

# Evaluation of the implementation of the Incentive Schemes (IS) of the PT2020

## Executive Summary

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Cofinanciado por:







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## 1. OBJECTIVES AND METHODOLOGY

The main goal of this evaluation is to assess whether the way in which the Incentive Schemes (IS) for business investment of Portugal 2020 (PT2020) have been implemented by the end of 2017 has made it possible to maximize the expected results in the area of Competitiveness and Innovation and, consequently, in the investment priorities that integrate these policy instruments. It is a process evaluation, focusing on the analysis of the adequacy of the instruments to the outlined objectives, both from the point of view of the conditions of access and selection, and from the point of view of the efficiency of their implementation. The efficiency of the implementation of the incentive schemes is associated, on the one hand, with the simplification and reduction of the administrative burden for the beneficiaries and, on the other hand, with the simplification of the work carried out by the entities involved in the attribution of the incentives.

### Incentive schemes for business investment

Support under the IS of PT2020 is financed by the European Regional Development Fund (ERDF) and the European Social Fund (ESF), with an overall allocation, at the date of the evaluation report, of close to 4 billion euros. **The IS combine three main policy instruments:** (i) IS for research and technological development in companies (IS R&D), which aims to increase business investment in technological R&D, both individually and in co-promotion; (ii) the IS to Business Innovation and Entrepreneurship (IS Innovation), which aims to encourage investment in productive innovation and qualified and creative entrepreneurship and (iii) the IS to the Qualification and Internationalization of SMEs (IS QISME), which aims to promote competitiveness and productivity in SMEs and support their effective presence in the global market.

The IS are direct financial support for intangible and productive investments. The incentives may be non-refundable or reimbursable and may be associated with performance bonuses, to be granted according to the degree of achievement of project results.

The IS under evaluation act on the five NUTS II regions of mainland Portugal, and the thematic Operational Programme (OP) (COMPETE 2020) are only applicable to the convergence regions - North, Centre and Alentejo. The criteria for allocating funding between the thematic OP and the Regional OPs are defined in the Partnership Agreement and in SRCI - Specific Regulation for Competitiveness and Internationalization, with the funding of projects of medium and large enterprises and multiregional basis being concentrated in COMPETE 2020 and projects of micro and small enterprises of regional scope in the Regional OPs.

Transversal to the Competitiveness and Internationalization area of PT2020, the IS are managed in the scope of the "**Incentive Schemes Network**", that is coordinated by COMPETE 2020 and integrates the Regional OPs of the Continent (North, Centre, Alentejo, Lisbon and Algarve), the Intermediate Bodies (IAPMEI, ANI, AICEP and Tourism of Portugal), the Directorate General for European Affairs (DGAE), the Financial Institution for Development (IFD) and also, with observer status, AD&C and the Foundation for Science and Technology (FCT).

### State of play of the IS in December 2017

By the end of 2017, 25,251 applications were submitted for SI, 9,170 for Vouchers and 16,081 for the remaining measures. Of the 19,444 applications with an assigned opinion, 10,088 (52%) were approved and 9% of these projects were subsequently cancelled. **The data presented shows a large adhesion of Portuguese companies to the SI of the PT2020**, namely when compared to the NSRF in a similar period. In fact, compared to the NSRF, in the PT2020, there were about twice as many candidate projects, supported projects and supported promoters and a greater quantitative importance of simplified projects (vouchers).

The projects effectively supported (9 210, of which 2,286 vouchers, presented by 6,827 promoters)

added an **eligible investment of 7 billion euros** and committed 3.7 billion euros of fund, 18% of which involved a training component supported by ESF of 24 million euros, corresponding to 0.6% of the committed fund. The average co-financing rate for IS was 53%, varying from 44% in the case of SI I&DT internationalization to 75% in the case of Vouchers.

**The majority (70%) of the fund amount committed until 2017 was absorbed by IS Innovation** (in particularly by the "Productive Innovation" measure), but it was SI QIPME that hosted the largest number of projects (60% of the total, 39% within SI Internationalization), in line with the smaller average size of eligible projects. At the end of 2017, **the entire amount programmed for the IS was committed to the approved projects**, although with imbalances between the different OPs and between intervention typologies.

**The North and Centre regions accounted for around 80% of the approved incentive**, followed by Alentejo (8%), Lisbon (3%) and the Algarve (1.4%). By sector, the projects have mainly focused on industry (50% of the projects and 75% of the fund), followed by services (25% of the projects and 14% of the incentive).

The analysis of the financial execution level of the supported projects, measured by the proportion of the approved fund that is financially executed, revealed that, at the end of 2017, **a substantial part of the projects (43%) had an execution level below 10%** and only 22% had an expenditure level executed at or above 85%, the vast majority of these projects being in the measures encompassing the Vouchers.

### **Methodological approach**

The Terms of Reference for this evaluation set out **eight evaluation questions** under the criteria of relevance, coherence, effectiveness and operational efficiency (covering the project application and monitoring processes, the IS governance model, the processes for contracting the results and the communication strategy with the beneficiaries). These questions included 27 evaluation sub-questions to be considered in the evaluation process.

This evaluation had as methodological reference the **Theory Based Evaluation**, which implied the structuring of the logical framework of the IS intervention (and of the Theory of Change associated with it) that was at the basis of the respective programming, which was subsequently agreed upon with the relevant stakeholders and updated in the final phase of the work.

Taking into account that the three IS have different objectives and rationales of change and that, within the IS QIPME, the qualification and internationalization strands also have different objectives, it was decided to structure **four result chains** (SI R&DT, SI Innovation, SI Qualification SME and SI Internationalization SME) and, for each chain, the assumptions and risks that could influence the operationalization of the instruments and therefore their potential results. Considering the objectives of the evaluation and the maturation stage of the instruments, the theory of change test focused in particular on components of activities and outputs (common to the four structured chains) and on intermediate outcomes.

The Theory of Change and its assumptions and risks were tested using the following **methods of information collection and processing**:

- ▶ Desk Research - carried out with the entities responsible for IS management
- ▶ Data collection - carried out within the entities responsible for IS management, INE (Statistics Portugal), DGEEC (Director General of education and science statistics), Banco de Portugal (Bank of Portugal) and in business databases
- ▶ Interviews - 20 interviews (involving 42 respondents), including AD&C, Managing Authorities (MA) of the funding OP, Intermediate Bodies (IBs), two accredited providers of Voucher services and several case study project promoters

- Focus Group - Three focus groups were held, one on "Operational efficiency of the application analysis and project monitoring processes", with IO technicians responsible for application analysis and project monitoring, another on "IS Governance and Management Model", with the members of the Incentive Network, and one on "Adequacy of the instruments to potential demand and to competitiveness and internationalization objectives", with the MA of the OPs and the IS beneficiaries;
- Case studies - Six case studies were carried out, covering the various IS, NUTS II regions and the various IOs
- Surveys - Two surveys were applied, one for IS applicants and the other for consultants who supported promoters in preparing applications. In the applicants' survey, which was fundamental for the development of the evaluation, the sample selection was carried out based on the simple random sampling method and 376 responses were obtained, which guaranteed a 95% confidence level and a 5% error margin. Although the sampling plan did not involve any real segmentation, an attempt was made to ensure the presence in the sample of the three IS and their respective typologies, of projects with an ESF component, of different sizes of enterprises and of different locations of investments in terms of NUTS III.

## **2. CONCLUSIONS AND RECOMMENDATIONS**

Overall, **this evaluation shows that the design of the instruments and their governance model is highly appropriate to the objectives pursued**, essentially following the lessons learned from the NSRF's IS experience and a high level of achievement. It also identifies implementation failures which, in a substantial part of the cases, have been mitigated over the evaluation period, evidencing an adaptation of the IS operationalization to deviations from the planned programming.

The contextual factors external to the intervention boosted the adherence to the instruments and the implementation of the projects, given the economic and the investment recovery and the reduction of restrictions on access to credit. The opinion of the beneficiaries on the IS is quite positive in practically all aspects under analysis- from disclosure, to the clarity of operational support materials and the prospect of achieving the contracted results - and reflects an improvement in relation to the NSRF's IS. On the negative side, the overextended times of analysis of applications and payments of the incentives stand out as the main factors conditioning the development of projects.

Demand for IS has more than doubled compared to the previous programming period and the analysis of the achievement indicators shows that, overall, a significant number of the targets set for 2023 have already been exceeded. **The high adherence to the instruments (involving, qualified demand and demand that did not go beyond the admissibility stage), in a context of maintaining the resources allocated to its management, created, however, entropy in the system**, reducing its operational efficiency, which shows room for progress in the alignment with the assumptions, in order to potentiate the transformation of the achieved outputs into effective results.

An overall positive assessment of the IS of PT2020 does not mean that its implementation cannot and should not be improved in the future, and this evaluation study sought to present solutions to the operational problems that occurred in its implementation, but also proposals for strategic reflection in order to make these policy instruments more appropriate to the needs of the target public, more consistent with the policy objectives and better adapted to the existing resources of the entities responsible for their operationalization.

In this sense, the recommendations presented in this evaluation seek to strengthen the operational processes that have benefited from past experience, but also to improve the design, efficiency and effectiveness of incentives and thus enhance the competitiveness and internationalization of companies operating in Portugal, seeking to respond to the competitiveness challenges of the Portuguese business fabric.

The IS of the PT2020 **configured an evolution vis-à-vis the IS of the NSRF**, which already presented a high degree of maturity, with instruments and typologies widely known to the target public and concepts and processes experienced by the entities involved in their operationalization. The duplication of the demand for IS between the NSRF and the PT2020 is evidence of this, showing that the design and form of implementation are globally adequate.

When launched, the IS included a very comprehensive and complete range of intervention instruments, from support for individual and collective R&D, to support for the valorisation of knowledge and innovation, to support for the qualification of business models and internationalization. **In relation to QREN, incremental improvements were introduced, and new types of projects were created**, which increased the degree of IS coverage in relation to the investment needs in the different phases of the companies' life cycle. However, less explored boundary areas remain, for example related to the extent of eligibility of expenditure on R&TD and Innovation IS (e.g. technical/economic validation, scale-up).

**The notices of competition have a high degree of consistency with the policy objectives** and indicators of achievement and outcome of the OPs and have adopted a standardized structure and easy consultation for their users. In contrast, there has been **excessive variability over time in the introduction of new policy elements and priorities** (e.g. industry 4.0, circular economy, etc.). Although the ability of the instruments to adapt to changing contexts is an advantage in terms of the flexibility provided by the IS Network, it creates entropy in the structuring of business plans to support applications, which are usually carried out with medium/long term perspectives, and **therefore greater stability in policy priorities (RIS3, sectoral policies, clusters) will be desirable**.

The changes made in the PT2020 in the eligibility of expenditure vis-à-vis SI in the NSRF have brought the IS closer to the investment needs of businesses. However, some of these changes led to a greater specialization of IS instruments, leading to the **fragmentation of investment projects** into several applications. In fact, a significant number of companies that applied for IS did so in several related typologies (e.g. IS Innovation and IS Internationalization). **Therefore, the possibility of applying for investment projects integrated in several IS** should be considered, capitalizing on the experience mobilized in the NSRF in the Qualification and Internationalization of SMEs and involving only one application with several modules, simplifying the completion by the promoter and the full understanding of the project by those who assess the merit. In this context, the creation of progression mechanisms ("fast track") throughout the innovation cycle may also be beneficial to enhance the results of previously supported projects and, on the other hand, increase the quality of analysis and monitoring of IOs.

The **vocational training** needs are a constraint for the competitiveness of Portuguese companies. Nevertheless, this investment component (financed by the ESF) has shown little take-up in projects supported in the IS. Besides the reasons related to the difficulty of the enterprises themselves to define their training plans (especially at the application stage) or even to recognize the training needs of human capital, many of the calls launched did not consider training expenditure eligible.

The overall demand for IS was very high, although diverse among the five regions of mainland Portugal (and among the various types of instruments). However, **the flexibility to adapt Calls for Tenders to the specificities and dynamics of regional demands has not been fully achieved within the IS Network**. Until 2017, a high dynamic of demand in the North and Centre regions coexisted with much more modest levels of adhesion in Alentejo and Algarve (or even Lisbon in some typologies), **highlighting the need for greater adaptation of competition notices to regional specificities in the future**.

The analysis of the selection process shows that, in quantitative terms, **the essential screening of the IS candidate projects of the PT2020 was made fundamentally in the admissibility stage, relegating the analysis of merit to second place** and mobilizing the process of relative merit analysis in a residual way: projects without absolute merit represented only 4% of the total number of projects

admitted (495 out of 11,143); only 4% of the eligible projects were not selected because they did not fit in the allocation put out to tender. To a large extent, this happened because the operationalization of the PT2020 IS competition processes was conditioned by the adoption of specific procedures that caused inconsistencies and inefficiencies in the process. In particular, the Deliberation CIC PT2020 no. 2\_Q/2015, of 30 September 2015, which determined from that date the approval within the IS of projects with absolute merit higher than 3.5 significantly contributed to enhance this situation. This option conditioned the capacity of the selection system initially set up to guarantee the choice for support of the best projects presented.

This limitation is particularly relevant in a context **where benchmarks of merit are well constructed, are appropriate to national reality** and there is no redundancy between criteria. The regional merit criterion also shows good articulation and complementarity with the other criteria, **despite the limited contribution for the final selection of the supported projects.**

Accordingly, **in the future it is fundamental to promote a more careful management of the amounts placed in each IS call**, assigning a relevant role not only to the evaluation of absolute merit, but also (and above all) to the evaluation of relative merit, dignifying the central role of the tendering processes and the effort made by the IOs in the evaluation of the candidate projects. **It is also important to find ways to give a more effective role to the regional merit criterion.**

The lack of framing of applications in the call's eligibility requirements (especially the lack of framing within the objectives and priorities listed and of the respecting objective conditions of access) is the major cause of the high rates of non-admissibility. Although the promoters surveyed gave a positive note to the clarity of the documents making up the Calls for Tenders, **there seem to be a problem of communication and/or understanding of the Calls for Tenders by the applicant companies**. As such, the channels of communication with promoters should be reviewed and improved, as well as the guides to support the completion of forms. It is also suggested the creation of automatic alert mechanisms to assist promoters in understanding and submitting applications and payment requests, as well as an online self-diagnosis tool of eligibility/admissibility of promoters and projects.

**The communication strategy of the IS did not sufficiently recognize the importance of consultants as diffusers of IS information.** The contact of promoters with the IS and its regulatory body is mainly mediated by consultancy firms, which shows that the primacy of empowerment of the beneficiary is not yet a reality - 50% of applications are made using consultants. It is therefore recommended that consultants be more involved in the IS communication process, which may involve holding sessions aimed at this target public, with a view to greater alignment with procedures, reducing omissions in the forms and trying to discourage the submission of applications with little chance of passing the admissibility stage.

The greater integration and simplification of application forms and payment requests was an objective achieved in PT2020, and it was the unanimous opinion of the parties involved in the operationalization of the IS that *Balcão 2020* managed to gather information that was scattered over several websites and PAS (Platform for simplified access) assumed itself as a single platform for access to project information by the promoter. Even so, **it is important to review the application forms to mitigate the existence of fields that are redundant or can be filled in automatically.**

Concerning simplification, it is also important to focus on simplified projects ("Vouchers"). This type of project has seen a very high demand, which has led to an irregular opening of tenders. The new accreditation process for service providers for the Vouchers introduced halfway through the operation of the IS has made it possible to better regulate the strong flow of demand and the very quality of the services provided. The reconfiguration of the Voucher typologies (except for the R&TD Valley, which maintained its initial characteristics) also contributed for these results. Nevertheless, in addition to further reflection on the configuration of the "2nd generation" Vouchers (e.g. on maximum incentive values, which may have fallen exaggeratedly in particular cases), **a greater frequency in the opening of tenders for simplified projects is recommended**, so that the stimulus to

this market of services is more effective in the future.

The doubling of demand in that occurred in a scenario where the level of human resources was maintained, affected the responsiveness of IOs, considering:

- ▶ the average time taken to examine applications (between 4.8 months in the case of IS internationalization and Innovation and 6.4 months in the case of R&DT) and requests for payment (2 to 4 months), which far exceeded the regulatory deadline practically since the first warnings were launched;
- ▶ in the publication of the Annual Tender Plan, with consequences in the delay of the investments, questioning the realization of the projects and/or their timeliness and the efficient management and planning of the work of the IOs and GA

The punctual fulfilment of the exercise of the delegated functions in the IOs depends on the combination of levels of demand / approvals, technical resources of the IOs and estimated analysis deadlines, involving options of those responsible for the implementation of the IS that must go through limiting the demand and / or expanding the analysis deadlines and / or increase the resources allocated in the OI.

**Comparing to the NSRF period, the monitoring stage of the projects still maintains important limitations and some recommendations for simplification remain current.** Within PT2020 a logic of *ex ante* verification is maintained, based on document verification with a very high bureaucratic burden for promoters and IOs. In addition, other factors, such as the late availability of analysis tools, the slowness in the process of hiring external experts in SI&DT, the submission of incorrectly instructed payment requests, the requirement associated with the documentary verification of requests and the delay in the submission of documentation in the final payment request that justified the extension of analysis deadlines and the reduction of efficiency in the operationalization of IS.

In this context, **efficiency in the operationalization of IS can be maximized through:** better demand management, improvements in the efficiency of analysis processes and in the information system that supports them, simplification and greater predictability in the subcontracting of external experts, greater appropriateness of regulatory deadlines to the effective analysis times in some typologies, **and the possibility should also be assessed, in the next programming period, of implementing a true "Simplex" in IS,** based on ex-post monitoring, based on outputs and results, with strong accountability of the supported promoters.

The relationship between the beneficiaries and the IOs is assessed very positively by the former at both the application and monitoring stages. However, it is considered **that better organization of the IO teams and, where applicable, greater sectoral or thematic specialization of the latter,** would make the analysis of the applications and the relationship with the beneficiaries during the implementation of the projects more effective and efficient. On the other hand, it is understood **that a more foresighted and preventive monitoring of IS supported projects should be encouraged in the IOs,** allowing the timely identification of possible factors that may jeopardize the achievement of contractual results.

Despite the problems reported with the implementation of the IS of PT2020, **it is important to highlight the role of the Incentive Schemes Network** in its resolution or minimization, given its role of harmonizing practices, procedures and overall management of the operationalization of tenders. In fact, this governance model has ensured a great alignment between the entities involved in the implementation of IS and constitutes an indisputable good IS practice. Its functioning can also be improved, especially by taking advantage of the network organization and the good practices in place, recommending **the creation of more "training" moments** beyond the normal forums for strategic discussion and functional and operational articulation of the IS, with the creation of specific working groups to discuss concrete topics of relevance to management.

**The architecture of the IS information system is adequate and stands out positively compared to the**

information systems used in other policy instruments. The centralization of information within the PT2020 system has required a higher level of interoperability and the need for a systematic updating of the links between systems (between the PT2020 and the information system of the IS, managed by COMPETE), often leading to the temporary non-concurrence of information at the different access points and the need to adopt contingency solutions involving "manual" validation of information.

Considering the high potential that the information system brings to the efficiency of the implementation of IS, it is absolutely essential to **promote greater articulation between AD&C and COMPETE** (as manager of the IS Network) in the design, planning and operationalization of functionalities that require interaction between the information system of the PT2020 and that of the IS Network, as well as to enable COMPETE's IT management structure to guarantee a faster response to the adaptation needs of the information system supporting the IS Network (e.g. analysis and monitoring tools), the adaptation of forms and the information needs of the MAs (management support information). The observation that not all actors involved in IS management are fully aware of the functionalities of the information system, recommends the promotion of **training initiatives and the preparation of a manual of procedures on the use and operation of the IS information system and the PT2020**, with contents/modules directed to the different levels of users, aiming at greater harmonization of procedures and easy transfer of knowledge to new users.

**The macroeconomic context has been a strong ally** throughout the implementation of the IS, boosting the demand of companies in response to the growing investment needs in a phase of recovery of private investment in the economy. This favourable context also allowed for **greater ambition in the results to be achieved** with the projects supported. The survey carried out reveals that these objectives were, in global terms, realistic and should be achieved by the majority of promoters, an expectation that cannot be confirmed in the evaluation period, given the low level of project completion. These prospects may be mitigated by a selectivity process that did not filter only the best projects (to which the best results will be associated).

Although it is not yet possible to observe concrete results, it is possible to verify that **the implementation of IS has been marked by support for quality projects**, meeting policy objectives, more specifically in terms of value creation, orientation towards tradable goods and services and the effective translation into a significant increase in exports, which attests to the effectiveness of public policy. Even so, **greater priority should be given to projects with strong spill-over effects on the economy and potential for externalities**, which are usually promoted by large companies. At the same time, IS should increase their focus on interventions of a more structural nature, tending to be built in collaboration with Public Agencies and OI, capitalizing on opportunities for collective efficiencies (e.g. *Suppliers Club*).

In general terms, the **IS supported projects show a strong alignment with RIS3**. Nevertheless, there is no evidence supporting a significant contribution to a change in the productive profile of the economy. On the contrary, **there has been a deepening of the existing intra-sector specialization**, in which there has been a greater focus on activities with higher added value in traditional sectors. To this end, the development of the innovation systems, the process of which has been intensively leveraged by the IS in previous EU frameworks, has been very relevant, a situation that was again evident in the PT2020. The increase in relational capital and the capacity to produce knowledge and innovation have been strengthened with this competitiveness policy.

**The IS of the PT2020 have a relevant potential for increasing the convergence and territorial cohesion of Portuguese regions.** As expected, **this potential is not transversal to all intervention typologies**, and in the case of the IS R&TD, there is a greater relevance and incidence in the NUTS III regions with the highest GDP per capita, with more dense and qualified "systems" of innovation. The positive discrimination of projects located in low-density territories (e.g. increase in the funding rate and specific calls for tenders/quotations) were relevant issues that should be maintained in the future

and extended to more instruments (SI R&TD and SI QIPME).

By the end of 2017, the degree of commitment of the IS was more than 100%, which made it possible to guarantee at that time a degree of compliance with most of the indicators for the implementation of the OPs. **This degree of commitment achieved benefited from the way in which IS Innovation was operationalized throughout the evaluation period, supported by repayable funding.** In more recent calls for tender, operationalized after the cut-off date of this evaluation, a model combining non-reimbursable incentives (granted on a conditional basis) with financial instruments was tested in IS Innovation. This is a good solution to reduce the degree of commitment throughout the implementation of the IS, to enhance better management in the application of funds throughout the programming period and to stimulate the use of financial instruments supported by the EIF as a way of leveraging the resources available for the objectives of cohesion policy.

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