, namely what a company earns can be equal to what competitors are losing.

Under the conditions of complex market mechanisms and unclear benefits of the assistance in the socio-economic context, the intervention at the level of market mechanisms, namely allocation of non-reimbursable funds to certain companies should be justified in a clear and relevant manner, as follows:
- malfunctioning of market mechanisms (generally at the level of some economic areas or sub-areas, in certain areas or localities, in certain periods, etc.);
- existence of strategic objectives for the development of certain sectors considered competitive at national or regional level;
- existence of strategic objectives for the development of certain horizontal areas (e.g. research, development and innovation).

In the case of KAI 4.3 - ROP 2007-2013, <u>there has been an obvious malfunction of the market in general</u>, generated by the economic crisis. Therefore, ROP intervention was fully justified (although at the time when ROP 2007-2013 was elaborated, the crisis had not started yet and did not represent the motivation behind KAI 4.3). One of the reasons behind ROP intervention lies in the support provided to some undeveloped areas and to small or medium-sized towns (in other words, direct assistance to the areas where market mechanisms do not work properly). In reality, the ROP assistance has not been exclusively directed to these areas.

Justification of the support provided to SMEs, according to ROP 2007-2013 programming document and to the Framework Implementation Document

The support provided to local / regional SMEs aims at restructuring the undeveloped areas with potential for growth, especially small and medium-sized cities, resulting in job creation due to their flexibility to adapt to the requirements of a dynamic market economy.

In the context of the revised Lisbon Strategy, it is necessary to invest in the modernization of local and regional productive sectors by supporting the entrepreneurial environment, especially SMEs. They will play an important role in the local and regional economic development and in the creation of new jobs. The use of research and technological development results by the production companies of local and regional interest in order to increase their competitiveness - by capitalizing local resources and labour force - and the commercialisation of the obtained products is ultimately reflected in the creation of jobs, the access to the economic circuit of the declining areas with potential for development and the

EU priorities regarding the support provided to SMEs indicate that this support is materialized through various actions, others than direct financial support. With regard to financial support, the EU is promoting financial instruments (loans, loan guarantee schemes, participation to capital, etc.) and, in the case of grants, these are allocated under priority areas (ex-innovation, a low-carbon economy, the reduction of poverty in certain countries, etc.).

Similarly, Romania's policy papers related to the development of SMEs propose a series of priorities and actions for SME development besides direct financial support, and direct financial support is targeted on certain horizontal themes (ex-innovation, export development, etc.) and mainly targets the development of financial instruments (guarantee schemes, risk investments, etc.) or other actions to facilitate SME's access to finance.

EU actions for SMEs:
- Creates a business friendly environment;
- Promotes entrepreneurship;
- Improves access to new markets and internationalisation;
- Facilitates access to finance;

Access to finance is the most pressing issue for many small enterprises. The Commission works on improving the financing environment for SMEs and provides information on funding opportunities.

- Supports SME Competitiveness and Innovation;
- Provides key support networks and information for SMEs;
- Supports start-ups and scale-ups in particular.

The Commission's 'Start-up and scale-up initiative' aims to give Europe's many innovative entrepreneurs every opportunity to become world leading companies. It brings together all the possibilities that the EU already offers and adds a new focus on venture capital investment, insolvency law, taxation and more.

Source https://ec.europa.eu/growth/smes_en

The country Report Romania for 2019[9] of EC states the need to develop the level of use of non-financial measures and financial instruments, noting:

Non-financial measures addressed to newly established enterprises and innovative SMEs (e.g. enterprise support services or support for acquiring powers) remain underdeveloped. The use of financial instruments with a component of innovation is limited, although he several instruments

---

[9]	https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-romania_ro.pdf.

related to capital investment have been created. The combination of grants from the EU funds and financial instruments is largely unexplored.

Investments financed under KAI 4.3 focussed on development of the beneficiary companies by providing support with the procurement of modern equipment and technologies, relocation of the SMEs as business structures, construction, extension or modernisation of the production facilities. In order to be able to support the further development of the competitiveness of firms, it is appropriate to increase their ability to develop new products and services. This need is indicated in the country report for Romania 2019, the European Commission, stating:

Private investment would require a qualitative improvement. Private investments are orientated towards the needs of replacement and extension capacity and much less to the development of new products or services. According to a recent survey (EIB, 2018), most companies invest in machinery and equipment and less in research and development. Romania has not yet developed a coherent transition towards activities with higher added value. Existing policies (national competitiveness Strategy, the National Strategy for research, development and Innovation Strategy and the Government from 2014 to develop small and medium-sized enterprises sector) are poorly coordinated and not contain adequate measures to ensure that the firms to advance in the value chain.

1.2. EVALUATION QUESTION 2: WHAT TYPE OF INTERVENTION GENERATES RESULTS, FOR WHO AND UNDER WHAT CIRCUMSTANCES?

Outputs depending on the area of the SMEs that receive support

ROP programming and implementation documents did not take into account a certain typology of KAI intervention 4.3. The aspect that could form the basis of a typology refers to the three types of financed areas (production, services, construction). A comparative analysis of the results obtained by the companies financed from the three areas is presented below.
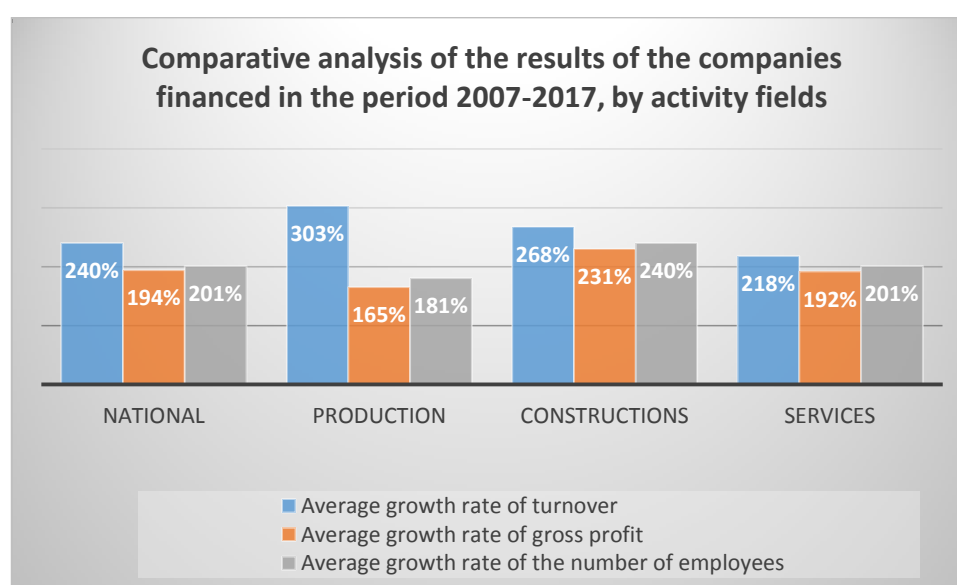
Source: data processed during the evaluation based on the main activity codes (NACE)

All three financed areas fall into the same pattern: the highest increase is recorded in the turnover, followed by the number of employees, then by profit, this situation being explained earlier in the analysis of the evaluation question 1. There are also differences at the level of the 3 areas. Production companies recorded the highest increase rate in turnover but the smallest increases in increase rates of gross profits and the number of employees, construction companies registered the highest increase rate in terms of gross profit and number of employees, while service companies are in the middle from all points of view: increase in turnover, gross profit, number of employees. We present below several explanations extracted from qualitative analyses (case studies, focus groups):

- With the new equipment, the production companies recorded a significant increase in production volume and sales, without a proportional increase in the number of employees, due to the fact that the modernization / automation process implies a limited need for new employees. At the same time, the cost of depreciation of the new machines may be relatively high, which is reflected in a lower profit margin. In practice, costs have increased more than revenues, which may also be influenced by the pressure of price competition, which can thus contribute to a lower profit margin;

- Construction companies have recorded relatively lower turnover increase than companies in the production sector due to the volume of demand that can be limited by various factors (for example, in the case of public institution customers, by the volume of projects subject to tenders). Instead, the number of employees increased the most, reflecting the character of the sector still significantly based on manual work. Higher profit increase can be explained by lower competition pressure and the existence of higher profit margins;

- Service companies are in the middle on all levels, reflecting a balanced increase of all three parameters: turnover, profit, number of employees. In the service sector as well, competitive pressure can be an important factor limiting the possibility of raising prices or selling more, especially if the local market is relatively saturated, the demand level being either stationary or increasing very at a very slow pace.

Overall, however, through the qualitative analyses carried out, the evaluation found that **the results obtained were mainly influenced by the way in which the assumptions of the theory of change were achieved, and not by the field of activity of the company**. Thus, the best results were obtained by companies that are constantly pursuing business development, as previously described under the evaluation question 1. Circumstances matter less, what matters is how companies deal with business development taking into account these circumstances, in practice how companies design and implement their business plans.

Results based on the financed amount

The evaluation analysed the relationship between the grant amount (financed value) and the results obtained for a sample of 1,545 micro-financed enterprises. No correlation has been identified between these variables.

Grant value correlated with the increase of Turnover in absolute value	Gross grant correlated with the increase of Gross profit in absolute value	Grant value correlated with the increase of Number of employees in

		absolute value
0.135844006	0.059668146	0.197839817
there is no correlation	there is no correlation	there is no correlation

EXPLANATION OF THE CORRELATION
i) between -0.25 and 0.25 = no correlation
ii) Between 0.25 and 0.50 (or -0.50 and -0.25) = a weak to acceptable association level
iii) Between 0.5 and 0.75 (or -0.5 and -0.75) = a moderate (acceptable) to good level of association
iv) Between 0.75 and 1 (or -0.75 and -1) = a good to very good association

Regional context: Regional differences require a specific approach for each region

Even if some problems are similar between regions: infrastructure issues, high emigration, low productivity, low technology transfer, population aging, etc. and also some of the opportunities: economic cluster development, tourism development, rich natural resources, etc. the analysis of the SWOT and PEST matrices at the level of each region (Annex B Instruments used, section SOWT and PEST analyses at region level) indicates, as is obviously, notable differences between the eight regions (Annex B Instruments applied, section SWOT Analysis and PEST at region level).

The specific situation at the level of each region (strengths, weaknesses, threats opportunities, available resources, etc.) dictates the intervention priorities: what, how, when. These intervention priorities of the region will then dictate the intervention support priorities for SMEs.

Therefore, each region has a certain specific character that justifies the support provided to companies at the level of certain economic sectors, on certain horizontal themes, in certain areas, counties or even localities. In order to be able to provide such support tailored to the specific character of each region, it is necessary to have operational programs at regional level or, at least, to allow each region to establish its own eligibility and selection criteria.

In the context of KAI 4.3, it can be said that the companies that received financing represented the operational tool through which existing economic opportunities are transformed into results. Practically, the economic activity of the companies that receive financing is an example of how to work for results, given a particular SWOT context. But in the vast majority, companies that receive financing act at local level, exploit local opportunities, are interested in the local SWOT situation. In order to control the region's actions and outcomes in the context of a regional SWOT, controlled interventions, such as Regional Development Agencies, are needed to guide support for companies in line with the strategic direction of the region.

Benchmarking

Investments made in companies and co-financed under KAI 4.3 may be associated with capital investments or investments in the shares of the beneficiary companies. A common indicator showing the extent to which the investment is effective is the Return on Investment, calculated as simple as the annual percentage representing the ratio between the income realized as a result of the investment and the value of the
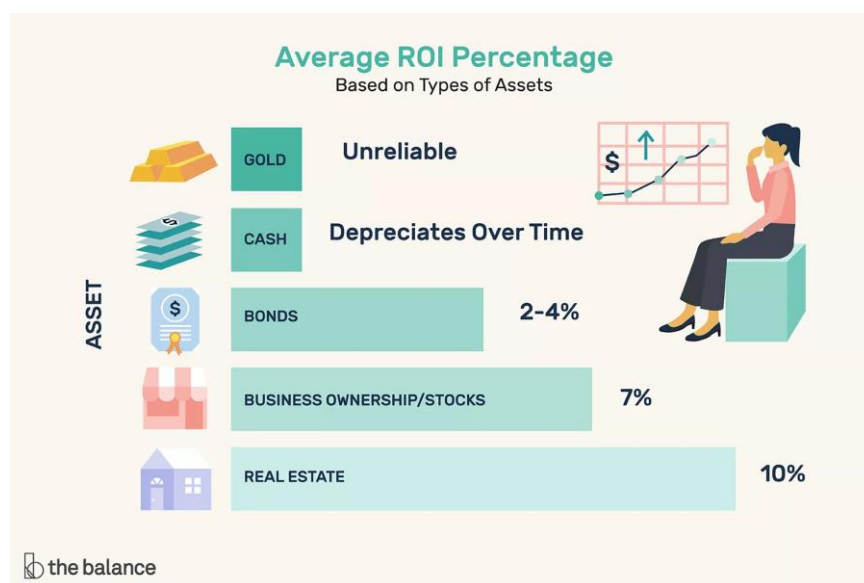
investment. For example, if we invest 10,000 lei in a company's shares and then earn 1,000 lei per year of dividends, the rate of return is 10% / year, that is, 1,000 lei earned per year / 10,000 lei invested.

In order to choose a benchmark against which to analyse the rate of return in the case of KAI 4.3, the following information and opinions on the rate of return on business investment were synthesized from the literature.

A really good return rate for an active investor is 15% per year. It is ambitious but achievable if one makes efforts to look for good business. The return rate measures the efficiency of an investment: for each dollar invested, what profit is obtained. One can double the capital every six years if an average rate of return of 12% per year after deducting taxes and inflation is achieved.
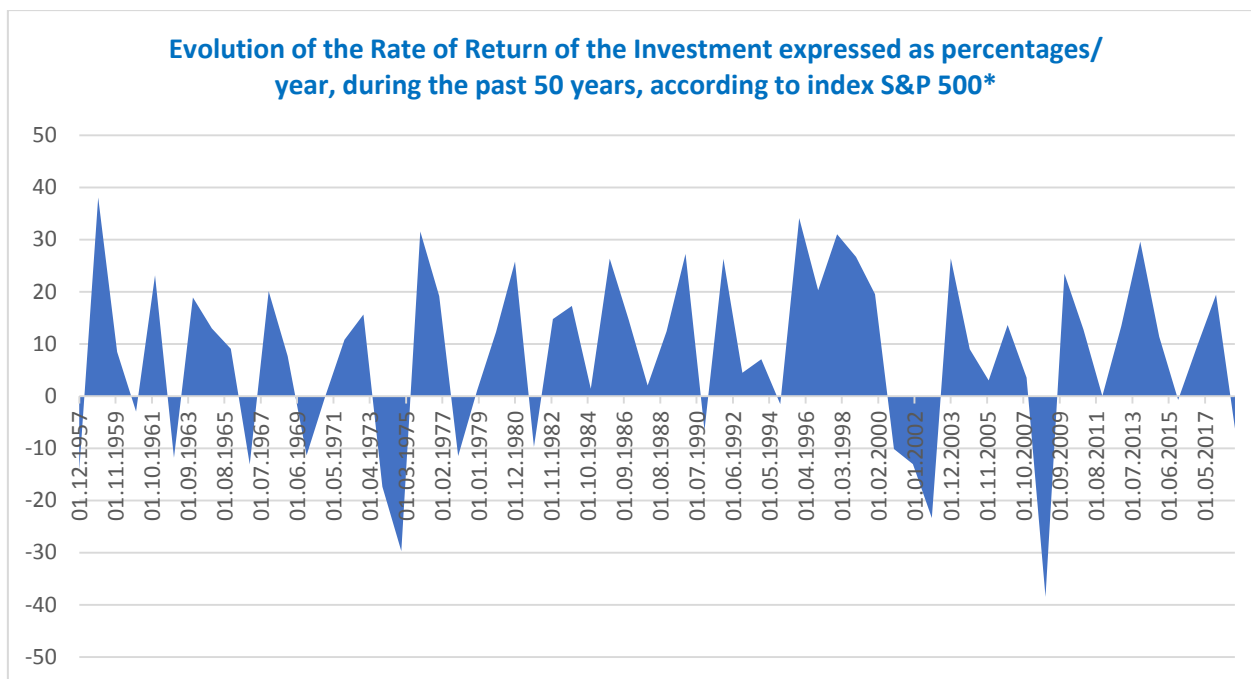*Source: https://trendshare.org/how-to-invest/what-is-a-good-annual-rate-of-return*

Source: https://www.thebalance.com/good-rate-roi-357326

The S & P 500 * index provides an average return rate of 10% per year. The stock market offers an average rate of 7% per year. Does that mean you can record large profits of the investment? A rate of return of 10% a year would be very good, but it does not always happen in reality. The 10% rate reflects an average over time, with significant fluctuations from year to year.
Source: https://www.creditdonkey.com/average-stock-market-return.html

* S & P (Standard & Poor) 500 represents an index of the US stock market based on the stock market value of 500 large companies that own shares listed on NYSE, NASDAQ, or Cboe BZX.

Evolution of the Return on Investment (ROI) for shares listed on the US stock market over the past 50 years, according to the S & P 500 Index. Average/ year = 7,96%

Evolution of the Rate of Return of the Investment expressed as percentages/ year, during the past 50 years, according to index S&P 500*

Source: https://www.investopedia.com/ask/answers/042415/what-average-annual-return-sp-500.asp

Taking into account the information presented, we consider that a desirable annual value of 7% -10% of the return on investment rate for KAI 4.3 can be taken as a benchmark (as a benchmark).

Average Return on Investment (ROI) for KAI 4.3

| |
|---|
| **The average amount invested per company:** **630.099 lei** |
| **The average annual net profit increase, average per firm *:** **106.190 lei** |
| **The average annual rate per firm investment profitability :   16,85%** |

* It is an estimated value given that SMEs have different corporate tax rates. For the estimation, a 16% profit tax was taken into account.

In case of KAI 4.3, the return on investment, as average per company, is 16.85% / year, therefore considerably higher than the benchmark. Obviously, this value is more a general indication than a net value, as many of the companies continued to invest in the project afterwards, the ROP investment being only part of the amounts invested in the development of the companies, therefore the profit obtained is only partly due of the investment made by KAI 4.3. However, even under these conditions, even if the value financed by ROP would represent only half, or only one quarter of the value of the investment, the rate of return would continue to be positive and would have a reasonable level between 5% -8 %. In other words, the investment made by ROP through KAI 4.3 was profitable.

This is an important element to take into account for future company financing schemes. The experience acquired with KAI 4.3 has shown that the selection criteria used for the financing applications have led to the selection of a portfolio of financed firms that has proven to be profitable. The lesson learned relates to maintaining, as much as possible, the selection criteria used under KAI 4.3 and for future financing schemes applicable to companies (based on financial instruments, non-reimbursable

funds or a combination of these two). In the case of the use of financial instruments, this level of profitability is an indicator of an adequate capacity of the financed companies to repay the loans received (in the case of a loan) or to return the investment made as dividends (in the case of capital investments).

ROI analysis elaborated at the level of each company financed by KAI 4.3 provided the results presented below. The graph shows the percentage of companies that fall under the value ranges presented, be it positive and negative, out of the total number of financed companies. For example, for a percentage of 21% of the companies that received financing (the highest column, in the middle), the ROI ranged between 0% -10% / year, for 10% of the companies, the ROI was between 10% -20% / year, for a percentage of 15% of companies, the rate of return on investment was between 0% and minus 10% / year, and so on.
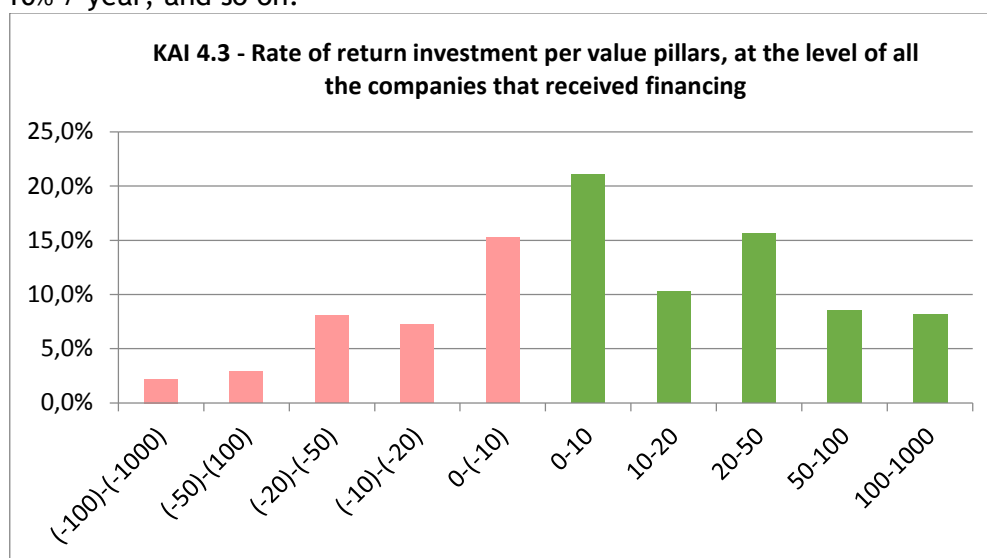
Source: Data processed during the evaluation, based on the information obtained from the Ministry of Public Finance

(Annex D Primary data collected)

The graph shows a fairly high dispersion (yet normal) of the return on investment rate among the companies that received financing, the distribution being close to a Gaussian curve. Almost 50% of businesses fall in the range between minus 10% - plus 20%. Existing distribution indicates, as it is normal and expected, the existence of all possible situations - companies where the rate of return is high or very high, i.e. companies where the rate of return is negative. However, as a whole, it is important for the rate of return as average at the level of the financed companies to be positive.

1. CONCLUSIONS, RECOMMENDATIONS AND LESSONS LEARNED

Conclusions and lessons learned

ROP 2007-2013 intervention through the assistance provided to SMEs under KAI 4.3 was beneficial, especially given the economic crisis, helping to create or maintain jobs. The net effect of the assistance is positive, the companies that received assistance registering more significant increases in turnover, profits and jobs than the companies that did not receive financing.

At the end of 2017 there were approximately[10] **12,300 more jobs created at the level of the companies that received ROP support** compared to the moment before the implementation of the projects, representing an increase of approx. 33% compared to the number of 9,266 jobs created by the projects financed under KAI 4.3. This number of jobs derives from 2 sources: jobs created by the projects and maintained, namely jobs created after the completion of the projects. Although not all the jobs created by the financed projects have been maintained after the ex post period, overall, the jobs maintained plus those created subsequently led to these values at the level of all the companies that received financing under KAI 4.3.

Net effect of assistance to SMEs under KAI 4.3, as average per financed company

Impact indicators	Sample of companies (number of companies that received assistance/ number of companies that did not receive assistance)	The increase difference between the companies that received assistance and the companies that did not receive assistance in the 2007-2017 period (average per company)	Statistical Interpretation
Net number of new jobs	1545/1357	+ 4,07	*** (t=8,64)
Turnover (lei)	1545/1357	+ 527.060	*** (t=4,56)
Gross profit (lei)	1545/1357	+ 88.905	*** (t=5,01)

Source: Data processed during the evaluation, based on the information obtained from the Ministry of Public Finance
(Annex D Primary data collected)
*Statistically significant result at 1% *** (High level of Significance), 5% ** (Average level of Significance), 10% * (Low Significance)*

The result of quantitative analyses correlated with the result of the qualitative analyses, including the questioning related to the theory of change, indicates the following outcome of the intervention of KAI 4.3 at national level:

- Approximately 50% -60% of the firms developed as a result of the assistance received and continued to develop after the end of the project (many of these companies continued to invest either from ROP funds 2014-2020 or from other sources)
- Approximately 30% of the companies recorded an increase as a result of the project, then stagnated, fluctuated or declined, some having an uncertain future;

---

[10] The figure is an approximation given that 8% of the companies that received financing did not submit their balance sheet in 2017, the number of employees in 2017 being yet unknown.

- Approximately 10-15% of firms have increased as a result of the project, then have declined significantly or ceased their activity.

The sustainability of the effects obtained at the level of companies that received support broadly varies, following the same pattern. More specifically, the companies that continued to develop their business registered a constant increase of turnover, profit and number of employees in these situations, the results being sustainable and amplified later on after the finalisation of the project. Companies that came to a standstill or fluctuated after the project finalisation were able to maintain the turnover and the number of employees to a certain level, whereas the companies that declined failed to maintain the financial results and the number of employees.

Overall, however, through the qualitative analyses carried out, the evaluation found that the results obtained were mainly influenced by the way in which the assumptions of the theory of change were achieved, and not by the field of activity of the company. Thus, the best results were obtained by companies that are constantly pursuing business development, as previously described under the evaluation question 1. Circumstances matter less, what matters is how companies deal with business development taking into account these circumstances, in practice how companies design and implement their business plans.

The most important factors, both with positive and negative influence on the effects obtained through the intervention of KAI 4.3, were:

Positive influence	Beneficiaries' capacity to develop relevant business plans for the market
	Payment settlement mechanism
Negative influence	Lack of continuation of development plans and investment in business development by some of the companies that received assistance

The quantitative analyses reflected no correlation between the grant amount and the results obtained (increase of turnover, gross profit, number of employees). This aspect, in correlation with the results of the qualitative analyses, indicates that the value of the investment does not determine the results obtained, but it has effects on the management capacity of the beneficiary companies.

The non-reimbursable funds allocated under KAI 4.3 may be associated with capital investments or equity investments at the level of the beneficiary companies. The calculation of a rate of return of the investments made by KAI 4.3 (percentage of annual net profit from the amount of the grant) indicates a good value of this rate (an average of 16.85%) compared to international benchmarks in the field of financial investments (7% -10%). The calculated rate of return on KAI 4.3 is nevertheless a more general indication than a net figure, as many of the companies that received financing have also invested their own funds in addition to the financing received, either during the project or later. However, even under these conditions, even if the amount financed by the ROP would represent only half or only a quarter of the total investment, the rate of return would continue to be positive and have a reasonable level, between 5% and 8%. In other words, the investment made by the ROP through KAI 4.3 was profitable. This is an important element to take into account for future financing schemes applicable to companies. The experience acquired with KAI 4.3 has shown that the selection criteria used for the financing applications have led to the selection of a portfolio of financed firms that has proven to be profitable. The lesson learned relates to maintaining, as much as possible, the selection criteria used under KAI 4.3 and for future financing

schemes applicable to companies (based on financial instruments, non-reimbursable funds or a combination of these two).

At macroeconomic level, however, the benefits of KAI 4.3 intervention are questionable. For example, the development of a company with the support of KAI 4.3 in a demand-squeezed market (e.g. in a certain demand-driven area or in a small city where demand is low) can lead to the attraction of new customers and to the creation of jobs at the level of the company that received support, but also to the loss of those customers by the competing firms and to the reduction of the number of jobs at the level of those companies. As a matter of principle, public sector involvement in the private sector is always justified for purposes such as creating a market-friendly framework, supporting market mechanisms, regulating the business carried out by private companies in areas where such support is needed, etc. Instead, intervention by providing direct financial assistance to companies must have a clear justification, e.g. market failures, priorities for the development of certain sectors deemed competitive at national or regional level, or some horizontal themes.

Recommendations addressed to MA ROP

1. The type of actions that can be supported in the context of SMEs is diverse, and this fact is also reflected in EU policy in this field In order to support SMEs in the context of possible future priorities in this area under the future regional operational program, ROP MA should take into account several types of activities, such as those promoted by EU policy regarding SMEs, and not only the direct support provided to companies.

2. The financial support should be provided to SMEs / micro-enterprises both in the form of grants and in the form of financial instruments.

3. The intervention at the level of the market mechanism through financial support provided directly to companies (both non-reimbursable and by means of financial instruments) should be given a well-defined and clear justification, for example:
   - In situations where market mechanisms do not function properly (demand, supply, financing mechanisms, etc.). Such situations may occur at national, regional level in certain areas or localities over certain periods of time;
   - For sectors identified as priorities for various reasons (part of the National Strategy for Competitiveness, part of Regional Intelligence Specialization Strategies, etc.);
   - For some horizontal themes identified as priorities for a variety of reasons (e.g. start-up support, continuity of support for previously financed companies to support large-scale growth, etc.).

4. The type of support provided should differ depending on the score obtained during the technical-financial evaluation of the financing applications, for example:

Level of score obtained	Type of support provided
Score over threshold 2	Non-reimbursable financing is provided
Score between threshold 1 and 2	Financial instruments are applied
Score under threshold 1	No support

5. Financial support for companies should support **various types of activities** aiming at increasing their competitiveness (e.g. the development of new products and services) not only infrastructure investments. Examples of support needs indicated by literature and by the experts in the field[11] include, without being limited to:

- Development of new products and services;
- Access to new markets and internationalization (e.g. stimulate export, capital movements - i.e. helping companies to open subsidiaries in other countries);
- Developing technology transfer processes (e.g. by stimulating links between research and business, supporting companies to develop prototypes, for internalising the research-innovation function for both product and process innovation).

6. It would be beneficial (and natural) to have operational programs at the level of region, or at least the possibility for each region to define their own eligibility and selection in order to establish eligibility and selection criteria appropriate to priorities that may differ significantly from one region to another (for example, SSI priorities vary across regions).

---

[11] Expert panel organized during the evaluation, June 27, 2019.