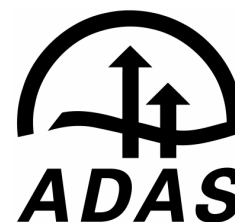




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Department of Agricultural and Food Economics



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Executive Summary

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EXECUTIVE SUMMARY

1. Introduction and Terms of Reference

- 1.1. This economic evaluation was commissioned by Defra in August 2002 and completed in June 2003. The team from ADAS and the University of Reading comprised economic evaluation specialists, a specialist in the economics of marketing, a survey specialist and two consultants experienced in the development of businesses within the food chain.
- 1.2. The project investigated rounds 1 and 2 of the Agriculture Development Scheme (**ADS**), covering the period November 1999 through to November 2001. ADS is a non-capital grant scheme designed to help farmers and growers in England improve their competitiveness through better marketing. It has been used to address particular situations in the industry. The first round had as a priority those sectors in economic difficulty that did not benefit from the September 1999 aid package, thus targeting primarily pigs. The second round was a bridging measure pending the introduction of the England Rural Development Programme (**ERDP**). Grant is available to support non-capital costs, including salaries and overheads. In the first two rounds, the scheme was open to industry bodies and organisations and partnerships of producers or companies but not to individual producers or companies.
- 1.3. The Terms of Reference (**TOR**) for the evaluation were to consider whether there is an economic rationale for public sector support for marketing initiatives to improve competitiveness, how effective ADS has been in stimulating marketing initiatives, what have been the impacts of funded projects, whether there have been wider impacts and the cost effectiveness of these interventions. Finally, the project team has been asked to provide recommendations.

2. Background and Methodology

- 2.1. A total of £5 million was made available for the first two rounds of ADS - £2 million under the first round and a further £3 million under the second. ADS was heavily over-subscribed under both rounds with 79 bids finally accepted out of a total of 314 applications. There have been a further two rounds of ADS launched in 2001 and 2002.
- 2.2. The evaluation was carried out by the following research methods:
 - Interviews with Defra staff responsible for developing and operating ADS;
 - A review of the application and approval process;
 - A literature review of the economic rationale for public sector support to improve competitiveness;
 - A postal survey of successful and unsuccessful applicants;
 - A telephone survey of eligible non-applicants;
 - Case studies of successful applicants;

- Desk study of some of the best unsuccessful applications;
- Call for written submissions to representative organisations.

3. The Economic Rationale for Intervention to Promote Better Marketing in the Agri-Food Chain

- 3.1. A concern to improve competitiveness, for example by enabling producers to meet specification better and through improving responsiveness and efficiency of the supply chain, underlies the provision of grants under ADS. The rationale for public sector intervention is two-fold: to enable the rural community to have effective control over its assets, and to reduce the transaction and information costs that may otherwise inhibit competition.
- 3.2. At the industry level there are good explanations for how innovation results in benefits to innovators and consumers, and losses to those who fail to innovate. There is an externality so that the incentive to innovate is less than it would be if there were no market failure.
- 3.3. Because ADS is designed to spread best practice it encourages value adding in the agri-food chain. Competition is strong and there are many examples of firms going out of business through failing to innovate.

4. Objectives and Operation

- 4.1. ADS was launched in 1999, in response to the difficulties then facing the agriculture industry, as a measure to help farmers and growers in England improve their competitiveness through better marketing.
- 4.2. The guidance notes to ADS rounds 1 and 2 state in their introductions ‘This scheme is a competitive non-capital business support measure intended to improve competitiveness of the agri-food industry’.
- 4.3. The main difference between each of the rounds of ADS has been in the time for implementation. This was approximately 10 months in ADS 1, 28 months in ADS 2, and 33 months in round 3.
- 4.4. The information provided for applicants by Defra was brief and simple and in the form of guidance notes. However the collaborative or partnership nature of the scheme must have provided a challenge for the applicants to deliver a completed bid within the tight time-scales of 50-60 days.
- 4.5. Minor adjustments have been made to the documentation between ADS 1 and 2 following industry consultation. The assessment criteria did not change and bids were assessed by Defra divisions, and awards made by a Defra panel on which there was an outside assessor.

5. Conclusions

- 5.1. The evidence of effects was gathered from surveys and anecdotally through case studies. The survey response on average was 40%. Five successful applicants were taken as case study examples and a further three from among the best of the unsuccessful applications were studied.
- 5.2. Among about three-quarters of applications, both successful and unsuccessful, the projects built on existing ideas. The opportunity for grant almost certainly encouraged these to be developed faster than might otherwise have been the case.
- 5.3. The number and quality of the proposals received by Defra led to the budget being increased between ADS 1 and 2. The quality of the approved proposals was high.
- 5.4. An important body of evidence comes from the selected case studies that looked at five funded projects, four of which were deemed successful to at least some extent, and one of which was terminated because of a lack of commercial success.

5.1 Economic Rationale

- 5.1.1. There are good theoretical explanations why the market does not operate perfectly in the agri-food chain and thus validates specific public intervention. There are barriers to collaboration, especially the cost of gathering information and creating partnerships. By stimulating collaborative activity, ADS rounds 1 and 2 incentivised the reduction of these market failures.

5.2 Effectiveness

- 5.2.1. ADS rounds 1 and 2 were successful in bringing forward 162 and 152 proposals respectively. Of these, 48 received awards in the first bidding round and 31 under round 2. In both cases, less than a third of projects were approved. However some unsuccessful applications were re-submitted and successful under later rounds.
- 5.2.2. About 80% of successful applicants thought that the scheme was effective in meeting its objectives. Among unsuccessful applicants the approval rating was much lower (about 30%).
- 5.2.3. The evaluators' appraisal of some of the best applications which were not funded suggested that the increased budgets were sufficient.
- 5.2.4. Defra consulted widely with eligible bodies when preparing for each round of ADS. This appears to have been effective in forewarning them and encouraging applications. However the very large number of businesses, trade bodies and partnerships of potential collaborators which could apply makes it

hard to ensure that opportunities are not missed.

5.3 Impacts

5.3.1. The five case studies indicate a range of benefits from ADS grant aid:

- Sustainable employment creation (Sheepdrove Organic Poultry);
- Expansion of trade associations which provide information to producers entering new marketing channels (National Association of Farmers' Markets (**NAFM**) and English Wine Producers (**EWP**));
- Improved volumes or values for produce leaving primary producers.

5.3.2. 52% of those responding for funded projects thought that farmers and growers had received higher values for their produce as a result of the ADS project. 39% thought that they had increased volumes of sales by farmers and growers and 36% thought that farmers' and growers' existing markets had been secured.

5.3.3. 60% of those responsible for funded projects thought the scheme had enabled their business or sector to grow, 57% thought it had helped ensure their viability and 57% thought that it had helped them develop new markets.

5.3.4. Most of the funded projects have improved the competitiveness of those farmers and growers who have developed their marketing. These impacts are limited in scale but should be sustainable over time. There are exceptions associated with projects which did not succeed.

5.4 Wider Impacts

5.4.1. The ADS resulted in more contact between collaborators in the applications. For funded projects, 33% of collaborators had no contact before the ADS application but only 6% had no contact afterwards, and among unsuccessful applicants the proportion with no contact fell from 25% to 21%. Among collaborators in funded projects 21% were customers or suppliers before ADS and 33% now, whereas among unsuccessful applicants, 21% were customers or suppliers before ADS and 23% now (the latter result is unlikely to be statistically significant). In conclusion one can say that ADS had a positive effect in increasing collaboration among successful applicants, and much less impact on the unsuccessful applicants.

5.4.2. The case studies contain narratives which describe wider impacts. In one project studied, Sheepdrove Organic, there was a direct employment effect. However, the wider benefits are generally very hard to quantify. Examples of impacts are the increase in members of NAFM and the stronger more influential position of EWP – but the eventual outcomes depend on how these organisations use their greater influence. Equally, one of the wider impacts of the CD-ROM training package for the pig industry is likely to be the encouragement of the synthesis of technology transfer messages and the

adoption of new, inexpensive and flexible media to get them across to primary producers. Here, impacts may occur beyond the pig sector.

- 5.4.3. The projects were not always successful in the wider impacts that were achieved. For example, if Rosé Veal had demonstrated a profitable opportunity for production and sale of a new type of veal, the long-term problem of low values for dairy-bred calves would have had a solution. However, the fact that a proportion of funded projects did not meet the hopes of their promoters and Defra does not invalidate the exercise.
- 5.4.4. Given the large number of producers, the limited budgets and small number of funded projects (many of which were aimed at small market niches) and the many other market developments which were happening at the same time, it is impossible to conclude that ADS improved the competitiveness of farmers and growers generally. A fair assessment is that it produced examples of good practice, which need to be spread.

5.5 Cost Effectiveness

- 5.5.1. The administrative cost of ADS is estimated at about 9% of payments to beneficiaries. Some of the recommendations below are intended to reduce administrative costs.
- 5.5.2. An important aspect of cost-effectiveness is additionality. 64% of funded projects reported that they would not have gone ahead without the stimulus of ADS. A further 36% reported that they would have gone ahead on a smaller scale and might not have been as effective. Among unsuccessful applicants there were 10% who went ahead with the project in spite of not receiving funding – but this suggests Defra had good success in not funding projects with low additionality. The evaluators conclude that dead-weight was low. Displacement is unlikely in a national scheme but the evaluators have not investigated border effects with Wales and Scotland etc. Given that higher levels of aid are often available outside England through a wide number of schemes, it is likely that ADS reduced displacement rather than caused it.

5.6 Other Conclusions

- 5.6.1. There seems to be a problem of insufficient awareness of ADS among some potential applicants. Among 30 representative bodies and co-operatives that did not apply for ADS, a telephone surveyed showed 25% were unaware of the scheme. Among these 25% were some who were interested once ADS had been described. Among individual firms in the food chain who are potential collaborators and applicants, the lack of awareness is likely to be greater.
- 5.6.2. The earlier rounds of ADS were fairly simple because they were a national scheme with specific deadlines. ADS scheme literature now states that applications from projects which might be funded under ERDP Schemes are ineligible. For potential applicants and their consultants this creates a

significant obstacle – they need to know the rules for eligibility of all the ERDP Schemes before they can form a view of whether an ADS application is likely to be successful. There are potential overlaps with Rural Enterprise Scheme (**RES**), Vocational Training Scheme (**VTS**) and Processing and Marketing Grant (**PMG**).

- 5.6.3. Consultants seem to have an important role in bringing forward successful applications.
- 5.6.4. The title of “Agriculture Development Scheme” does little to inform people of the scheme's purpose.

Defra Processes

- 5.6.5. Uncertainties about eligibility of applicants and types of eligible expenditure caused concern among unsuccessful applicants and non-applicants. Defra’s ADS literature should make it clear that guidance on eligibility and how to present applications is available. A voluntary process in which applicants submitted a limited amount of information to get a view from Defra on eligibility might help. A fixed format expression of interest form could direct potential applicants’ efforts to providing the information Defra needs to guide them. The offer of an interview might be more appropriate support to potential applicants, rather than only a written response.
- 5.6.6. There were some discrepancies in the scoring of ADS applications and the award of grants, but not at a level which caused the evaluators much concern. This may be partly due to the desire (publicly stated at announcement of bidding rounds) to help particular sectors – which is probably justifiable.
- 5.6.7. Some files contain a large amount of paperwork for modest amounts of grant.
- 5.6.8. It is not clear that the most appropriate people are seeing the applications at the right stages.
- 5.6.9. There is a balance to be struck between flexibility in paying grant and fraud prevention. There is a particular risk of fraud when paying for revenue items such as time and overheads.

6. Recommendations

- 6.1 ADS should be given a more informative name such as “The Agri-food Marketing Scheme”.
- 6.2 To reduce the administrative cost associated with small projects, and the poor return to applicants for their efforts in making applications, the minimum grant should be raised from £10,000 to £20,000.

- 6.3 A small number of Defra staff with very good knowledge of particular sectors should take a more managerial role in approval and progress checking.
- 6.4 After selecting these staff on the basis of expertise they should be consulted regardless of which part of Defra's organisation they reside in. Defra's Commodity Divisions should not automatically be consulted.
- 6.5 The scoring system should be revised drawing on a simple framework such as:
- Number of primary producers benefiting;
 - Total value of increased sales;
 - Total value of cost reduction.
- 6.6 A panel with an external expert should continue to take decisions collectively on which applications to fund.
- 6.7 An optional 'Expression of Interest' process should be put in place so that potential applicants can request Defra to give an opinion on the eligibility of proposed applicants, projects and types of expenditure. Applicants should be made aware that following submission of the Expression of Interest form, they can attend an appointment with staff of Defra's MCC Division to discuss the development of their project and presentation of an application.