# Evaluation of the impact of the Business Innovation Incentive System on competition

COMPETE 2020

## Framework*

The Evaluation of the Impact of the Business Innovation Incentive System on competition is assumed as an evaluation that aims to determine the effectiveness, efficiency and impact of IS Innovation support for the results observed.

| IP 1.2 – Promoting business investment in R&D | IP 3.3 – Providing support for the creation and extension of advanced product and service development capacities |
|---|---|
| **939 M€** Approved Fund<br>Cofinancing rate: **29%**<br>(Total approved fund / Investment approved) | **2 734 M€** Approved Fund<br>Cofinancing rate: **50%**<br>(Total approved fund / Investment approved) |
| **547** Applications<br>**343** Approved projects<br>**6** Financing OP | **9 238** Applications<br>**2 893** Approved projects<br>**6** Financing OP |
| Average incentive per project: **2,7 M€** | Average incentive per project: **0,9 M€** |
| Execution rate: **58%**<br>(Executed value/Approved value) | Execution rate: **49%**<br>(Executed value/Approved value) |

*Data as of 31st December, 2021

## Objectives of the Evaluation

Analyse and assess the positive and negative effects with regard to the incentive scheme and confirm whether the assumptions underlying the ex-ante approval of the incentive scheme are still valid.

## Methodology

This evaluation had as methodological reference the Theory-Based Evaluation (TBE) and Counterfactual Evaluation (CE). The approach pursued for the Counterfactual Evaluation was based on the following steps: (i) identification of the treatment; (ii) definition of the variables/performance indicators under evaluation; (iii) choice of control group and pairing between treated and untreated companies; (iv) estimation of the incentive effect, using the "Differences-in-Differences" method; and (v) robustness analysis. The methodological approach was anchored in a diverse range of methods and techniques for data collection, treatment and analysis of quantitative and qualitative information:

- Data Collection
- **2** Surveys (1 to beneficiaries with supported projects and 1 to beneficiaries with unsupported projects)
- **3** Case Studies
- Document Collection
- **10** Interviews
- **4** Focus Group (Effectiveness of the ISI on the performance of beneficiaries, broad impacts of the ISI, impacts on the promotion of business investment and attraction of FDI, impacts on competition)

## Main Results

### Effectiveness and sustainability

- The supported companies showed more significant growth in Turnover, GVA, Employment and Exports than the control group in the six years following the start of treatment.
- Regarding the fulfillment of the contractual goals in the completion horizon of the projects, 45% of the promoters stated that the objectives will be exceeded and 38% that they will be fulfilled.
- Promoters of projects with a post-COVID start-up expect to fall short of their targets in terms of turnover and GVA, while projects with a start-up prior to 2020 expect to exceed them.
- The hybrid financing model allowed to increase the capacity of the beneficiaries to raise funding from others for the execution of the projects.
- The support of IS allowed an increase in the competitiveness of the promoter companies, according to the perception of the promoters and the results of the counterfactual analysis.
- In the absence of IS Innovation's support, about half of the approved eligible investment would not be realized, mainly because many projects would not be implemented.

### Impact (Spillover Effect)

- In the scenario where all supported projects are completed, the annual knock-on effect will reach €1billion in GVA, corresponding to around 29,600 additional jobs.
- The impacts produced by projects supported under IP 1.2 (non-SMEs) have more significant multiplier effects in both phases of the project compared to IP 3.3 (SMEs).
- The support of IS Innovation allowed to enhance the development of mature regional clusters of the Portuguese territory.

### Impact (on competition)

- The evidence gathered does not support the conclusion that the support granted contributed decisively to the attainment of a dominant position by the supported companies.
- Projects with better scores in the quality criteria tend to face greater competition from international players, so that support tends to have a less pernicious effect on competition.

### Relevance

- The design and implementation of IS Innovation globally fulfilled the objectives for which it was created, having contributed to leverage the investment of SMEs and Large Companies.

### Efficiency and European Added Value

- On average, each euro of incentive granted translated into an additional €0.88 of Turnover and €0.31 of GVA in each of the years following the start of the projects.
- Each euro of financing (support) contributes to leverage €1.77 of private investment, being higher in the case of non-SME projects.
- SI Innovation is a complementary factor in attracting foreign direct investment, and the support tends to be decisive when there are geographies with similar characteristics.

## Recommendations

1. Maintain the eligibility of non-SMEs under the IS Productive Innovation through the differentiation of financing conditions through the size of the business group.
2. Promote a greater appreciation of the knowledge produced by the I&R system in productive innovation projects.
3. Maintain the option of a hybrid financing model, combining the grant component with the financial instrument component.
4. Extend the period of evaluation of the contracted results of the supported projects.
5. Strengthen the analysis of the incentive effect and the financing strategy of the project.
6. Broaden the range of eligible expenses under IS Innovation projects that are complementary to productive innovation investments (e.g., qualification, internationalization).
7. Implement mechanisms of greater automatism and efficiency in the processes of (i) preparation and submission of applications and (ii) monitoring and evaluation of projects.
8. Increase predictability throughout the life cycle of the operationalisation of the instrument (from the NoT to the closure of supported projects).
9. Increase the percentage of advances to promote the start-up/implementation of approved projects, reduce the likelihood of dropping out and reduce delays in programme implementation.
10. Make the merit criteria and targets defined for projects more flexible according to the evolution of the macroeconomic context and demand.

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