The University of Reading
Department of Agricultural and Food Economics

ADAS

# ADAS Consulting Limited and the University of Reading

# An Economic Evaluation of the Processing and Marketing Grant Scheme

Prepared for:

Rural and Resource Economics Division
Department for Environment, Food and Rural Affairs
Area 1B, Ergon House
c/o 17 Smith Square
London
SW1P 3JR


**ADAS Consulting Ltd**
Economics & Management Consultancy
Woodthorne
Wergs Road
Wolverhampton
WV6 8TQ

J Elliott
M L Temple
J Francis
A Chalmers

**University of Reading**
Dept. of Agricultural and Food Economics
School of Agriculture and Policy Development
4 Earley Gate
Whiteknights Road
University of Reading
PO Box 237
RG6 6AR

A L Tiffin


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Within ADAS, Bingul Augustin, Klaudia Hollis, and Mary Blackshaw of the Market and Policy Research Unit assisted the named authors to complete this work. Any deficiencies are the responsibility of the ADAS/RU team and not of those who were kind enough to help us with the evaluation.

**Departmental Names**

In June 2001 the Department for Environment, Food and Rural Affairs (Defra) was formed from the Ministry of Agriculture Fisheries and Food (MAFF) and parts of the former Department of Environment, Transport and the Regions. For simplicity this report refers to Defra regardless of whether events happen before or after June 2001, although this is not strictly historically correct. The exceptions to this are references to documents prepared by MAFF.

## Abbreviations

| Abbreviation | Meaning |
|---|---|
| PMG | Processing and Marketing Grant Scheme |
| ADAS | ADAS Consulting Limited |
| ADS | Agriculture Development Scheme |
| Defra | Department for Environment, Food and Rural Affairs |
| EAGGF | Agricultural Guidance and Guarantee Fund |
| ECS | Energy Crops Scheme |
| ERDP | England Rural Development Programme |
| EU | European Union |
| FMD | Foot and Mouth Disease |
| FTE | Full Time Equivalent |
| GO | Government Office |
| GVA | Gross Value Added |
| IACS | Integrated Administration and Control System |
| MAFF | Ministry of Agriculture, Fisheries and Food |
| MCCD | Marketing, Competition and Consumers Division |
| MTE | Mid-term Evaluation (of ERDP) |
| MTF | Marketing Task Force |
| NPD | New Product Development |
| RES | Rural Enterprise Scheme |
| RDA | Regional Development Agency |
| RDS | Rural Development Service |
| RDD | Rural Development Division |
| RPA | Rural Payments Agency |
| RPG | Regional Programming Group |
| SME | Small and Medium Enterprise |
| SSFF | Strategy for Sustainable Food and Farming |
| SU-PBS | Schemes Unit – Project Based Schemes (of RDS) |
| VTS | Vocational Training Scheme |

## EXECUTIVE SUMMARY

### Introduction and Terms of Reference

1. This evaluation of the Processing and Marketing Grant Scheme (**PMG**) was commissioned in November 2002 and the draft final was submitted in July 2003. The evaluation team from ADAS Consulting Ltd. and the University of Reading included two economic evaluation specialists, a survey specialist, a specialist in the economics of food marketing, and a management consultant.

2. The PMG is a capital grant scheme under the umbrella of the England Rural Development Programme (**ERDP**) aimed at raising the value added of agricultural products and increasing their competitiveness in the market place through improved processing and marketing. Projects might, for example, lead to the development of new or innovative products, raise the quality of existing products or improve or rationalise processing facilities. PMG is open to individuals, groups of primary producers or **SME**'s (small and medium sized enterprises) involved in agricultural production, processing and marketing. Grants are available towards the cost of new buildings, the refurbishment of old ones and the purchase of new equipment. It is intended that the PMG will encourage and promote a wide range of new investments contributing to the rural economy and employment, including projects in the area of regional and speciality foods.

3. Some £44 million of funds from the Government and the EU is to be available for PMG over the period 2001 to 2006, rising from £4 million in 2001 to £8 million in 2002 and beyond. PMG grants are available for investments over £70,000 and can provide up to 30% of eligible costs. Grant holders are expected to contribute at least 45% of the total cost of projects from their own resources. Although projects can be any size, the maximum grant available is £1.2 million.

4. PMG is managed on a regional basis and, among other criteria, applications are assessed against priorities identified in the regional chapters of the ERDP. PMG is competitive in that applications are assessed against one another with the best securing funding, within the available budget.

5. The research objectives for the evaluation were:

- Is there a valid economic rationale for public sector support for the processing and marketing of agricultural products?
- How effective has PMG been in stimulating proposals for marketing initiatives?
- What have been the impacts or potential impacts of projects funded under the PMG Scheme?
- Have there been any wider impacts of the PMG Scheme?
- How cost-effective has the PMG Scheme been in delivering its objectives?
- Based on the above, what improvements could be made to similar future schemes?

## Methodology

6. The evaluation team reviewed the scheme rules and administration based on scheme literature. Interviews with those in Defra responsible for developing the policy and implementing the scheme were supplemented with interviews with Rural Development Service (**RDS**) staff.

7. A literature review was carried out to support the work on the economic rationale.

8. Four surveys were undertaken:
   i) A postal survey of successful applicants
   ii) A postal survey of unsuccessful applicants
   iii) A telephone survey of non-applicants
   iv) A postal survey of ERDP beneficiaries and non-beneficiaries (part of the ERDP Mid –term Evaluation)

9. Case studies were carried out on four successful and three unsuccessful applicants all located in the East Midlands and South East regions. In addition, a consultation was carried out with representative bodies.

## The Economic Rationale for PMG

10. There is a rationale for innovation related intervention. It is based on market failure due to information and transaction costs associated with innovation by small businesses and the lack of control of productive assets. For example a grouping of potato producers who want to upgrade and amalgamate their storage and grading may need to get effective control of their collective assets.

11. At the economy level the rationale depends on the spillovers between firms. There are two distinct cases:
   i) Industry leader with spillover cost savings to the industry and to consumers
   ii) The above situation with technological laggards.

   In both cases the private return to the innovator is smaller than the social return to the innovation.

12. In addition, there is a rationale for innovation related intervention in agriculture because of the isolation of agricultural producers from sources of information, the lack of sufficiently large markets to induce the development of technologies and information services and the high cost of consultancy.

13. Capital grants tend to advance the technological development of recipient firms, and to help firms utilise the economies of scale. However capital grants can lead to deadweight loss, and to allocative inefficiency when capital investment is made artificially cheap compared to the cost of labour.

## Objectives and Operation

14. The stated aim of the PMG is to improve the competitive position of farmers and growers. More specific objectives are to guide production in line with market trends, encourage new outlets for farm produce, improve marketing channels, processing and presentation of products, reduce waste, apply new technology and innovation, improve product quality, conditions for workers and protect the environment.

15. The RDS administers the PMG in each of the 8 English Regions with assistance of the Schemes Unit in Worcester. Policy level input is provided by Marketing, Competition and Consumers Division (**MCCD**) of Defra and Rural Development Division (**RDD**) provides scheme management and finance. Payments are made through the Rural Payments Agency.

16. Expenditure under the scheme has been below the £8 million allocated budget for both 2001/02 (-76%) and 2002/03 (–24%). While FMD had a major impact in 2001/02, there is an issue in terms of scheme uptake and implications for the competitive allocation of funds.

17. From October 2000 to March 2003 there were 85 successful applications and a total projected project spend of £60 million. Sixteen projects have involved investment of more than £1 million and have contributed to an average project spend of £703,508. The majority of applicants are smaller businesses with project spend of under £500,000.

18. Average project size is much higher than anticipated and while the number of jobs created and safeguarded is high, the total number of projects funded to date represents only 23% of the programme target to 2007. Collaborative projects are also poorly represented and there are few truly innovative projects.

19. Projects have tended to be concentrated in certain sectors (fruit and vegetable) and in particular regions (East Midlands, East of England, South East and South West). It is not clear if this is entirely a reflection of the location of eligible businesses and projects or a reflection of disparity in promotion or administration of the scheme.

## Views of Stakeholders

20. Sixty percent of businesses receiving aid have a turnover of between £1 million and £10 million, and 44% have between 10 and 50 employees. The majority are family owned businesses.

21. Sixty percent of ERDP beneficiaries and 75% of ERDP non-beneficiaries had not heard of PMG. The main ways in which applicants had heard of PMG were from information sent by Defra and through business advisory services and consultants. Seventy five percent of successful applicants thought the administration of applications was good, but only 30% of unsuccessful applicants agreed. Eighty two percent of successful applicants thought the

scheme was effective in meeting industry needs. Ninety percent of successful applicants indicated business growth as an outcome.

22. Representative organisations emphasised the need for farming to restructure and become more market orientated. Some felt that the PMG should be focussed on niche markets and local supply chains. Few felt the PMG had encouraged innovation. PMG was thought to only benefit primary producers when projects are farm based. There was considerable confusion among potential applicants between PMG and the Rural Enterprise Scheme and the Vocational Training Scheme. Combining the schemes was suggested by some. Other requests were for simplified administration, consistency in scoring of applications and removal of the £70,000 minimum investment threshold.

**Case Studies**

23. The seven case studies illustrated a wide range of projects in different sectors of the food chain. Four were of funded projects and three were of unsuccessful applications and were located across two separate regions.

24. The case studies illustrate that where PMG is awarded there are significant impacts on business. There is often little difference between successful and unsuccessful applications. There is confusion between PMG and the Rural Enterprise Scheme (**RES**). Technical assessments seem to rely too much on presentation of applications and the application and assessment process needs to be further developed.

**Conclusions**

25. The various economic rationales are only weakly supported by the evidence. PMG enables rather than stimulates investment and additionality is low for larger projects. It is difficult to favour additionality without selecting smaller or financially weaker projects. The small scale of agricultural producers and small food firms does provide a convincing rationale for support provided additionality and innovation is high.

26. The PMG does encourage technology uptake and productivity through improved efficiency and economies of scale. There is the danger of creating an imbalance between the employment of capital and labour. The risk of displacement is high.

27. There is little evidence that PMG as it exists is encouraging innovation or local networks.

28. In the opinion of the evaluators the PMG has little impact on markets for agricultural production and is not very effective in generating benefits for farmers and growers. The net impact on jobs safeguarded and created is likely to be low at programme level because of modest additionality and high displacement.

29. The greatest impact of the PMG is the general effect of encouraging businesses to invest in new technology, expansion and other measures that increase productivity and competitiveness.

30. Many non-applicant businesses were not aware of the PMG and greater competition for the scheme would raise the impacts bought by a limited budget.

31. The PMG is not particularly cost effective with running costs (excluding some policy and central costs) at 15% of total spend. This is based on relatively high average project size.

**Recommendations**

32. The objectives of PMG should be simplified and focussed on the encouragement of small food businesses to innovate in terms of products, processes and markets.

33. The promotion of PMG to small food business (and potential new entrants to the food sector) needs to be better targeted and carried out through appropriate regional food groups, representative bodies and trade associations.

34. Consideration should be given to merging RES, PMG and possibly the Vocational Training Scheme (all ERDP schemes) from an applicant's perspective.

35. The PMG should use a variable grant rate according to additionality and displacement, and improved scoring system to reflect the recommended revised scheme objectives. Make the scoring and selection process more transparent.

36. Improve value for money by managing the annual budget more effectively (less slippage) and by seeking Commission authority to allow funding of second-hand equipment.

37. Simplify the application procedure with an application form and better guidance. Promote pre-application advice to check eligibility of projects and to provide information on panel dates, available funds etc. and offer facilitation for the application process.

CONTENTS

# 1. INTRODUCTION AND TERMS OF REFERENCE

## 1.1 Commissioning and the Research Team

This report '*Economic Evaluation of the Processing and Marketing Grant Scheme'* is part of Defra's rolling programme of policy evaluations. ADAS/RU returned an Expression of Interest and subsequently a proposal for the work, which was accepted by Defra in November 2002. The work began with an initial meeting with Defra on 10 December 2002. During the project ADAS/RU met with Defra on three occasions in December 2002, April 2003 and in May 2003.

The members of the evaluation team and their roles are summarised below:

**John Elliott B.Sc. M.Sc. Agricultural Economics**
Principal Consultant, ADAS Economics and Business Consultancy Group, Wolverhampton
*Project management, interviews, case studies, economic analysis and reporting.*

**Mark Temple B.Sc. MA Economics**
Senior Consultant, ADAS Economics and Business Consultancy Group, Wolverhampton
*Quality assurance, economic analysis and reporting.*

**John Francis B.Sc. Member of the Market Research Society**
Senior Consultant, ADAS Market and Policy Research Group
*Survey design and execution and stakeholder consultation methods.*

**Dr. Abigail Tiffin B.Sc. (Hons), Ph.D. Marketing Economics Specialist**
Research Fellow, Department of Agricultural and Food Economics, University of Reading
*Literature review and economic rationale.*

**Angus Chalmers B.Sc. (Hons) Agriculture**
Director of ADAS Management Consultancy
*Case studies and reporting.*

John Elliott, Mark Temple, John Francis and Angus Chalmers, all of ADAS, are experienced in economic policy evaluation. Dr. Abigail Tiffin is a research fellow in the Department of Agricultural and Food Economics of the University of Reading who specialises in the economics of marketing.

## 1.2 Background and context

The Processing and Marketing Grant Scheme (**PMG**) is a capital grant scheme designed to increase the competitiveness of farmers and growers in England through improving the infrastructure for processing and marketing of primary agricultural products. It is available to processors in England as part of the England Rural Development Programme (**ERDP**), which was introduced in October 2000. The enabling regulation is Council Regulation 1257/1999, Chapter VII, Articles 25 to 28.

*The UK Food Industry*

A Defra review of competitiveness (Defra 2002) concluded that those parts of the food chain exposed to international competition – agriculture and food processing – are not achieving their full potential. However, the food processing and manufacturing industry is more productive than the rest of UK manufacturing, notably in terms of capital employed per worker. The industry also contributes significantly to output – food processing and agriculture together account for an estimated Gross Value Added (**GVA**) of £26.9bn and employment is also significant at an estimated 982,000 employees.

According to the Confederation of the Food and Drink Industries of the EU, the UK has the largest net deficit (within the EU) in the balance of trade in food and drink at €2,444 million (Eurostat).

*The England Rural Development Programme (ERDP)*

PMG is one element of a wide package of support to the farming and food industry through ERDP, which comprises two main elements, agri-environment measures and project-based schemes. The aims of the latter as stated in the scheme literature are:

- *To assist in the creation of more diverse and competitive agricultural land and forestry sectors and jobs in the countryside*

- *To encourage the development of new products and markets and greater collaboration and*

- *To provide training to support these new activities*

In addition to PMG, the other project-based schemes are the Rural Enterprise Scheme (**RES**), the Energy Crops Scheme (**ECS**) and the Vocational Training Scheme (**VTS**). The overall programme is intended to provide an integrated package of schemes and it is clear that many projects might draw on more than one scheme, for example PMG for capital investment, RES for revenue funding and VTS for training. It is notable that one of the categories provided for under RES is ‘marketing of quality agricultural products’ – defined as products with identifiable quality attributes, which raise the product above the basic commodity level. Scheme literature indicates that this might include projects which raise the quality of production to meet market needs, the formation or development of collaborative groups to market quality products, consumer and quality assurance schemes, speciality foods, establishing farmers markets, regional or local branding of foodstuffs etc. It is clear that there is scope for considerable overlap between RES funding and that of PMG.

An additional feature of the ERDP project-based schemes is that they are regionally focused and administered. Progress in implementing these schemes is guided by a Regional Programming Group (**RPG**) which consists of Defra, Government Office (**GO**), Regional Development Agencies (**RDA**s) and environmental agencies. Each region has a budget allocation for each scheme and according to the terms of the Agriculture Guidance and Guarantee Fund (**EAGGF)** funding, budgets need to be used in the programme year (April to March). Any under-spend in individual scheme budgets can be vired (transferred) to other schemes that are under-funded. There can also be some movement of funds between regions and from the national reserve, subject to a case being made.

*Wider policy context*

The UK government is actively engaged in policy initiatives in the rural agenda and some of these are relevant to the support for marketing and processing under PMG and its delivery. These are outlined briefly in this section.

The **Strategy for Sustainable Farming and Food** (**SSFF**) is government's strategic response to the Policy Commission. It sets out how industry, government and consumers can work together to secure a profitable and internationally competitive future for the English industry, whilst contributing to a better environment, improving nutrition and public health, and leading to prosperous communities. Two initiatives are pertinent to this evaluation:

(i) A new Agriculture Development Scheme (**ADS**): to improve competitiveness and marketing, including the priority areas of co-operation, farm assurance and spreading best practice
(ii) New funding to assist small regional food producers: extra money channelled through Food from Britain will enable it to work with Regional Development Agencies and the Regional Food Groups to expand this sector.

The **Organic Action Plan** is also a response to the Policy Commission recommendations and details a 21 point Action Plan to help the home-grown organic food and farming sector develop. Among the action points in the Plan is promotion of organic sector growth through action in distribution, processing and retailing.

Government has also commissioned a **review of rural delivery arrangements** (Haskins Review) to look at rural delivery arrangements (including those relating to the ERDP) at national, regional and local level, considering the activities of a number of other rural delivery agencies as well as Defra.

The continued reform of the Common Agricultural Policy (CAP) has progressively increased the relevance of the world market for primary produce, with reduced supply management. In June 2003, agreement was reached on decoupling farm support from production in the Mid Term Review (MTR) of the CAP. This is a very significant shift towards greater market orientation of production and may create new opportunities for market-led initiatives by both farmers and processors – it might also alter the current production portfolio of UK agriculture and require some structural adjustment in the farming and food industry.

## 1.3 The Processing and Marketing Grant Scheme

The ERDP sets out the aim for each measure and a number of indicators and targets. The aim of the PMG is to encourage innovation and investment to achieve added value for English primary products and to enhance market opportunities.

PMG is funded under EAGGF and matched by funding from Defra. The annual budget for the PMG Scheme is £8m per annum (£4m in 2001) – ERDP funding is limited by historically low use of rural development funds in the UK in previous measures. The relevance of this is that the impact of PMG is necessarily limited by its small budget in the context of the whole food and drink processing industry in England.

This raises the question of targeting. While grant aid under the PMG is dependent on improving the situation of primary producers, it is available to individuals, groups of primary producers or companies of any size who are involved in food processing and marketing. Priority is given to Small and Medium Enterprises (**SME**s) if the scheme is oversubscribed and there is a need to demonstrate a need for public funding. There is no stated prioritisation of particular investment types or within specific sectors at the national level.

PMG is broadly based on the previous grant schemes of this name, which ran from 1991 to April 1996 (in England). Grant is available at a rate of 30% of eligible costs to support erection of new buildings, refurbishment of old buildings and the purchase of new equipment intended to improve and rationalise food processing. Project spend must be at least £70,000 and the maximum grant payable is £1.2m. The applicant must provide at least 45% of the investment from their own resources. The facilities must be for primary agricultural products (both inputs and outputs) and projects must give primary producers an adequate and lasting share of the resulting benefits.

The scheme is administered regionally with each of the 8 regions given an indicative financial allocation with a total of 15% retained centrally to provide flexibility. Regional administration allows government officials to allocate limited funds on a competitive basis according to regional priorities – as set out in the Regional Economic Strategy and the regional chapter of the ERDP. The mechanism for allocation of grant is on a technical assessment – regional fit and value for money – which is then considered by a Regional Assessment Panel.

Given the potential grant award available, and the degree of leverage (30% grant rate), the effectiveness of the selection process is critical. In this context, the evaluation must consider how the regions are scoring and selecting projects to utilise limited resources.

*Previous Evaluation*

The only previous evaluation of processing and marketing grants is one undertaken in 1998 for the Scottish Office (SQW 1998) which considered the EAGGF schemes which ran from 1991-93 in the UK (*ex-post* final) and 1994-99 (mid term). The relevance to this evaluation is whether the current scheme has taken account of previous 'lessons learned' and whether it provides additional indications of likely impact, given the early stage in the life of the new English PMG Scheme at which this evaluation is taking place.

The schemes were very similar to the current PMG in their objectives but the earlier scheme, which operated in England, was administered at a national level. The scheme objectives are compared to the current PMG in table 1.1.

**Table 1.1 PMG Objectives 2000-2006 vs. 1991-1993**

| PMG (ERDP) 2000-2006 | PMG 1991-1993 |
|---|---|
| Guide production in line with foreseeable market trends | Further long term structural improvements and relieve market intervention mechanisms |
| Encourage the development of new outlets for agricultural products | Facilitate the production and marketing of new products or high-quality products, including those organically grown |
| Improve or rationalise marketing channels | Improve or rationalise marketing channels or processing procedures for agricultural products |
| Improve or rationalise processing procedures | |
| Improve the presentation and preparation of products | Improve the quality, presentation and preparation of products and encourage a better use of by-products |
| Achieve the better use or elimination of by-products or waste | |
| Apply new technologies | Promote the application of new processing techniques, including the development of new products, new markets and innovative investments |
| Apply innovation | |
| | Promote projects located in regions faced with special problems |
| Improve and monitor quality | |
| Improve and monitor health conditions | |
| Protect the environment | |

Objectives on *environmental protection* and *quality and health conditions* were added in the 1994-1999 programme. It is notable that the only objective from the earlier programmes that is not in the ERDP PMG is that on targeting regions. To some extent, this is inherent in the regionalisation of ERDP through the budget allocation process and within regional budgets by reference to regional statements.

Programme spend in the 1991-1993 scheme was £66.9m over the three years of which £28.6m was allocated in England. This represents a similar level of budget to the ERDP-based scheme. Project size averaged £254,000 (£251,000 in England).

The SQW evaluation of the 1991-93 and 1994-99 schemes found that:

- Both programmes succeeded in promoting *improvements in product quality* and the *production of high quality products* – and in *improving the quality and presentation of products*
- Both programmes led to significant *benefits to primary producers* – in terms of additional income and information transfer
- There has been some focus on the *application of new techniques* but little indication of *changing technology* or *innovation*
- There was significant economic impact – in terms of employment generation, additional sales and induced investment – at a reasonable cost
- The level of programme additionality was linked to project size
- Administration of the programmes was thorough, rigorous and professional – but there was some inconsistency of operation between regions which slowed down decision taking

Recommendations included:

- Simplify the objectives
- Adopt a more proactive marketing approach
- Adjust the selection criteria – giving more weight to additionality, innovation and co-ordination with other schemes and enhancing the criteria relating to financial stability and strength of the applicant
- Extend the scope of the programme by reducing minimum size of the project – to improve additionality
- Promote faster decision-making – more regular panels
- Improve monitoring and performance assessment – by simplifying and standardising impact indicators and introducing output monitoring
- Extend coverage to England – subject to the above

*Fundamental Expenditure Review*

In 1995 the Working Group for the MAFF Fundamental Expenditure Review undertook a review of two key programmes run by the Marketing Task Force (**MTF**) to deliver 'improved marketing in UK food, drink and agricultural produce by a more market and export oriented industry'. One of the schemes reviewed was the Processing and Marketing Grant Scheme (PMG), which offered capital grants at 30% (25% EC and 5% national) for capital works for first stage processing or marketing. MAFF grant spend on PMG was forecast at just under £10m in 1995/96.

The review team reached the following conclusions:

1. Low level of additionality – projects had to be well advanced before application
2. Requirement for profitability conflicts with need for additionality – funded projects might displace more profitable projects which were unsuccessful
3. Competitiveness of the UK food sector would not be significantly affected due to the limited impacts (1) and (2) – the relatively small sums which competitors received would not make a material difference

In light of these conclusions and despite the political difficulties of withdrawing from the scheme, the Working Group recommended that the PMG should be withdrawn.

## 1.4 Terms of Reference and Research Workplan

*Terms of Reference*

The ADAS/RU evaluation sought to meet the research objectives by answering the following questions in the Terms of Reference and providing recommendations:

**a) Is there a valid economic rationale for public sector support for initiatives aimed at improving the competitiveness of farmers and growers through better processing and marketing?**
What evidence is there of market failure(s) to support the case for public sector intervention through aid for projects that are intended to raise the competitiveness of farmers and growers? Within this context, how far do PMG objectives address any market failure?

**b) How effective has the PMG been in stimulating proposals for marketing and processing initiatives?**
What impact has the PMG had in terms of:
(i) encouraging innovation in process, product and marketing
(ii) addressing gaps in the supply chain for processing capacity or product
(iii) rationalisation of processing and marketing of agricultural products

c) **What have been the impacts or potential impacts of projects funded under PMG?**
Have the projects improved returns for farmers and growers and has there been resulting effects on their competitiveness? Are the impacts likely to be sustained over time?

d) **Have there been any wider impacts of the PMG?**
What have been the direct employment effects, and have there been any indirect effects from improved communication and co-ordination by individuals and organisations? To what extent has the PMG acted as a catalyst to improving the competitiveness of farmers and growers generally?

e) **How cost-effective has the PMG been in delivering its objectives?**
How do the costs of administering the PMG compare to its outputs and how significant are additionality, deadweight and displacement?

f) **Recommendations**
Based on a) – e), and taking account of the longevity of the current funding under the ERDP, what improvements could be made to the scheme for future years?

*Research Workplan*

The key question which this evaluation addresses is the underlying rationale for capital grant funding, whether the scheme is delivering on its objectives or whether this could be achieved more cost-effectively by other means. Of particular relevance are the issues of additionality and displacement. It is perhaps too early in the life of the scheme to assess impacts but a number of case studies have been included in order to assess likely impacts.

The research activities were undertaken from December 2002 to July 2003 as summarised in Table 1.2.

**Table 1.2 Research Activities and Workplan**

| **Activity** | **Timing** |
|---|---|
| Tender let | Nov-02 |
| Meetings with Defra Steering Group | Dec-02, Apr-03 and May-03 |
| Interviews with Defra staff | Dec-03 to July-03 |
| Desk studies of economics literature and the rationale | Jan-03 to Apr-03 |
| Review of scheme operation | Jan-03 to July-03 |
| Surveys of successful and unsuccessful applicants and non-applicants | May-03 to Jun-03 |
| Case studies | May-03 to Jun-03 |
| Call for written submissions to representative organisations | June-02 |
| Report preparation | July-03 |
| Planned final report | August-03 |

## 2. METHODOLOGY

### 2.1 Interviews with Defra Staff

Interviews with those responsible for developing the policy and implementing the scheme were designed to understand the evolution of the scheme, the setting of objectives and the choice of an appropriate legal basis for it. In addition, much important information about the operation of its processes was obtained.

Interviews were held with key staff from Marketing, Competition and Consumers Division (**MCCD**) and the ERDP Manager in Rural Development Division (**RDD**), who had been in post while the scheme was developed. In addition, interviews were held with staff from the Schemes Unit - Project Based Schemes (**SU-PBS**) and RDS staff from the East Midlands and South East regions, from which case studies were selected.

### 2.2 Review of the Scheme Rules and Administration

The evaluation team was provided with scheme literature and was given access to individual case files relating to the case studies. Together with interviews with RDS unit managers at Nottingham and Reading, this gave a comprehensive insight into the scheme rules and administration process.

### 2.3 Literature Review

Dr Abigail Tiffin of Reading University carried out the literature review and authored the chapter on the economic rationale for the PMG using the normal academic procedures for this type of desk study. Chapters 3 and 4 benefited from comments on early drafts by the Defra evaluation steering group.

### 2.4 Survey of Applicants

Two separate self-completion questionnaires were designed. The successful applicants' questionnaire was sent to all 90 successful PMG applicants and the unsuccessful applicants' questionnaire sent to the 30 unsuccessful applicants. In addition, this evaluation coincided with the England Rural Development Programme mid-term evaluation (**MTE**), which also asked questions about PMG. Data from the survey carried out for MTE has also been considered in this report but related to farm-based businesses only.

### 2.5 Survey of Eligible Non-applicants

A telephone survey was designed to obtain the views of businesses that were eligible to apply but did not. Some of these businesses had expressed an interest but had dropped out of the application process. A total of 26 telephone interviews were achieved amongst this group. The sample comprised a number of applicants who had withdrawn their application, a number of food processing businesses known to ADAS and a random selection of small food processors taken from The Grocer directory (2003). For the latter, the criterion was a turnover of between £5m and £10m and less than 20 employees. Interviews were based on a short, semi-structured questionnaire.

## 2.6 Case Studies of Successful and Unsuccessful Applicants

Seven PMG applications were selected as case studies – four successful and three unsuccessful – in order to give an insight into the application and approval process and to consider the outcome of the projects, with and without PMG grant. At the outset, it was proposed and agreed with Defra that case studies should be selected from two English regions in order to allow some comparison between regions and between projects.

In the course of selecting case studies, there would be an opportunity to discuss the practicalities of scheme administration and technical issues with the regional RDS teams. They were asked to comment on all aspects of the scheme including; literature and promotion, decision taking and guidance and requirement for reporting and monitoring.

## 2.7 Call for Written Submissions to Representative Organisations

A list of organisations for consultation was agreed at the start-up meeting (Table 2.1) and letters were despatched in June. Organisations were asked to comment on the key terms of reference from their own perspective and offer suggestions for improvements.

**Table 2.1 Organisations asked to provide written submissions**

| | |
|---|---|
| National | ▪ NFU<br>▪ Royal Association of British Dairy Farmers<br>▪ MLC<br>▪ Food from Britain<br>▪ British Potato Council<br>▪ Food and Drink Federation<br>▪ Horticultural Development Council |
| North West | ▪ North West Food Alliance<br>▪ North West Fine Foods |
| North East | ▪ One North East<br>▪ Northumbria Larder |
| Yorkshire & Humber | ▪ Yorkshire Forward<br>▪ Yorkshire & Humber Regional Food Group |
| West Midlands | ▪ Advantage West Midlands<br>▪ Heart of England Fine Foods |
| East Midlands | ▪ EMDA<br>▪ East Midlands Food and Drink Forum |
| East of England | ▪ EEDA<br>▪ Tastes of Anglia |
| South West | ▪ SWRDA<br>▪ SWCore |
| South East | ▪ A Taste of the South East Ltd<br>▪ SEEDA |

# 3. THE ECONOMIC RATIONALE FOR INTERVENTION TO IMPROVE COMPETITIVENESS THROUGH INVESTMENT IN PROCESSING AND MARKETING OF AGRICULTURAL PRODUCTS

## 3.1 Introduction

Processing and Marketing Grants were available in England from 1991 to 1996, when the scheme was withdrawn in England. The scheme remained open to applications elsewhere in the UK until the end of 1999. The current Processing and Marketing Grant (PMG) scheme forms part of the England Rural Development Programme, ratified by the European Commission in the autumn of 2000, and will account for 3 per cent of the ERDP's expenditure over the programme period: 2001-2006.

Broadly based on the previous PMG, the scheme is perceived as particularly relevant and valuable in achieving Defra's goals and objectives for rural development. The aim of the PMG scheme is to increase competitiveness of agricultural products through adding value, which aims to benefit the rural economy in two ways: by securing its future and stimulating employment. The Scheme is intended to catalyse a broad section of processors or would-be processors whether rural- or urban-based and in particular small and medium-sized enterprises (SMEs) and primary producers.

Projects considered for a Processing and Marketing Grant must meet one or more of the following objectives:

- Guide production in line with foreseeable market trends
- Encourage the development of new outlets for agricultural products
- Improve or rationalise marketing channels
- Improve or rationalise processing procedures
- Improve the presentation and preparation of products
- Achieve the better use or elimination of by-products or waste
- Apply new technologies
- Apply innovation
- Improve and monitor quality
- Improve and monitor health conditions
- Protect the environment

The member countries of the EU that provide project-linked PMGs under the Rural Development Programmes 2000-2006 policy umbrella are shown in table 3.1.

**Table 3.1 Expenditure under PMG in EU member States**

| Country | Expenditure (million Euro) |
|---|---|
| Austria | 107.6 |
| Denmark | 36.8 |
| England | 69.8 |
| France | 55.8 |
| Germany | n/a |
| Luxembourg | 78.3 |
| Netherlands | 312.8 |
| Wales | 11.6 |

It is interesting to note the different levels of value added in agriculture across the EU member countries. The following table provides the net added value at basic prices in Euro and as a percentage of agricultural output.

**Table 3.2 Net Added Value at Basic Prices in Agriculture**

| EU Country | Euro (Million) (at Current Prices) | % of Agricultural Output |
|---|---|---|
| Belgium | 2,074 | 29.7 |
| Denmark | 2,587 | 31.1 |
| Germany | 11,824 | 26.9 |
| Greece | 7,605 | 68.4 |
| Spain | 19,997 | 58.6 |
| France | 23,884 | 37.5 |
| Ireland | 2,145 | 36.9 |
| Italy | 20,683 | 49.5 |
| Luxembourg | 80 | 30.9 |
| Netherlands | 6,354 | 32.9 |
| Austria | 1,005 | 18.8 |
| Portugal | 2,030 | 36.5 |
| Finland | 475 | 12.6 |
| Sweden | 985 | 19.2 |
| UK | 7,770 | 31.2 |
| EU-15 Average | 7,300 | 39.1 |

Source: European Commission, Eurostat (Economic Accounts for Agriculture).

The net value added as a percentage of agricultural output in the UK is below the average for the EU as a whole. However, the average is slightly distorted by the extremely high value-added figures for Greece and Spain, without which the UK would stand just above average. Also, the same measure of net value added is slightly lower in Belgium, Denmark and Germany than in the UK.

It is the drive to encourage value-adding activities on farms and in rural areas to improve the sustainability of the rural economy that underlies the provision of grants under the PMG scheme. In this literature review, we examine the theoretical and empirical evidence for market failure.

The rationale for public sector intervention is twofold: 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. First, the effective, or profitable, control of an asset may not be conferred on a single individual but rather on a group of individuals. Therefore, an individual who wishes to acquire that control must enter into contracts with all the individuals in the group, and this may be too difficult or costly. Second, exchange requires information, the identity and location of potential buyers and sellers must be known, the terms on which they are prepared to trade must be ascertained, and the quality of the commodities to be exchanged and the property rights attached to them must be checked. However, acquiring such information may be costly.

These two types of market failure form the basis for the rationale for the PMG scheme. Finally, we study the geographical linkages that may be encouraged by such grants and we examine the impact of the capital nature of the grant.

## 3.2 Market Rationale for Innovation-Related Intervention

In agriculture, it is argued that the scale of production is often too small to make effective use of developments in the market and of assets without collaboration with other producers. Also the isolation of agricultural producers from mainstream sources of information and exposure to consultancy fees restrict the potential for competition in markets.

### *3.2.1 Market Failure in Innovation*

There is an economic rationale for public sector support for marketing initiatives aimed at improving the competitiveness of farmers and growers if markets are found to be inefficient in their allocation of resources. An inefficient allocation, or market failure, would exist if it were possible, by exchange or production, to make at least one person better off without making anyone else worse off. Inefficiency implies the existence of potentially mutually advantageous trades or profitable production decisions. In the context of this study, we need to consider why such advantageous or profitable exchanges or production decisions would not occur without public sector support.

Given that individuals strive to make themselves better off by trade or production, inefficiency can only persist if individuals do not have sufficient control over productive assets to effect profitable or advantageous exchanges and production; and/or if transaction and information costs exceed the gains from trade; and/or if the individuals cannot agree on how to share the gains from their mutually advantageous exchange. It is the first and second possible causes of market failure that are of most relevance in providing a rationale for the PMG scheme. The third form of market failure relates to the fact that we do not operate in a perfectly competitive market structure with a single competitive equilibrium price. Instead there is a multiplicity of possible terms on which exchange could take place, which may lead to lengthy and costly bargaining, or no agreement and exchange at all. We do not attempt to argue here that the PMG scheme acts to counter this latter market failure, instead we concentrate on its usefulness in the context of the first two forms of market failure.

First, effective control of a commodity may not be conferred on a single individual but rather on a group of individuals. Effective control of a commodity or asset means the profitable or advantageous use of it, under particular circumstances, for a period of time and under certain terms. When effective control is vested in a group, an individual who wishes to acquire that control must enter into contracts with all the individuals in the group, and this may be so difficult or costly that no individual can acquire exclusive control. The usual examples given of this market failure are the use of a public road, common grazing lands, ocean fishing grounds and rivers. However, one can equally consider that a grouping of potato producers who want to upgrade, rationalise and amalgamate their storage and grading facilities into a larger, more economical unit with better environmental control, obtained with the aid of the grant, are attempting to seize effective control of their asset.

Second, exchange requires information, the identity and location of potential buyers and sellers must be known, the terms on which they are prepared to trade must be ascertained, and the quality of the commodities to be exchanged and the property rights attached to them must be checked. Acquiring such information may be costly. Individuals may have to incur search costs to find trading partners and observation costs to discover the quality of what is being exchanged. There will be costs of negotiating and specifying the terms of exchanges and of enforcing them. Such information and transaction costs may be so great that potentially advantageous contracts are not made or contracts may be incomplete, leaving some potential gains unexploited.

For example, a small dairy business may wish to expand its cheese-making operation to take advantage of the growing market for speciality cheeses, but may be constrained by the riskiness of the investment required in an uncertain market. A meat processing company may want to build a new plant to improve the eating quality of the meat. This may include the installation of controlled atmosphere packaging equipment, investment in electronic data capture and transmission to improve efficiency and product quality, and better effluent treatment systems. However, these innovating activities may be constrained by the payoff uncertainty associated with such a large investment. This evaluation attempts to determine the effectiveness of the PMG Scheme in the process of correcting for these market failure issues.

### 3.3 Rationale for Innovation-Related Intervention at the Economy Level

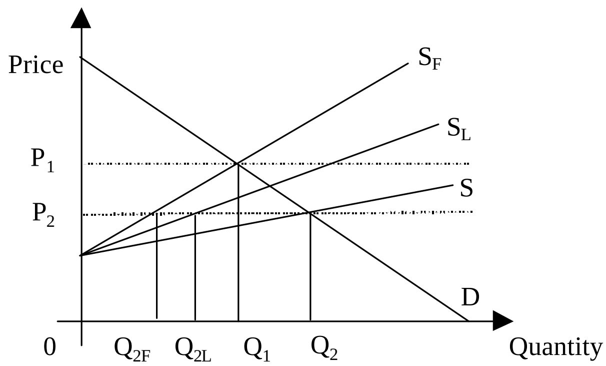
Research and development, innovation and knowledge availability are unambiguously believed to be good for economic growth (Van Oort, 2002). More than most other economic activities, innovation and technological change depend upon new economic knowledge (Audretsch and Feldman, 1996).

Therefore, Krugman (1991) and Grossman and Helpman (1991), among others, have studied the role that spillovers of economic knowledge across agents and firms play in generating increasing returns and ultimately economic growth.

To illustrate the impact of an innovation or technological development, which may result from a grant provided under the PMG scheme, on the economy as a whole, we use Feller and Nelson's (1999) extension of Mansfield et al's (1977) social savings model. In the following, we present a simplified view of the impact of innovation on the market for a particular commodity.

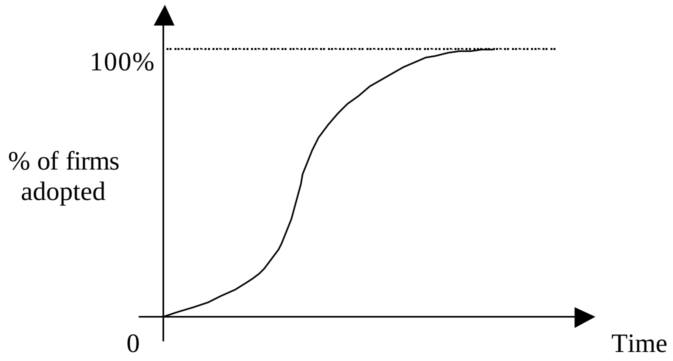
Figure 3.1 illustrates the expansion to output by the leading innovator(s) (Firm(s) L in the diagram) at lower unit production costs. The output of the followers (Firm(s) F in the diagram) that fail to innovate falls from $Q_1$ to $Q_{2F}$ at the new market price $P_2$, but total supply increases to $Q_2$ as the quantity supplied by the innovator(s) increases to $Q_{2L}$. Overall, due to the innovation and subsequent market price fall, consumer welfare increases by the area between $P_1$ and $P_2$ and under the demand curve.

**Figure 3.1: The Effect of Innovation on the Market**




The work of Mansfield (1961), and indeed much other work since, suggests that, if one measures the proportion of firms that have adopted a successful technique in an industry plotted against time, then one typically observes a positively sloped S-shaped curve of the type shown in Figure 3.2.

**Figure 3.2: The Innovation Diffusion Curve**




Its particular S-shape suggests that innovation proceeds relatively slowly at first as most firms are uncertain as to the innovation's worth and view it as a risky investment. After a time, however, as the process proves its worth and becomes common knowledge, diffusion speeds up. Finally, the speed of diffusion slows down again as the proportion of non-adopters is reduced, and as a few laggard firms eventually decide to make the switchover.

## 3.4 Rationale for Innovation-Related Intervention in Agriculture

The rationale for intervention, in the form of processing and marketing grants, in agriculture is essentially the need to support agricultural producers that are often small and disparate in comparison with their markets. Traill (1988) suggests that the main positive attributes of small agri-food firms are: their contribution to rural income and employment (including off-farm employment for the growing population of part-time farmers); their contribution to regional food diversity; and a small sub-sector are amongst the most innovative of food sector firms and are consequently important to the competitive position of the food industry as a whole.

However, although small producers of final foods have certain advantages because they are able to respond rapidly to emerging consumer demand niches, they are disadvantaged in an increasingly science-based industry in being unable to carry out research or, frequently, interpret its results (Traill, 1988). Likewise, market intelligence, promotion, etc are expensive for small, often remote, companies.

To summarise, it is crucial to support agricultural producers in their adjustment to these market developments for three main reasons:

1. The isolation of agricultural producers from mainstream sources of information. Although the situation in the UK is improving, agricultural producers are often unfamiliar with changing technology, production techniques, and business management practices. They are generally isolated and have too few opportunities for interaction with other producers in similar situations.

2. The lack of sufficiently large markets to induce the development of technologies or information/consulting services targeted at the needs of producers.
3. The cost of consulting services. It is difficult particularly for small and medium-sized producers to find high-quality, unbiased information, advice and assistance.

The problems are particularly acute for small firms in peripheral areas which are remote from their markets, and are associated with the need to make a transition from supplying mainly local or regional markets to meeting the needs of large scale buyers, often in export markets (Dawson *et al*, 1986). Dawson *et al* highlight specific problem areas such as:

- **The development of new products.** The limited number of second lines carried by retailers and the increasing consumer demand for product variety has increased the importance of new product development as a way of maintaining market position. Dawson *et al* estimates that more than 10,000 new foods and beverages are launched annually in the UK, West Germany, the Netherlands, Belgium, Switzerland, France and Italy, but out of every 100 new product ideas only three are commercially successful. Moreover, less than 40 per cent of all nationally launched products have a life cycle of more than five years. This is an area where large firms have an advantage, since they are better able to take the risks involved in new product launches, to withstand the costs of failure and to spend money on new product development.

- **Meeting the volume requirements of multiple food retailers.** As retailer concentration has grown, so their minimum purchase size has increased.

- **Meeting the quality requirements.** Food distributors have introduced very high quality and safety standards in response to consumer demand and in order to avoid food poisoning outbreaks.

- **Promotion.** Small rural firms cannot match the promotional budgets of the large manufacturers.

- **Market intelligence.** With the more segmented and volatile consumer food demand patterns evident today, small food firms are often unable to follow market developments.

- **Availability of risk capital.** Particularly to new or expanding firms in rural areas, remote from financial centres.

It is in the initial process of the attainment and use of technological developments that Government grants, such as the PMG with its emphasis on capital investment, are crucial for the smooth transition to market orientation. With the high propensity to adopt new approaches and technologies by agricultural producers, the initial stimulus to investment in innovation and efficiency can have tremendous spillover effects.

Although in a study of twelve food manufacturers in six EU countries, Traill and Meulenberg (2002) find that firms tend to have a dominant product, process or market orientation that determines company culture, the types of innovation accorded most importance, and the way in which innovations are organised and brought to fruition. Furthermore they find that to some extent the dominant orientation is a function of the type of market the firm operates in. Private-label supply to retailers versus branded supply being particularly important, but the nature of ownership and degree of internationality also appear important. The case studies carried out for the study do not suggest the importance of company size, but quantitative data suggests that larger firms are more R&D-intensive and place greater emphasis on new product development.

Finally, based on Traill and Meulenberg's findings they suggest that government agencies charged with upgrading the innovativeness of food companies would "be well advised to distinguish between the objectives of promoting "new to the world" innovation through leading-edge research and promoting technology transfer through the adoption of best practice".

## 3.5 Rationale for Capital-Nature Grant Schemes

De Long and Summers (1991) assert that investment in machinery and equipment has a positive influence on productivity growth and that the private return from equipment investment is below the social return. If their conclusions were correct, one implication would be that investment grants, which several governments, as well as the EU, have granted to the agri-business sector, might have contributed to increased economic growth. There are at least two reasons to suspect a positive connection between capital grants and productivity. First, if the grants help to advance the technological development of the recipient firms then productivity increases. Second, if the grants can help the firms to utilise economies of scale better, productivity may increase as well.

However, even if market failures exist which might justify government interventions, capital grants are not unproblematic. Financing of the grants might give rise to deadweight losses, and because politicians and bureaucrats may be more interested in maximising political objectives than in economic efficiency, resources may be sub-optimally allocated. Moreover, because grant allocation may give rise to both allocative and technical inefficiencies, it is far from clear whether capital grants are good or bad for long-term growth.

Bergstrom suggests that subsidisation of investment may make firms less productive for at least two reasons. First, because a subsidy gives the recipient firms an incentive to change the mix of capital and labour, it can give rise to allocative inefficiencies in the sense that a firm which, for example, is granted an investment subsidy may over-invest in capital. Second, subsidisation can give rise to technical inefficiencies. If the subsidy is captured by the firms as higher profits, then it gives the company stakeholders, in particular managers and workers, the potential to capture these profits in the form of slack or lack of effort. Similarly, if the subsidies help the supported firms to avoid bankruptcy then these firms are not forced to reorganise their activities and improve their performance to the same extent as non-supported firms, which are facing potential bankruptcy. Finally, firms which are potential recipients of subsidies might, if the pay-off is high enough, become more interested in investing in subsidy-seeking activities (e.g., lobbying) than other more productive activities (e.g., R&D investments). Empirically, studies carried out in Korea by Lee (1996), in Japan by Beason and Weinstein (1996) and in Sweden by Bergstrom (2000) all suggest that government intervention has a negative effect on long-term productivity growth.

## 3.6 Rationale for Innovation Support in Small and Medium Enterprises

Small and medium sized enterprises (SMEs) are usually firms with fewer than 500 employees, though EU enterprise policy uses 250 employees as the cut-off point (Rugman and Hodgetts, 2000). In rural England there is a high proportion of micro businesses, with over 90 per cent of all rural firms employing fewer than 10 people. Research by the former Rural Development Commission suggests that larger firms (employing over 100 people) are less common in rural than in urban areas (at 1.4 per cent of rural firms compared with 2.2 per cent of urban firms) (MAFF, 2000). In recent years, there has been a growing recognition amongst policy-makers of the importance of innovation to the competitiveness of national and regional economies and of the particular role of small and medium sized enterprises (SMEs) in this process.

A series of UK Government White Papers on Competitiveness during the 1990s emphasised the important contribution of SMEs to the development of a more competitive economy, and recognised that "entrepreneurship and innovation are central to the creative process in the economy and to promoting growth, increasing productivity and creating jobs" (DTI, 1998, paragraph 2.1). Fearne and Hughes (1999) found that, in the UK fresh produce industry, innovation is the only long-term source of competitive advantage and also that retailers select "suppliers who demonstrate a desire and an ability to be innovative – not just in developing new products, but in all aspects of the business". They conclude that the level of innovation in an operation is largely dependent upon the experience and structure of its management. This has resulted in an increasing interest in the kinds of policy instruments needed to stimulate innovation in SMEs and to help overcome the barriers to innovation (North *et al*, 2001).

Following Porter's (1990) emphasis on the importance of the link between innovation and competitiveness, the definition of innovation used here includes the development and/or adoption of new products and processes, incremental improvements to products and processes, and new approaches to marketing and/or new forms of distribution. An emphasis on the diffusion and adoption of new knowledge and technology and the role of more incremental innovations in supporting competitiveness is particularly relevant in the context of SMEs (Rothwell and Zegveld, 1982; Bessant *et al*, 1993, 1994).

North, Smallbone and Vickers (2001) suggest that the justification for providing innovation support which is specific to SMEs rests on the recognition that there are certain size-related characteristics of SMEs that have important implications both for their support needs and for the way in which those needs are addressed. First, SMEs are constrained by their limited internal resources, particularly with respect to finance, management resources and their knowledge base compared with larger firms. Limited financial resources inhibit a smaller firm's ability to support and to reap the benefits of innovative activity, particularly in terms of R&D and the marketing of new product innovations. Furthermore, limited human resources can influence a firm's propensity and ability to be aware of, and respond to, opportunities and threats presented by the external environment.

The limited internal resource base of smaller firms is a key justification for interventions designed to provide external support for innovation in SMEs. With respect to financial support this applies particularly at the start-up stage or in very young businesses where the opportunities to resource innovation and business development internally are more limited than in established firms.

North, Smallbone and Baldock's (1997) survey, carried out for the former Rural Development Commission, of innovation and new technology-use in England's small rural firms empirically confirms such characteristics. Of the 180 manufacturing firms surveyed 27 (or 15 per cent) were concerned with food production and processing. North, Smallbone and Baldock find that: "The most commonly mentioned constraint affecting the development of new products or services was lack of financial resources, with just under half of firms which were seriously investigating new developments identifying this factor. It is possible that this reflects SME managers' attitudes to borrowing as much as deficiencies in the supply of external finance. Just under a fifth of firms considered that they were being constrained by various technical know-how and skills shortages, and a similar proportion were constrained by limits to customer demand and affordability."

While investigating the impact of the rural location of the firm on innovation, North, Smallbone and Baldock find that: "Of those firms which were seriously investigating new product or service development and did identify at least one barrier, about a third considered that their rural location was a factor. For a small but significant minority of firms, their rural location was constraining development by affecting their ability to find skilled staff, and making it more difficult to build sectoral contacts and to develop non-local markets."

Second, SMEs have less ability than larger companies to shape and influence their external environment, for example in their relationships with customers, suppliers, sources of finance and the labour market. This means that the smaller firm is typically faced with a more uncertain external environment than a larger firm. As a consequence, competitiveness often relies on the firm's flexibility, responsiveness to customers and adaptability to external changes, which are key attributes that need to be considered and enhanced when designing support programmes and initiatives targeted at SMEs.

Significantly for this evaluation, North, Smallbone and Baldock find food processing to be a good example of a sector where it is important to place product innovation in the wider context of product management. Although only

26 per cent of food-processing SMEs surveyed possessed products that were judged to be “highly innovative”, 73 per cent were judged innovative to some degree. In fact, if modifications to existing products are included, only one food-processing firm was able to survive the 1991-96 period without making some change to its product portfolio. North, Smallbone and Baldock conclude that “if SMEs are to compete in this sector they must be continually active in developing their products and the way they are packaged and presented to the market. SMEs must play to their competitive strengths, and in the food industry this involves a high level of responsiveness and flexibility to customer demand.”

Third, the behavioural characteristics of SMEs that stem from the combination of ownership and management can result in a reluctance, or even a resistance, to taking in external help for a variety of reasons. These include: doubts about the value for money on the part of the business owner or manager; a scepticism about generalist advice; and a preference for autonomy which small business owner-managers may perceive is threatened by the use of external support. While the significance of such behavioural characteristics is diminishing in rural areas, they help to explain the greater use of informal rather than formal channels of support. This is an important characteristic when considering the accessibility of the PMG scheme to smaller producers that do not make use of an agent or consultant.

Finally, full consideration should be given to the compatibility of “expressed needs” and “latent needs” or potential. For example, what may be expressed as a need for marketing support may conceal a deeper latent need for a total review of the strengths and weaknesses of the business. Differences between expressed and latent support needs have important implications for policy, particularly where the objective is to elicit the full potential of the business, or to influence the nature of change, rather than the support offered being simply “client”- or “market”-led.

By way of further empirical evidence of the size-related constraining factors on innovation in SMEs, North, Smallbone and Vickers’s (2001) study of 100 food processing, engineering and business service SMEs in London’s Lee Valley region found that, whilst three quarters of the firms identified at least one barrier to innovation, finance was the most commonly identified barrier (49% of firms), followed by time constraints (14%) and shortages of skilled labour (10%). Other barriers to innovation included: a shortage of management time (20%), a lack of in-house expertise (10%), or that the volume of production was insufficient to warrant technological upgrading (10%).

Furthermore, although 49 per cent of firms reported a shortage of finance as one of the main barriers to innovation, less than one in five had previously sought external finance to support innovation. Hence, the financial constraints that SMEs report do not result solely from supply-side failure but from the conservative attitudes of many SME owners and managers to external finance. This suggests that one of the tasks of innovation support should be to encourage attitudinal change on the part of owner-managers with respect to external finance, where this is seen as necessary for the growth and development of the business.

To conclude, the distinctiveness of SMEs affects their support needs and how such support is delivered if it is to be effective. A review of the effects of financial assistance to small firms, by Storey (1994, p286), concludes that grants "seem to induce changes which would not have occurred otherwise". Although, North, Smallbone and Vickers argue that public resources should be focused on the needs of the economy at the regional (or national) level rather than simply on the expressed needs of individual firms themselves. Thus, the nature of innovation support policy may be shaped by regional (or national) priorities set within a strategy for innovation (Morgan and Nauwelaers, 1999; Thomas, 2000). In producing such strategies, attention should be paid to the strengths and weaknesses of the innovative capability of the economy, and the priorities for raising it, taking into account the wider socio-economic benefits.

## 3.7 Rationale for Regional Development and Local Network Purposes

The PMG scheme, as one element of the implementation in England of the EU Rural Development Regulation by the England Rural Development Programme, is designed to improve the agricultural processing and marketing infrastructure in England. This is achieved through the encouragement of projects that meet the scheme's criteria and would benefit from priorities set regionally. The PMG budget is split between eight English regions (North East, North West, Yorkshire and the Humber, East Midlands, West Midlands, East of England, South East and the South West) according to anticipated demand. The PMG does not apply in Objective 1 areas (Cornwall, Merseyside and South Yorkshire) though similar schemes operate in those regions under the EU Structural Funds. This regional perspective of the PMG scheme is crucial in the development of local networks and the overall improvement of processing and marketing infrastructure.

New approaches to regional strategy have emerged in the context of national and international policy frameworks which identify the regional level as key to economic growth at all spatial levels (Porter, 1990; Commission of the European Communities, 1994; OECD, 1996). Moreover, Defra (2002) argues the need for a more integrated rural policy based on a regional rather than a national basis. Regional analysis of economies, Defra argues, may tend to still mask differences both between localities and social groups but it would offer a better way of capturing the differences that exist between rural economies as well as cutting across the various 'policy silos' that currently exist.

The success of co-operation among small traditional firms in Italy, for example in the production of buffalo mozzarella (Bianchi, 2001), has inspired regional inter-firm co-operation initiatives (Rosenfeld, 1996). Public authorities have tried to recreate the Italian district atmosphere by providing new services and by fostering technology transfer (Bougrain and Haudeville, 2002). As a consequence, SMEs, as well as multinationals, are building more and tighter relationships with other companies to achieve greater external economies of scale, market strength, or exploit new opportunities. They engage both formally and informally, in joint activities such as co-marketing, co-production, shared resources, or joint development. As a result SMEs located near each other, such as specialised food producing firms, can gain competitive advantage through among other things low transaction and information costs.

In Italy, like in much of rural Europe, different types of agricultural production have become increasingly geographically concentrated. This has facilitated the evolution of agri-food clusters with locally agglomerated SMEs specialising in the processing and distribution of local high quality foods. Closely networked relations between local farms, processors, distributors and retailers make for flexibility in adapting to the technological and market changes. At the same time, they allow value added in the non-agricultural aspects of the food chain to remain within the regional economy rather than being captured by external and often multinational food companies (Lowe et al, 1995).

### 3.8 Rationale for Rural Development and Job Creation Purposes

While the PMG scheme aims to increase the competitiveness of agricultural products through adding value and therefore increase the productivity of the agri-business sector, it also aims to counter various forms of market failure which give rise to agglomeration effects and inhibit rural development.[1] For example, economies of scale and location, advantages associated with easy access to large markets, skilled labour and technological knowledge, in combination with migration of the most skilled members of the labour force from rural areas, might lead to growing polarisation between rural and urban regions.[2]

Although Table 3.3 indicates that employment levels have in fact been consistently higher in rural districts than non-rural districts of England over the period 1992-99, this trend is a result of small firms moving to rural areas that have little or no connection to agriculture.

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[1] The European Investment Bank (EIB) claims that: "At times of weak economic performance there would, without corrective mechanisms, be a tendency for capital investment and hence growth and employment within a unified economic area to gravitate largely towards the most prosperous regions. This is relevant to Europe, where two thirds of the regions accounting for 50 per cent of its population still have a below-average per capita product… That is why, in accordance with its primary remit, the EIB devotes on average more than two thirds of its financing to the development of regions facing structural or industrial redevelopment problems. Such operations interlink with grants from the Structural Funds managed by the European Commission in a mutually reinforcing way." (EIB, 1997.)

[2] Models of technology diffusion and product-industry cycle models often assume that new inventions and techniques are devised and adopted first in cities, where contacts and communication are plentiful, later spreading to rural areas (Moomaw, 1983). Explanations for agglomeration of economic activity often identify knowledge spillovers resulting from frequent interpersonal and interfirm contacts in densely populated cities as a key factor (Harrison *et al*, 1996). However, Gale (1998) finds essentially no difference in technology use in five groups of US manufacturing industries due to urban versus rural location. Rather technology use varies with firm size, whether or not the firm is part of a larger enterprise, the nature of the production process, and the firm's industry. Although the location characteristic of higher levels of schooling is found to be associated with a greater use of technology.

**Table 3.3** **Employment in rural and other districts as a proportion of total population of working age, England 1992-99.**

| Year | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|
| Rural | 76.7 | 76.5 | 76.5 | 77.4 | 77.6 | 78.2 | 79.3 | 79.3 |
| Non-Rural | 70.1 | 69.5 | 70.1 | 70.6 | 71.2 | 72.3 | 73.1 | 73.8 |

Source: Countryside Agency (2000).

Employment in rural areas as a whole is just as diverse as in urban areas with a similar mix of industries and services but there are large variations around these averages based on local circumstances and opportunities. Almost two-thirds of rural firms are set up by people who have moved into the area compared with one-third of new urban firms. As a consequence of various underlying economic trends agriculture is no longer a major direct employer or a major direct contributor to the local economy except in some rural areas of England, notably in the far South West, parts of the East Midlands, East, North and the Welsh borders. These trends include:

- rising demand for leisure and tourism activities as incomes rise
- increasing preferences for the perceived residential advantages of rural areas
- falling real transport and communications costs
- changes in the balance of economic activity
- constraints on expansion of urban areas

Agriculture now accounts for less than 4 per cent of employment although this is higher (up to 20 per cent) in some remote areas (Defra, 2002). However, agriculture also contributes indirectly both to employment and the local economy through up and down stream linkages.

The potential for growth, and therefore employment creation, of a particular agri-business has important implications for the targeting of Government resources to encourage rural development. Most firm growth studies begin with Gibrat's law of proportionate growth. This simple hypothesis asserts that the probability of a proportionate increase in firm size over an interval in time is the same for all firms regardless of their size at the beginning of the interval. Gibrat's law has been widely adopted in theories of growth and size distribution of businesses. Besides its predictive implication of proportionate growth, the law is important for its normative implications. If the law holds, size distribution of firms does not matter for attaining the policy goal of job creation. The firm growth-size relationship has been tested with many data sets. Recent studies have consistently found a negative relationship, implying that small firms grow faster than large firms.

Variyam and Kraybill (1994), from a US study of small businesses in twenty-five rural Georgia counties, conclude that the growth of small rural firms is influenced by the education and work effort of owner or manager, and by the degree of technology adoption and planning. The hypothesis of independence between firm size and firm growth (Gibrat's law) is rejected, while a negative relationship between firm age and firm growth is found to hold. From a policy perspective, this suggests that capital grants to SMEs can contribute significantly to rural economic growth. Also, the predominantly small size of rural firms that survive the start-up phase is not in itself a disadvantage in terms of growth in rural employment.

Indeed contrary to conventional wisdom that assistance to small firms for employment creation is a poor use of resources due to their higher failure rates, Wren (1998) presents empirical evidence to suggest greater employment effectiveness in small firms, but only those which are new or relatively young in age. Wren finds that the higher the marginal cost of private funds to a firm then the greater is the additionality coefficient and, other things remaining constant, the larger is the employment effectiveness of financial assistance.

By way of further evidence for this suggestion, North, Smallbone and Baldock (1997), from a survey of small rural firms in England, find that: "The possession of innovatory products and services was highest among young firms (especially those up to five years old), firms that were aiming to grow, and larger firms. In terms of actual performance, firms with 'highly innovative' products and services proved to be the most successful in creating new jobs (achieving a 50 per cent increase over the 1991-96 period) and increasing sales turnover (an 80 per cent increase in real terms between 1991 and 1995)".

In official evaluations of the effects of capital grants, the number of (gross) jobs created is often used as a measure of its effectiveness. Bergstrom (2000) argues that this measure is, however, insufficient for several reasons. For example, by neglecting indirect negative effects (such as the number of jobs lost due to the financing of the supports), the evaluations tend to overestimate the employment effects of the grant scheme.

## 3.9 Conclusions

Processing and Marketing Grants (PMGs) were previously available in England from 1991 to 1996. The current PMG scheme, which will run over the England Rural Development Programme period 2001-2006, is broadly based on the previous scheme.

The aim of the PMG scheme is to increase the competitiveness of agricultural products through adding value, which aims to benefit the rural economy in two ways: by securing its future and stimulating employment. The Scheme is looking to catalyse a broad section of processors or would be processors whether rural- or urban-based and in particular small and medium-sized enterprises (SMEs) and primary producers.

Given that individuals strive to make themselves better off by trade or production, inefficiency can only persist if individuals do not have sufficient control over productive assets to effect profitable or advantageous exchanges and production; and/or if transaction and information costs exceed the gains from trade. These two possible causes of market failure are of most relevance in providing an economic rationale for the PMG scheme.

The rationale for capital investment support in agriculture is essentially the need to support agricultural producers that are often small and disparate in comparison with their markets. Specific problem areas are:

- **The development of new products.** The limited number of second lines carried by retailers and the increasing consumer demand for product variety has increased the importance of new product development as a way of maintaining market position. This is an area where large firms have an advantage, since they are better able to take the risks involved in new product launches, to withstand the costs of failure and to spend money on new product development.

- **Meeting the volume requirements of multiple food retailers.** As retailer concentration has grown, so their minimum purchase size has increased.

- **Promotion.** Small rural firms cannot match the promotional budgets of the large manufacturers.

- **Market intelligence.** With the more segmented and volatile consumer food demand patterns evident today, small food firms are often unable to follow market developments

- **Availability of risk capital.** Particularly to new or expanding firms in rural areas, remote from financial centres.

There are at least two reasons to suspect a positive connection between capital grants and productivity. First, if the grants help to advance the technological development of the recipient firms then productivity increases. Second, if the grants can help the firms to utilise economies of scale better, productivity may increase as well.

However, financing of the grants might give rise to deadweight losses, and because politicians and bureaucrats may be more interested in maximising political objectives than in economic efficiency, resources may be sub-optimally allocated. Moreover, because grant allocation may give rise to both allocative and technical inefficiencies, it is far from clear whether capital grants are good or bad for long-term economic growth.

As larger firms (employing over 100 people) are less common in rural areas (1.4 per cent) than in urban areas (2.2 per cent) we outline the rationale for innovation support in small and medium-sized enterprises (SMEs). SMEs may exhibit varying degrees of the following characteristics, which suggest a justification for innovation support:

- Internal financial and human resource constraints;
- Less control over the external environment;

- Reluctance of the ownership/management structure to seek external aid.

North, Smallbone and Baldock (1997) find the placement of product innovation in the wider context of product management to be crucial in the food processing sector. Although only 26 per cent of food-processing SMEs surveyed possessed products that were judged to be “highly innovative”, 73 per cent were judged innovative to some degree. They conclude that “if SMEs are to compete in this sector they must be continually active in developing their products and the way they are packaged and presented to the market. SMEs must play to their competitive strengths, and in the food industry this involves a high level of responsiveness and flexibility to customer demand.”

The regional perspective of the PMG scheme is thought to be crucial in the more accurate targeting of aid and in the encouragement of local networks. Increasingly agri-food businesses are building co-operative links and engage, both formally and informally, in joint activities such as co-marketing, co-production, shared resources, or joint product development. The geographical proximity of co-operating firms can induce competitive advantage through among other things increased flexibility in adapting to technological and market changes, the encouragement of local value-adding activities, and reduced transaction and information costs.

Empirical evidence suggests that capital grants have a greater employment effectiveness in small firms, but only those which are new or relatively young in age. Also the higher the marginal cost of private funds to a firm then the greater is the additionality coefficient, and other things remaining constant, the larger is the employment effectiveness of financial assistance.

# 4 OBJECTIVES AND OPERATION

The PMG was introduced in England in October 2000 with the launch of the ERDP.

## 4.1 Objectives

The stated aim of the Processing and Marketing Grant Scheme (PMG) is to improve the competitive position of farmers and growers by developing processing and marketing facilities for primary agricultural products in England. To be eligible, all projects must:

1. Involve the processing and marketing of agricultural products and
2. Contribute to one or more of the following scheme objectives:
   - *Guide production in line with foreseeable market trends*
   - *Encourage the development of new outlets for agricultural products*
   - *Improve or rationalise marketing channels*
   - *Improve or rationalise processing procedures*
   - *Improve the presentation and preparation of products*
   - *Achieve the better use or elimination of by-products or waste*
   - *Apply new technologies*
   - *Apply innovation*
   - *Improve and monitor quality*
   - *Improve and monitor health conditions*
   - *Protect the environment*

Scheme indicators and targets are set out in table 4.1.

**Table 4.1 PMG Indicators and Targets 2000-2006**

| Scheme Indicator | Target |
|---|---|
| Number of jobs created and safeguarded | 2,200 |
| Number of projects assisted | 370 |
| Number of collaborative marketing ventures supported | 100 |
| Number of novel outlets created | 45 |
| Number of projects involving increase in amount of locally produced/sourced raw material purchased | 288 |
| Number of projects resulting in reduced pollution emissions, energy and water use, and waste production | 20 |
| Number of new products brought to market | 70 |
| Number of collaborative marketing groups helped to merge or form federal structures, resulting in improved marketing | 7-14 |
| Number of assurance schemes assisted | 7-14 |

## 4.2 Administration and Resources

*Background*

In line with the other project-based schemes, the Rural Development Service (**RDS**) administers the PMG in each of the eight English regions. Typically, each regional team will have two senior advisers and eight advisers and will be structured as follows:

More recently, the team manager posts have been combined – there might be two or three managers in a region. The Technical Team comprises Senior Advisers and Advisers and the Admin Team is led by an SEO.

The outbreak of Foot and Mouth Disease (**FMD**) in 2001 meant that significant resources had to be diverted away from implementation of the ERDP, with the result that many of the activities which could have been undertaken to help the new schemes, such as PMG bed down, had to be deferred.

A dedicated unit at Worcester, the Schemes Unit – Project Based Schemes (**SU-PBS**) acts as a link between operational teams in the regions and policy division. Specifically, they are tasked with:

- Consistency of administration and technical assessment
- Scheme literature and form design
- Policy feedback
- Audit requirements and finances – forecasting scheme uptake

The SU-PBS undertakes 'Best Practice Visits' for quality assurance purposes, visiting the regions to look at the operation of PMG, RES and VTS (VTS from 2003 only as it was previously administered from Crewe). At policy level, Rural Development Division (RDD) provides overall management of the England Rural Development Programme. It collates statistical information and reports to the Commission. Marketing, Competition and Consumers Division (MCCD) are responsible for policy development specifically relating to the objectives of PMG, overall scheme operation and provision of guidance to the RDS. Payment of ERDP grants is through the Rural Payments Agency (RPA).

Scheme information monitoring is carried out using a computer database (Probis), but it is accepted that this has not been fully populated in the past. An exercise is in place to populate the database in preparation for the introduction of a new system.

The SU-PBS monitors the work recording of regional teams by scheme (from Orion) and allocates 'standard times' for each stage of the administration process. This is based on the previous year average with some efficiency gains built in to account for improved practice. Table 4.2 sets out the current standard times for PMG and RES.

**Table 4.2 Standard Times for PMG and RES**

| Task | Standard Times (hours) | | | |
|---|---|---|---|---|
| | RES | | PMG | |
| | Admin | Technical | Admin | Technical |
| Pre-application Contact | 0.5 | 0.5 | 1 | 1 |
| Pre-application Visits | 0 | 5 | 0 | 5 |
| Applications | 30 | 4 | 4 | 40 |
| Technical Assessment | 0 | 40 | 0 | 75 |
| Claims | 10 | 0 | 10 | 0 |
| Routine Monitoring Inspection | 0 | 5 | 0 | 0 |
| Compliance Monitoring Inspection | 3 | 12 | 3 | 12 |
| Final Inspection | 1 | 5 | 0 | 0 |
| Managing Existing Agreements | 7 | 7 | 7 | 7 |
| Total hours | 51.5 | 78.5 | 25 | 140 |

The table highlights the high input required for PMG and RES – the implications of increased budgets in future years on resource should be noted. The high technical assessment input for PMG helps explain the bottleneck in terms of getting projects before a Regional Assessment Panel.

A significant issue is the need to predict spend committed within a financial year – the budget is absolute so there is limited scope for overspend while any slippage in claims will lead to undershoot and the funding will be lost. The scale of this problem is reflected in the time allocated by RDS regional staff to dealing with variations to the approved schedule – often resulting in slippage. While there is also an element of lack of interest in the scheme in some regions, the PMG budget of £8 million was undershot by 24% in 2002/03 and by 76% in 2001/02 – the latter was affected by FMD. From consultation with regional staff, there is inconsistency between regions in how they deal with variation in requests and slippage; some work hard to minimise it by putting the onus on the applicant to claim or lose funding while others take a more sympathetic line but may end up losing budget.

Defra has recognised the need to continue to streamline the administration process through improving the quality and flow of applications. Initiatives implemented include:

- Workshops and other forms of pre-application support to improve the quality of business plans and applications
- Regional Targeting Statements to make the selection process for the schemes more transparent to potential applicants by summarising the types of activities that will be given priority for funding to meet regional goals
- Introduction of more flexible arrangements for the timing of Regional Appraisal Panels (RAPs).

- Meet with successful applicants to impress on project managers the importance of meeting agreed milestones and submitting claims according to the agreed timetable in order to avoid slippage of claims from one financial year to another

A further initiative involves the use of an additional Expression of Interest application stage to allow an initial filter of unsuitable projects and to avoid unnecessary private investment in consultancy fees or project delay. This is being piloted in one region at present and is subject to evaluation.

*The Application Process*

The application process for PMG funding is described below:

Pre-application contact (optional)

Application received at regional RDS office

Eligibility check

Sift meeting (technical and admin staff)

Technical assessment

Regional Assessment Panel (RAP)

Offer or rejection letter to applicant

The PMG application form (ERDP/PMG 1) is very simple and asks only for the applicant details, title and location of the project, which scheme objectives the project will meet (tick box list), consents required e.g. planning and previous PMG awards. A completed ERDP application form (ERDP/GEN 1) and a 'detailed project proposal and business plan' must accompany the form. The ERDP form asks which scheme is being applied for (tick box), applicant details and activities, structural fund designation, Integrated Administration and Control System (**IACS**) details and ownership details. However, the key document is the business plan; guidance on what this should contain is given in the 'Notes for Guidance' booklet.

Targets are set for application and claim processing times, as follows:

- New applications – issue 90% of offer/rejection letters within 4 months of receipt of a valid application.
- Claims – process and authorise 90% of valid claims within 8 weeks of receipt.

*The Assessment of the Bids*

The bids are assessed using a two part scoring system; one relating to the quality of the project and a second based on the fit with regional priorities. The bids are first scored 1 (good) to 5 (bad) on the following criteria:

- Need for the project
- Project objectives, performance indicators and milestones
- Sustainability of the project
- Key policy themes and priorities
- Financial viability
- Additionality and displacement
- Project management and delivery
- Risk assessment and sensitivity analysis

On the basis of this assessment, the scores are totalled and an overall mark awarded – putting each bid into one of the three categories, high (8-16), medium (17-24) or low (25-40). The regional fit scoring is based on a score of 1-5 according to the extent to which the project contributes to the region's priorities (as set out in the Regional Chapter of ERDP). A score of 1 represents a very strong contribution (>50% of all goals/objectives/other regional/sub strategies) while a score of 5 represents no contribution – intermediate scores represent 10% less goals/objectives met.

## 4.3 Monitoring and Outputs

Applications are all entered onto the Probis database and this provides the basis for monitoring of uptake, success rates, allocation of funding, analysis of sector spread etc. The primary purpose of this is to monitor scheme outputs against the targets for the various scheme indicators.

Table 4.3 sets out the performance to the end of 2002 from the 2002 ERDP Annual Report. The programme is roughly one third of the way through its life and it is clear that the scheme is well on target to deliver jobs (created and safeguarded) but achieving other targets such as collaboration and number of projects assisted are less certain. Allowing for a standing start with new schemes and FMD, the monitoring data needs to be interpreted with caution.

However, the data does raise some issues about number and the type of projects that are being funded. For example, the average jobs per scheme is relatively high at 26.6 relative to the target of 5.9.

**Table 4.3 PMG Delivery against Targets to Dec-02**

| Scheme Indicator | Cumulative Actual to Dec-02 | Target |
|---|---|---|
| Number of jobs created and safeguarded | 2,105 | 2,200 |
| Number of projects assisted | 79 | 370 |
| Number of collaborative marketing ventures supported | 17 | 100 |
| Number of novel outlets created | 36 | 45 |
| Number of projects involving increase in amount of locally produced/sourced raw material purchased | 40 | 288 |
| Number of projects resulting in reduced pollution emissions, energy and water use, and waste production | 8 | 20 |
| Number of new products brought to market | 50 | 70 |
| Number of collaborative marketing groups helped to merge or form federal structures, resulting in improved marketing | 1 | 7-14 |
| Number of assurance schemes assisted | 1 | 7-14 |

An average project spend of £703,508, together with the employment data, suggests a bias towards larger businesses. However, further analysis of the projects shows that the data is distorted by a small number of larger projects.

Figure 4.1 indicates that over half of the total investment was made by the 16 PMG beneficiaries (19% total) with project spend over £1 million (average spend £1.98 million). Excluding these large projects, the average spend of the remaining 69 projects was £407,406. This provides the context for consideration of additionality and accessibility of PMG grants by smaller businesses.

**Figure 4.1 PMG Beneficiaries by Project Spend (Total Population)**

The scale and regional distribution of successful applicants to March 2003 is shown in table 4.4.

**Table 4.4 Regional Distribution of PMG Awards (Oct-00 Mar-03)**

| **Region** | **No. of PMG awards** | **Total Project Spend (£)** | **Av. PMG Spend (£)** | **Regional share of. PMG grant (%)** |
|---|---|---|---|---|
| North East | 2 | 1,434,300 | 717,150 | 2% |
| North West | 6 | 2,566,590 | 427,765 | 4% |
| Yorkshire & Humber | 6 | 2,686,516 | 447,753 | 4% |
| East of England | 11 | 10,402,874 | 945,716 | 17% |
| East Midlands | 18 | 20,998,117 | 1,166,562 | 34% |
| West Midlands | 8 | 5,679,823 | 709,978 | 10% |
| South East | 16 | 7,986,694 | 499,168 | 15% |
| South West | 15 | 6,345,866 | 423,058 | 11% |
| Not allocated | 3 | 1,697,430 | 565,810 | 3% |
| **Total** | **85** | **59,798,211** | **703,508** | |

Source: Defra Probis database

It is clear that there is considerable disparity between regions in the number of projects; given the small numbers overall, the average spend should be treated with caution as it is affected by a small number of very small or large bids. This may reflect genuine variation in the location of primary processing industry or regional attitudes to investment or grants. For example vegetable packhouse businesses are well represented – these tend to be SMEs, with links to farming and a focus on primary processing.

It may also reflect different approaches by Defra RDS across the regions in terms of promoting PMG but there is no evidence for such an assertion – when this issue was raised with the SU-PBS, they did not feel that it was valid. However, given the significant difference in regional share of total PMG grant – East midlands account for over one third of the total – and the capacity to operate a competitive process, the promotion and administration of the scheme across the regions should be reviewed.

The type of project coming forward in 2002 is illustrated in table 4.5, which shows analysis by scheme objective. It is clear that most projects are driven by expansion of current activity with possibly some element of new process, product or market. Innovation-based projects are barely represented at 2% (3% of public funding) and rationalisation of marketing channels is not represented at all.

**Table 4.5 Approved PMG Projects in 2002 by Scheme Objective**

| Main objective | Number of applications | Total eligible cost | Average aid intensity in |
|---|---|---|---|

| | approved | ('000 EUR) | % eligible cost |
|---|---|---|---|
| Guide production in line with foreseeable market trends | 9 | 9,690 | 30% |
| Encourage the development of new outlets for agricultural products | 10 | 7,725 | 30% |
| Improve or rationalise marketing channels | | | 0% |
| Improve or rationalise processing procedures | 28 | 28,515 | 29% |
| Improve the presentation and preparation of products | 3 | 4,164 | 30% |
| Encourage the better use or elimination of by-products or waste | | | 0% |
| Apply new technologies | 2 | 2,470 | 30% |
| Favour innovative investments | 1 | 1,685 | 30% |
| Improve and monitor quality | 1 | 5,214 | 30% |
| Improve and monitor health conditions | | | 0% |
| Protect the environment | | | 0% |
| **TOTAL** | 54 | 59,463 | 29% |

Source: Defra 2002 ERDP Annual Report

The same analysis from the Annual Report is shown in table 4.6 on the basis of sectors represented. There is some imbalance, with vegetables accounting for 34% of total spend, milk with 24% and meat with only 15%, while other key sectors such as Eggs and poultry are not represented al all.  Again, this probably reflects the fact that primary processing of fruit and vegetables is more closely allied with land-based production than large scale, concentrated processing in other sectors.

**Table 4.6 Approved PMG Projects in 2002 by Sector**

| Main sector | Number of applications approved | average aid intensity in % eligible cost | Total eligible cost ('000 EUR) |
|---|---|---|---|
| Meat | 13 | 30% | 9,207 |
| Milk and dairy products | 9 | 27% | 13,994 |
| Eggs and poultry | | 0% | |
| Other livestock products | | 0% | |
| Cereals | 2 | 30% | 3,609 |
| Sugar | | 0% | |
| Oilseeds | 1 | 30% | 203 |
| Protein seeds | | 0% | |
| Wines and alcohols | 1 | 30% | 141 |
| Fruit and vegetables | 15 | 30% | 19,955 |
| Flowers and plants | 4 | 30% | 2,572 |
| Seeds | | 0% | |
| Potato | 4 | 30% | 5,950 |
| Other crop products | 3 | 30% | 1,934 |
| Polyvalent products | | 0% | |
| Other products | 2 | 30% | 1,898 |
| **TOTAL** | 54 | 29% | 59,463 |
| of which for organic products | | 0% | |

Source: Defra 2002 ERDP Annual Report

## 4.4 Interface with other ERDP schemes

As indicated in section 1.3 PMG operates as one part of a wider programme under the ERDP. It is one of the 'new' schemes and as such has a limited track record – in practice, it is closely based on the previous EAGGF-funded processing and marketing grant schemes which operated in the UK from 1991 to 1999 and in England from 1991 to 1993. The key difference is that it is regionally administered and operates within an umbrella programme that has rural development objectives.

In principle, there might be substantial synergy between PMG and other ERDP schemes, notably RES, which deals with adaptation and development of farming to new markets and business opportunities and of the wider rural economy. In particular, the measure on 'marketing of quality agricultural products' can deliver most PMG objectives and has more flexibility in terms of budgetary limits and eligibility. However, in principle, RES is limited to measures that do not fall within the scope of other ERDP measures. RES picks up projects with a significant non-capital element and on-farm capital projects under £70,000. In theory the two should be complementary, although in practice this may not be as seamless as it should be.

Funding is also available under RES for project facilitation – defined as feasibility studies, research work, preparation of a business case, etc. – which might complement the PMG process. However, a separate application would need to be made.

Similar complementarity might also exist with Vocational Training Scheme (VTS) for staff training and with some of the land-based schemes, notably the Organic Farming Scheme (OFS).

Evidence for any interface between PMG and other ERDP schemes is presented in the following sections.

The 2002 ERDP Annual Report highlights a number of initiatives to improve the integration of the ERDP with regional partners and other rural funding streams, including:

- Single documents, databases or web-based guides to all rural funding grants available in the region, working in partnership with the other main rural funders (for example, the Regional Development Agencies). In some regions this has also been followed by an attempt to identify shared targets, so that regional objectives can be met through all the main funding streams.
- Pre-application workshops and clinics held by regions have been expanded in some cases to promote greater awareness among farmers and other rural stakeholders of the options available to them from other rural funding streams besides ERDP.
- Partnerships have been developed with other rural funders or strategic players in most regions, to seek to ensure more integrated and co-ordinated treatment of particular grants or concerns.

# 5. VIEWS OF STAKEHOLDERS

## 5.1 Survey of Successful and Unsuccessful Applicants

This section details the answers from the PMG survey and presents verbatim comments where the sample size is too small to analyse or where this adds to the understanding of the issues. Minor changes have been made to protect identity in some instances.

### *5.1.1 Successful applicants*

Forty five of the ninety successful applicants surveyed responded (50% response). The characteristics of this group and details of their projects and views on the scheme are set out in this section. Where appropriate, data from the unsuccessful applicant groups is presented to highlight differences between the two. Data from the wider ERDP survey is also presented where relevant.

### *5.1.2 Ownership*

The majority of applicants (beneficiaries and non-beneficiaries) are family-owned businesses, with farm businesses predominant. "Sole owners" are a minority among the applicants, with the majority describing themselves as "Business partners" or "Managers"

### *5.1.3 Business Size*

Distribution of business size in terms of turnover and employment is detailed in tables 5.1 and 5.2.

**Table 5.1 Distribution of applicants by business size**

| Turnover | Successful (45) | Unsuccessful (10) |
|---|---|---|
| Less than £1m | 27% | 30% |
| Between £1m and £10m | 60% | 30% |
| Over £10m | 13% | 40% |

Businesses size ranges from a turnover of £100,000 to £63 million (median £3m, and is similar for successful and unsuccessful applicants).

**Table 5.2 Distribution of applicant by employment**

| Staff | Successful (45) | Unsuccessful (10) |
|---|---|---|
| Fewer than 10 | 20% | 30% |
| 10-50 | 44% | 40% |
| 51-250 | 22% | 10% |
| Over 250 | 13% | 20% |

A minority of the successful applicants has more than 250 employees, with the typical applicant employing between 10 and 50 staff. This is also similar for unsuccessful applicants.

### *5.1.4 Awareness*

The main way in which applicants found out about the PMG scheme was from information sent by MAFF/Defra (23%) or from business advisory services and consultants (25%)[3]. Four of the successful applicants indicated that they found out about the scheme through a Defra consultation, two found out about the scheme via the Defra web site and four found out about PMG through involvement in another scheme.

The main ERDP survey indicated that around six out of ten beneficiaries (in other ERDP Schemes) had not heard of the PMG[4]. This figure was higher for non-ERDP beneficiaries where almost three-quarters of respondents said that they had not heard of PMG. The level of unawareness for non-beneficiaries ranged from 66% in Eastern Region to 85% in Yorkshire and Humberside.

### *5.1.5 Involvement with Other Schemes*

Nearly half of the successful applicants have agreements or projects under one or more of the other schemes, with the most popular being CSS (9), RES (8), WGS (7), FWPS (6), OFS (6). Compared to the level of multiple scheme beneficiaries for ERDP as a whole, about 30%[5], this is very high.

Three of the ten unsuccessful applicants have other agreements: CSS (2), WGS (2), FWPS (1), and RES (1). Involvement with PMG was the only point of entry to the ERDP for the majority on the unsuccessful applicants (70%) but this figure was lower for the successful applicants (53%).

One could speculate that unsuccessful applicants are put off applying for other schemes, but this is not supported by their response to the question ‘would you consider applying again?’ to which seven of the ten respondents responded positively. Another explanation might be that those who are successful are better at making applications for grants and are therefore more likely to be multiple beneficiaries. However, there is no evidence in the surveys to back this claim.

### *5.1.6 Additionality and Deadweight*

Four out of five successful applicants and all but one unsuccessful applicant saw the grant as “enabling an existing idea to be developed” rather than as a “catalyst to develop an eligible project”. Four out of ten successful applicants claim that the project would not have gone ahead without the grant and a half claim that the project would have happened, but on a smaller scale.

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[3] Successful and unsuccessful data combined
[4] Non-beneficiaries of the ERDP survey comprised solely of farm businesses
[5] This is from an analysis based upon holding number carried out for the ERDP mid term evaluation.

Four of the unsuccessful applicants said that the project did not happen because the grant was not made available and three said that it had been undertaken, but on a smaller scale. One unsuccessful applicant has gone ahead with the project because they have received grant from another source; they were also a RES beneficiary, so this may have been that source.

Comments from successful and unsuccessful applicants on the significance of the availability of grant support (or lack of it) under PMG are set out below:

| Successful | Unsuccessful |
|---|---|
| ▪ *We could not continue in our old premises for much longer. We would have had to close the business*<br>▪ *The PMG grant encouraged me to go for expansion more boldly and do it to a higher standard.*<br>▪ *Without grant support, the project would have been cut back to fit the budget - this would reduce capacity, reduce efficiency and make the facility less attractive to blue chip customers.*<br>▪ *The availability of the grant enabled us to develop this sector quicker and with more confidence.*<br>▪ *We would not have been able to incorporate all the new innovation and technology without the PMG grant.*<br>▪ *Given us the chance to go 'state of art' rather than average.*<br>▪ *The Defra grant proved to be the catalyst to actually go ahead with the project.*<br>▪ *This scheme could neither have been afforded nor justified without the PMG grant.* | ▪ *We have not been able to employ the extra bodies planned in our high unemployment area. Our expansion plans have been severely curtailed.*<br>▪ *Work done more slowly as we can afford it. Expansion taking longer.*<br>▪ *We are unable to raise more funds from any other source. My business will not be able to take full advantage of the expansion opportunities available and will continue to import more products due to our location.*<br>▪ *Project wasn't viable without Grant* |

### *5.1.7 Views on Grant Aid Rules*

Around six out of ten successful applicants felt that a standard grant rate of 30% of eligible costs was about right. There were a few (7%) who felt that no limit should apply and around a third who felt that it was too low. The views of unsuccessful applicants were broadly similar. A slightly higher proportion felt that the £70k lower limit on funding was about right (seven out of ten), but around two out of ten thought it was too high. Only 4% felt that this limit was too low. Again the views of the unsuccessful applicants were broadly similar.

Views on the maximum level of grant were similar with the majority feeling that they were about right (approaching eight out of ten) and one out of ten thinking that they were too high. This rose to two out of ten for the unsuccessful applicants, who may have had a view that a lower limit may have resulted in more money to go around.

The majority was also happy with having to fund 45% of the project out of their own money, with eight out of ten feeling that this was about right (seven out of ten of the unsuccessful applicants).

Around nine out of ten (successful and unsuccessful) felt that limiting eligibility to primary agricultural produce was reasonable and seven out of ten felt that it was reasonable to insist that 20% of produce came from other producers.

However, there was a strong feeling that it was unreasonable to exclude second hand equipment, with around six out of ten having this view. However, only a third of applicants felt that this rule had a negative effect on their application. Comments included:

- *Purchasing new equipment if a full processing plant is required can impose substantial - even prohibitive - cashflow obligations on the applicant when second hand equipment will perform effectively and with reduced costs*
- *Some second-hand equipment is very usable and sometimes nearly new and can save vast sums of money for the total cost of the project*
- *Some elements of a process, e.g. boiler's are non-specific long life assets that are perfectly valid is functional as second hand assets*
- *Second hand prices for dairy equipment could be 10% of the new cost, enabling big capital savings which could be used to extend or improve the project that is being funded.*
- *Excluding 2nd hand CAP Equip increased cost of project by more than the value of the grant.*

*5.1.8 The Application Process*

The majority of successful applicants (eight out of ten) agreed with the competitive bidding process, a quarter of these strongly agreed. In comparison, only five out of ten unsuccessful applicants agreed with this with three out of ten being ambivalent, neither agreeing or disagreeing.

Around three-quarters of successful applicants' felt that the documentation provided clear guidelines on the criteria for selection, this compared to 30% of the unsuccessful applicants. It is difficult to identify cause and effect, this may be a reflection of the result of their application, or it could be a reason for their failure.

Around six out of ten successful applicants felt that they were pressurised into using a consultant in order to have a reasonable chance of success. Around a quarter of successful applicants disagreed with this statement. However, a higher proportion of unsuccessful applicants felt pressurised to use a consultant, where eight out of ten felt this way.

**Table 5.3 Factors influencing decision to apply**

| | V important (%) | | Important (%) | | No importance (%) | |
|---|---|---|---|---|---|---|
| | Successful | Unsuccessful | Successful | Unsuccessful | Successful | Unsuccessful |
| Creation of new jobs | 38 | 50 | 49 | 40 | 11 | 10 |
| Safeguarding existing jobs | 78 | 90 | 13 | 10 | 7 | - |
| Form collaborative partnership | 22 | 40 | 33 | 50 | 42 | 10 |
| Develop new product | 73 | 50 | 16 | 20 | 9 | 30 |
| Move into new market | 76 | 90 | 13 | - | 9 | 10 |

Safeguarding existing jobs was the most important factor influencing both successful and unsuccessful applicants in their decision to apply for a PMG grant. This was more important than creating new jobs. However, developing new products and moving into new markets also had a significant influence on successful applicants. Forming collaborative partnerships was the least important factor in deciding to apply for a grant amongst successful applicants. For unsuccessful applicants developing a new product was the least important.

*5.1.9 Scheme Objectives*

The scheme objectives most relevant to a majority of projects (ticked by three in four successful applicants) were:
- Guide production in line with foreseeable market trends
- Encourage the development of new outlets
- Improve or rationalise processing procedures
- Improve the presentation and preparation of products

The following objectives were ticked by around half of successful applicants
- Achieve the better use or elimination of by-products or waste
- Improve or rationalise marketing channels
- Apply new technologies
- Apply innovation
- Improve and monitor quality
- Protect the environment

Improve and monitor health conditions was the least relevant to applicants. Unsuccessful applicants seem mostly to have just ticked all the questionnaire boxes relating to objectives.

*5.1.10 Making Applications*

There was general agreement that the scheme was rather bureaucratic, with a majority agreeing with all except one of the statements about administration of the scheme. (Exception was "Project reporting and claiming procedures were too onerous").

**Table 5.4 Views on the application process – all applicants**

| | % | Strongly Agree | Agree | Neither agree or disagree | Disagree | Strongly disagree | Not stated |
|---|---|---|---|---|---|---|---|
| Application process involved too much paperwork | Successful | 20 | 40 | 31 | 4 | - | 4 |
| | Unsuccessful | 40 | 20 | 40 | - | - | - |
| Application was open and transparent | Successful | 13 | 44 | 27 | 9 | - | 7 |
| | Unsuccessful | 10 | 10 | 30 | 30 | 10 | 10 |
| The scheme was run efficiently | Successful | 16 | 53 | 22 | 7 | - | 2 |
| | Unsuccessful | 10 | 40 | 20 | 30 | - | - |
| There was an opportunity to clarify queries on the application | Successful | 20 | 18 | 33 | 22 | - | 7 |
| | Unsuccessful | 10 | 40 | 20 | 30 | - | - |
| Project reporting and claiming procedures were too onerous | Successful | 20 | 18 | 33 | 22 | - | 7 |
| | Unsuccessful | - | - | - | - | - | - |
| Grant payment procedures were efficient | Successful | 9 | 40 | 31 | 13 | 2 | 4 |
| | Unsuccessful | - | - | - | - | - | - |
| Timescale for completing project and making claim were adequate | Successful | 2 | 49 | 27 | 11 | 4 | 7 |
| | Unsuccessful | - | - | - | - | - | - |

Headlines included:

- Around six in ten felt that the application process involved too much paperwork, perhaps not surprisingly, unsuccessful applicants agreeing more strongly to this statement.
- Nearly six in ten of the successful applicants felt that the application process was transparent, however, this fell to two in ten for the unsuccessful applicant. Three out of ten disagreed with this statement, an

indication that the follow up procedures after a rejection could be improved.

- Around seven out of ten successful applicants and a half of the unsuccessful applicants felt that the scheme was run efficiently. However, a small number of successful and a significant minority of unsuccessful applicants disagreed with this statement.
- Around one in five felt that there was no opportunity to clarify queries during the application process (slightly more for unsuccessful applicants).
- Around a third of successful applicants felt that the project reporting procedures were too onerous and around one in seven felt that payment procedures were inefficient and that the timescale for completing the project was inadequate.

*5.1.11Outcome of Grant Award*

Business growth was the main effect of the PMG grant amongst successful applicants with nine out of ten indicating that this was an outcome. However, a majority of respondents agreed or strongly agreed with each of the statements. Interestingly, the highest disagreement was with the statement about viability of their business, with around one in ten disagreeing with the statement that the award has ensured the viability of their business.

When asked whether they thought their projects had led to direct benefits to producers around three quarters of respondents felt that the volume of sales had increased, that existing markets had been secured and new markets developed. Slightly fewer, six out of ten, reported an increase in the value of produce. Around four out of ten reported an increase in collaboration amongst producers and involving them directly in processing and marketing.

**Table 5.5 Outcome of Grant Award**

| | Strongly Agree | Agree | Disagree | Not applicable | Not stated |
|---|---|---|---|---|---|
| The grant award has ensured the viability of my business/sector | 33 | 47 | 11 | 4 | 4 |
| The grant award has enabled my business/sector to grow | 53 | 38 | 4 | - | 4 |
| The grant award has enabled my business/sector to develop new products | 36 | 38 | 4 | 13 | 9 |
| The grant award has enabled my business/sector to develop new markets | 38 | 47 | 4 | 7 | 4 |
| The grant award has enabled my business/sector to develop new technologies | 31 | 49 | 2 | 13 | 4 |

Most beneficiaries (nine out of ten) felt that their businesses were more competitive as a result of the award. However, they felt the impact on the wider industry was not as significant, with only three out of ten saying that the industry was more competitive.

When asked whether the project had resulted in any unexpected benefits 27% indicated that it had. Comments included:

- *The company has achieved a higher profile, particularly in the local job market; recruitment is easier, and staff retention has improved.*
- *Confidence in the future of the business from our employees is demonstrably greater, and I think we have achieved a higher profile both locally and nationally*
- *Our main customer gave us more orders straight away*
- *General positive feeling in the business that there is a hopeful future.*
- *Collaboration has brought contacts in many new areas presenting opportunities for future development.*

### *5.1.12 Overall view of PMG*

Three quarters of successful respondents felt that the administration of the application process was good (62%) or excellent (16%) and only 7% felt it was poor. Fewer unsuccessful applicants felt the application process was good (30%) and one in five felt it was poor. Successful applicants were asked about administration once the grant was approved and the guidance provided by the scheme staff and most respondents felt that is was good or excellent.

Scheme objectives were considered good or excellent by 80% of successful and 50% of unsuccessful applicants.

Levels of grant provided were considered good or excellent by 69% of successful and 40% of unsuccessful applicants.

82% of successful applicants but only 10% of unsuccessful applicants felt that the scheme was effective in meeting industry needs. Six of the ten unsuccessful applicants said that the scheme was poor in this respect.

80% of successful applicants felt that the scheme encouraged innovation compared to 10% of unsuccessful. Seven out of ten unsuccessful applicants felt that the scheme was poor in this respect.

### *5.1.13 Unsuccessful Applicants*

Five of the ten respondents said that they were aware of the selection criteria used by the grant panel but only three were happy with those criteria. Fifty percent of the respondents (5 of 10) said that they were given an explanation to the reason why they were unsuccessful but only two thought that the decision was fair. Only one said that they would definitely not consider applying for the grant in the future.

**Question 15. Selection criteria used by the grant panel?**

- *The reasons given for refusal matched exactly those given to other failed applicants I spoke to. There seemed to be a strong reluctance to give any money to PMG schemes.*
- *We were unable to get a proper understanding of the nature of the proposal by the Defra officials, who remain poorly briefed and out of touch with market entries.*

**Question 16a: Were you given a full explanation as to the reason why your application was not successful?**

- *Future markets for expansion were not identified - despite clear plans and guidelines laid out in our application - short of producing firm orders in writing for 2 years. Hence I am not sure how we could have satisfied the panel.*
- *Not enough added value*
- *We could afford improvements without Grant Aid.*
- *Verbally we were not an SME. In writing please see their letter, we didn't meet legal objectives etc*
- *Improving the quality of milling grains grown locally does not qualify for a grant.*
- *We feel it was not properly followed through by the agents (ADAS)*
- *Additionality*
- *The issues were poorly explained, as if trying to avoid responsibility for decision.*

**Question 16b: If yes, on reflection, do you think that the decision was fair?**

- *No. It costs us £2000 and to put together a well thought out expansion scheme and the reasons for refusal were unrealistic and almost impossible for us or anyone else to meet.*
- *The second application, prepared by a consultant, at great cost (£1,000) was successful. This demonstrates the need to know how to play the system.*
- *We were not discouraged from believing that we would be successful. If our application was too big we should have had somebody brave enough to say no on day one and not waste so much time and effort.*

## 5.2 Survey of Eligible Non-applicants

Twenty six non-applicant businesses were interviewed by telephone. Responses are detailed at appendix D and discussed below.

**Table 5.6 Main activities – non-applicants**

| | |
|---|---|
| Food manufacturing | 50% |
| Food processing | 42% |
| Supplying wholesale market | 38% |
| Food retailing | 69% |
| Direct to consumers | 31% |

Respondents to the non-applicants' survey were first asked some questions about their business to see if they would benefit from a PMG grant. Headlines include:

- All but one was responsible for marketing their own produce.

- All but three had invested in equipment to ensure production capability and capacity to meet market trends, however, 21 still felt improvements could still be made.
- 15 said that they had invested to identify products for new markets, but 23 felt that there were still areas to improve.

Twenty of the respondents (77%) said that they were aware of Government funds to provide support for businesses in the areas mentioned above. Only half of these (10) mentioned the PMG scheme but a further 8 mentioned PMG when prompted.

Twelve had previously been involved in an application but dropped out (before their bid went before the grant panel). Three heard about PMG via MAFF (Defra), 6 from consultants, 2 via the press, 1 via district council and 1 through a trade association.

Of those that had not applied for PMG (25), only one would not consider applying for the grant. When they were made aware of the grant, 5 said that they would definitely apply (20%), 6 would consider it (24%) and 1 was unsure (4%). Reasons for not applying included:
- Didn't think we were eligible at the time
- Lack of awareness/knowledge
- Didn't meet the criteria

The results indicate that businesses recognise the need to address the issues covered by PMG and when they realise that there is a grant available to address those issues there is a great deal of interest in it.

## 5.3 Written Submissions from Representative Organisations

Responses were received from all of the 23 bodies, which were asked to provide written submissions. A significant number of these were telephone consultations in view of the limited time. Respondents were asked to comment on the key questions in the TOR and a summary of the responses is set out below:

*What do you consider to be the economic justification (if any) for initiatives aimed at improving the competitiveness of farmers and growers through better processing and marketing?*
Most responses emphasised the need for farming to restructure and become more market-oriented and to integrate into the food supply chain. PMG was seen as one tool in the set of public policy instruments to achieve this in a sustainable way. The need to invest to meet new food hygiene regulations and improve efficiency to compete with imports, were also cited. Some respondents felt that PMG should be focused on niche marketing and local supply chains in the context of a highly concentrated food processing and retail sector.

*How effective do you think the PMG has been in stimulating proposals for marketing and processing initiatives?*
Few respondents feel that PMG has been effective in bringing forward new ideas or innovation. This may be due in part to strict adherence to State Aid Rules.

*What have been the impacts or potential impacts of projects funded under PMG?*
View ranged from support for farm incomes to development of the local rural economy and tourism.

*Have there been any wider impacts of PMG?*
PMG should deliver growth in the UK market share of the food sector. It was noted that many cited local economic or employment impacts with no reference to displacement within the national economy. The wider impact of successful regionally branded, quality-driven schemes e.g. Scotch Beef or Welsh Quality Lamb was also mentioned.

*To what extent have farmers and growers benefited (either directly or indirectly) from the projects funded under PMG?*
Farmer-based projects can have substantial impacts on their own businesses but generally respondents felt that there was minimal evidence of general benefit to primary producers.

*How does PMG fit with other ERDP project-based schemes (RES and VTS)?*
There was agreement that PMG and ERDP in general tended to run in parallel to other funding schemes and initiatives. Even within ERDP, schemes were perceived as distinct with little integration with RES and VTS. This is confusing from an applicant's point of view and fails to achieve any synergy in terms of public sector support.

*What improvements could be made to the scheme for future years?*
Improvements proposed are listed below:
- Promote more widely outside farming
- Publicise successful bids in order to promote the scheme generally and highlight appropriate investments
- Create an effective link between PMG, RES and VTS
- Provide cost effective facilitation for creation of business plans.

*Are there any other points regarding the scheme (for example objectives, eligibility, administration, and the level of funding available) which you would like to make?*
- Simplified administration to improve accessibility
- Expressions of Interest at application stage to filter out ineligible projects
- Increase the grant rate to 40% to encourage less economically strong projects which deliver on local economy priorities e.g. local networks and regional food and business start-ups
- Improve the consistency of scoring
- Increase clarity and flexibility in the rules
- Reduce or remove the £70,000 minimum investment threshold

# CASE STUDIES

## 6.1 Selection of Case Studies

Seven PMG applications – four successful and three unsuccessful – have been selected as case studies in order to give an insight into the application and approval process and to consider the outcome of the projects, with and without PMG grant. At the outset, it was proposed and agreed with Defra that case studies should be selected from two English regions in order to allow some comparison between regions and between projects.

On the basis of limited numbers of PMG cases in some regions, it was agreed that cases would be selected from two regions with the most activity, in terms of active schemes. The number of successful applicants on the list supplied by the Schemes Unit was higher than the Probis database suggests and it was agreed that the former should be used (Table 6.1). On this basis, cases have been chosen from the East Midlands and the South East regions.

**Table 6.1 Distribution of PMG Applications (Oct-00 - Mar-03)**

| | **Successful** | **Rejected** | **Withdrawn** | **Total** |
|---|---|---|---|---|
| East of England | 9 | 7 | 10 | 26 |
| East Midlands | 17 | 2 | 6 | 25 |
| North East | 3 | 2 | 1 | 6 |
| North West | 7 | 0 | 5 | 12 |
| South East | 15 | 9 | 4 | 28 |
| South West | 11 | 3 | 7 | 21 |
| West Midlands | 5 | 2 | 3 | 10 |
| Yorkshire & Humber | 8 | 2 | 1 | 11 |
| **Total** | **75** | **27** | **37** | **139** |
| % of total | 54% | 19% | 27% | |

The Research Team met with Nottingham and Reading RDS to select suitable case studies. An aide-memoire was used for these consultations to ensure consistency of approach and to capture sufficient data to quantify the achievement of project indicators and milestones. There was also an emphasis on additionality and displacement (within and without the region).

The regional RDS teams have a very good insight into both the administration and technical issues with PMG and have been able to supply some useful monitoring data.

Individual projects were selected in consultation with Defra with a view to covering different sectors, projects of differing scale and to highlight eligibility issues. All the beneficiaries approached agreed to co-operate with the evaluation by supplying information and being interviewed for the case studies. They have had an opportunity to check this transcript and have subsequently agreed to the publication of the account given here. The evaluators are indebted to them, especially where projects were unsuccessful in obtaining PMG funding.

The seven projects are summarised in Table 6.2 below.

**Table 6.2 Case Studies Summary**

| Case | Successful | Region | Sector | Business turnover (£'000) | Project investment (£'000) |
|---|---|---|---|---|---|
| A | Yes | East Midlands | Cereals | £10,000 | £1,200 |
| B | Yes | East Midlands | Meat | £300 | £159 |
| C | Yes | South East | Vegetables | £19,600 | £1,013 |
| D | Yes | South East | Cereals | £500 | £1,286 |
| E | No | East Midlands | Vegetables | £18,000 | £930 |
| F | No | East Midlands | Dairy | £800 | £115 |
| G | No | South East | Dairy | £200 | £205 |

## 6.2 Case Study A

Key Facts

| | | | | |
|---|---|---|---|---|
| Business description: | Pet food manufacturer | | | |
| Project description: | Develop a cat food production facility to develop the business and capture market growth in this area | | | |
| Project cost | Application | £1,986,811 | Actual | £3,999,274 |
| PMG funding | Approved | £596,043 | Claimed | £1,199,782 |
| Application date | 28 August 2001 | | | |
| Offer letter date | 7 February 2002 | | | |
| Start date | Application | Dec-01 | Actual | Mar-02 |
| End date | Application | Dec-02 | Actual | Mar-04 |

Background

The aim of the project was to develop the existing pet food business to allow the business to develop and service contracts with the multiples. As a diversified business from farming, the application was initially made under RES but on advice from Defra, an application was made under PMG.

Prior to investment, the business had a turnover of approx. £10m and employed 58 FTEs. The processing capacity was 26,000 tonnes of product out using approximately 17,000 tonnes of feed wheat (from 50 local farmers). The direct link to primary produce was a key component of the case made for grant assistance. The case was also made that the applicant and most suppliers are in an Objective 2 assistance area.

A particular feature of this project was the variations made after the initial application (three in total) which doubled the capital spend and PMG award. The first of these was made in advance of the application going before the RAP but subsequent variations amounted to over £1.1m of spend and £344,000 of

PMG grant. Variations need to be agreed by the RAP but the assessor advises the panel.

6.2.1 *Scheme objectives*

The following scheme objectives were relevant.

- Guide production in line with foreseeable market trends
- Encourage the development of new outlets for agricultural products
- Improve or rationalise processing procedures
- Improve the presentation and preparation of products
- Apply new technologies
- Improve and monitor quality
- Improve and monitor health conditions
- Protect the environment

*Project assessment*

The project application was accompanied by a detailed business plan, prepared with the help of a consultant. Evidence of support from the Local Authority, RDA and NFU was also provided. The technical assessment was very positive with the following scoring:

**Table 6.3 Technical Assessment for Case Study B**

| Criterion | Score |
|---|---|
| Project need | 1 |
| Project objectives, performance indicators and milestones | 1 |
| Sustainability | 2 |
| Key policy themes and issues | 2 |
| Financial viability | 1 |
| Additionality and displacement | 1 |
| Project management and delivery | 1 |
| Risk assessment | 2 |

The total score of 12 points is categorised as a high mark (H). In addition, the project scored 2 on Regional Fit – good contribution to regions priorities (>40% of all goals/objectives/other regional/sub-strategies). On the basis of this assessment, the Regional Assessment Panel passed the project for grant support at 30%.

While most of these scores seem appropriate, there is a question with this business over its need for grant support as the business is financially strong and profitable. The assessment of additionality could be questioned.

*Project Indicators and Outcomes*

The performance targets and milestones for this project have changed as the project developed which has had some important ramifications. Key factors include:

- Delay in the start date due to Defra administration – the applicant had to be asked to provide details of ingredients to satisfy the Annex 1 requirements and advice was sought from London on this point
- Variations – once started, the applicant was faced with new opportunities for supplying multiples and asked to increase the scale of the investment.

**Table 6.4 Project Indicators and Outcomes – Case study A**

| | Prior to Grant | Target | Current |
|---|---|---|---|
| Processing capacity (tonnes) | 26,000 | | 52,000 |
| Employment (FTE) | 58 | 82 | 68 |
| No. of suppliers (farmers) | 50 | 90 | 62 |
| Volume of supply (tonnes) | 17,000 | 24,000 | 20,000 |
| Storage space created ($m^2$) | | 100 | 100 |
| Extra turnover (£m) | | £5.3 | £2.0 |

The project has been managed professionally and has run ahead of schedule. Markets have been secured for additional throughput of the new cat food products and the company is now seen as a progressive business in the market place. Increased volume capacity and improved facilities for New Product Development (**NPD**) will allow it to develop its relationship with multiples while additional employment and improved working conditions for staff will contribute to the local economy and community. The project is environmentally neutral.

In terms of the value for money of this project, much relies on the extent of additionality and displacement. If the gross impacts are valued, the project appears to be quite cost effective. In this case, it is the assessment of the evaluator that the investment is only 30% additional so that the impacts of PMG funding are only 30% of the gross impacts. Displacement would also be expected to reduce the net impacts and the estimated level for this project is 30%.

## 6.3 Case Study B

### *6.3.1 Key Facts*

| | | | | |
|---|---|---|---|---|
| Business description: | Smokehouse | | | |
| Project description: | Construction of additional processing (curing & smoking) facilities | | | |
| Project cost | Application | £156,000 | Actual | £158,776 |
| PMG funding | Approved | £46,883 | Claimed | £47,680 |
| Application date | 21 August 2001 | | | |
| Offer letter date | 22 March 2002 (30 weeks) | | | |
| Start date | Application | Mar-02 | Actual | Oct-02 |
| End date | Application | Jun-02 | Actual | Jan-03 |

### *6.3.2 Background*

The applicant is a family business, which manufactures, wholesales and retails speciality meats – mainly smoked and cured – to restaurants, hotels, retail outlets and farm shops. The aim of the project was to develop the existing smoking facilities to allow the business to develop new markets and improve the service to current customers (volumes, product range, food safety and quality). In particular, this was necessary for development of prestigious clients in London and Edinburgh and opportunities presented by local tourism.

Prior to investment, the business had a turnover of under £300,000 and employed 4.5 Full Time Equivalents (**FTE**s). Raw materials are sourced from wholesalers rather than direct from farmers – the latter had been tried but was found to be unreliable. The project is in an Objective 2 assistance area and a Rural Priority Area.

This was considered a 'genuine application from hard working applicants who have a track record of growing their business and have a real interest in the project succeeding'.

Two variations were sought and approved – one based on construction problems and a second an unforeseen requirement of building regulations for provision of disabled toilets. Neither materially affected the project although the timescale was delayed and cost increased by a small amount.

### *6.3.3 Scheme objectives*

The following scheme objectives were relevant.

- Guide production in line with foreseeable market trends
- Encourage the development of new outlets for agricultural products
- Improve or rationalise processing procedures
- Improve the presentation and preparation of products
- Apply innovation
- Improve and monitor quality

### 6.3.4 *Project assessment*

The project application was accompanied by a short business plan, prepared with the help of a Business Link consultant. No evidence of support from other stakeholders, agencies or customers was provided. The technical assessment was very positive and the scoring is detailed in table 6.3.

The total score of 11 points is categorised as a high mark (H). In addition, the project scored 2 on Regional Fit – good contribution to regions priorities (>40% of all Goals/Objectives/other regional/sub strategies). On the basis of this assessment, the Regional Assessment Panel passed the project for grant support at 30%.

**Table 6.5 Technical Assessment for Case Study B**

| Criterion | Score |
|---|---|
| Project need | 2 |
| Project objectives, performance indicators and milestones | 1 |
| Sustainability | 1 |
| Key policy themes and issues | 2 |
| Financial viability | 1 |
| Additionality and displacement | 1 |
| Project management and delivery | 1 |
| Risk assessment | 2 |

While most of these scores seem appropriate, the assessment of '*Key Policy Themes and Priorities*' appears to be generous. As the project only partly integrates with other measures and is a development of an existing activity, a score of 4 would seem more appropriate. Other scores were also generous, notably score 1 for environmental sustainability in a largely environmentally neutral project. The project has very high additionality due the scale of investment in relation to turnover (58%) and the lack of liquid funds.

Start date for this project was delayed due to site problems but performance targets should not be affected. There are only two project indicators – turnover and jobs (created and safeguarded). It is also notable that there are no direct links to supplying farmers and it is not possible to measure benefits passed back to them – instead benefits of additional throughput on meat producers is inferred.

**Table 6.6 Project Indicators and Outcomes – Case Study B**

| | Prior to Grant | Target | Current |
|---|---|---|---|
| Extra capacity (% start) | 100% | | 125% |
| Extra turnover (£'000) | | £188 | £67 |
| Employment (FTE) | 4.5 | 6.5 | 6.5 |

The project has been well managed and the business appears to be prospering and building trade. Markets are developing steadily – processing capacity and improved facilities will allow the business to develop more small scale and specialist outlets while additional employment and improved working conditions for staff will contribute to the local economy and community. The project is largely environmentally neutral.

The value for money of this project is good because additionality is high and displacement limited due to the speciality food product – it is estimated that 40% of product will displace imports of salami and similar foods. Assuming that the investment is 80% additional and displacement is 60%, the net impact for this project is 48% of gross turnover and employment generated. In practice employment created is likely to exceed target at 3.5 FTE but the 70% increase in turnover may take longer to achieve. This represents good value for a funding commitment of less than £50,000. In addition there are potential links with local tourism and regeneration need.

## 6.4 Case Study C

### *6.4.1 Key Facts*

| | | | | |
|---|---|---|---|---|
| Business description: | Fresh Produce | | | |
| Project description: | Increasing storage space, increasing provision of high care processing and investment in mechanisation to deliver novel products and add value to existing raw material. | | | |
| Project cost | Application | £1,263,385 | Actual | £1,013,333 to date |
| PMG funding | Approved | £378,415 | Claimed | £304,000 to date |
| Application date | 21 November 2001 | | | |
| Offer letter date | 14 March 2002 (20 weeks) | | | |
| Start date | Application | March 02 | Actual | Mar-02 |
| End date | Application | July 03 | Actual | July 03 |

### *6.4.2 Background*

The aim of the project was to extend the existing Packhouse together with the addition of new developments to the processing line including associated plant and machinery. This will enable the company to handle increased sales opportunities, add value to its produce, improve production efficiency, reduce waste and create a healthy working environment. Prior to investment, turnover stood at £19.6m with employed staff at 30.

The business itself produces significant quantities of raw product along with a further 52 suppliers from the UK, Spain, South Africa and the United States.

There were no variations made to the project during its life.

### *6.4.3 Scheme objectives*

The following scheme objectives were relevant:

- Guide production in line with foreseeable market trends
- Encourage the development of new outlets for agricultural products
- Improve or rationalise marketing channels
- Improve or rationalise processing procedures
- Improve the presentation and preparation of products
- Achieve the better use or elimination of by-products or waste
- Apply new technologies
- Apply innovation
- Improve and monitor quality
- Improve and monitor health conditions

### *6.4.4 Project assessment*

The project application was accompanied by a well-presented and detailed business plan, prepared with the help of a consultant. Evidence of support from the Local Authority through planning approval was also provided. The technical assessment was very positive with the following scoring:

**Table 6.7 Technical Assessment for Case Study C**

| Criterion | Score |
|---|---|
| Project need | 1 |
| Project objectives, performance indicators and milestones | 2 |
| Sustainability | 2 |
| Key policy themes and issues | 2 |
| Financial viability | 2 |
| Additionality and displacement | 1 |
| Project management and delivery | 2 |
| Risk assessment | 2 |

The total score of 14 points is categorised as a high mark (H). In addition, the project scored 2 on Regional Fit – good contribution to the regions priorities (>40% of all goals/objectives/other regional/sub strategies). On the basis of this assessment, the Regional Assessment Panel passed the project for grant support at 30%.

The company is the main beneficiary along with the customers who have both seen significant increases in turnover of products. The company now supplies

100% of Tesco's and Waitrose sweetcorn requirements and is the biggest supplier to Sainsbury. Some benefits have been passed down the chain to producers who have benefited from increased volume and better price through reduced waste. Suppliers like the fact that the company is seen as successful

### *6.4.5 Project Indicators and Outcomes*

The performance targets and milestones for this project are listed below:

**Table 6.8 Project Indicators and Outcomes – Case study C**

| | Prior to Grant | Forecast | Current |
|---|---|---|---|
| Turnover (£m) | 19.6 | 25 | 30 |
| Employment (FTE) | 30 | 45 | 45 |
| No of suppliers (farmers) | 52 | 78 | 78 |
| Volume of supply (units) | 47 | 58 | 64 |
| Capacity(500m2) | 4 | 8 | 8 |
| Profitability (£m) | 0.25 | 0.8 | 0.9 |

The project has been managed very professionally and has run exactly to schedule. The impact of the project has been greater than expected. The new products have secured additional sales to such an extent that one new product now accounts for 13% of output from zero before the investment. Increased volume capacity and improved facilities for NPD will allow it to further develop its relationship with multiples while additional employment and improved working conditions for staff will contribute to the local economy and community. The project is viewed as having a positive impact upon the environment as a new waste processing system has been devised. Contacts have been made with local livestock producers who collect the waste to use it for animal feed. The level of waste per unit sold has decreased due to new product development.

Working conditions are seen as much improved due to increased space and re-organisation of staff to provide more management and spread responsibility to allow quicker decisions and more accountability. As the business has grown there has been an increasing level of interdependence. There has been a policy to increase volumes with existing suppliers and convert contingency suppliers to mainstream suppliers. Customer confidence has increased as the company proved it could do what it promises.

In terms of value for money of this project the grant cost at £378k translates to £8.4k per FTE created and/or safeguarded. In terms output it has cost £37k for every £1 million increase in output and £5.8k for every £10k increase in profit.

## 6.5 Case Study D

### *6.5.1 Key Facts*

| | | | | |
|---|---|---|---|---|
| Business description: | Grain Merchant | | | |
| Project description: | To increase storage capacity by 8,000T, to increase intake capacity and to increase drying capacity | | | |
| Project cost | Application | £1,285,749 | Actual | £n/a |
| PMG funding | Approved | £1,258,748 | Claimed | £73,734 |
| Application date | 29/08/01 | | | |
| Offer letter date | 03/12/02 (65 weeks) | | | |
| Start date | Application | January 02 | Actual | Jan 03 |
| End date | Application | June 03 | Actual | August 04 |

### *6.5.2 Background*

The aim of the project is to meet demand for the services of this grain co-operative. To this end storage capacity is required along with increased intake capacity at harvest and increased drying capacity. This will cater for an increase in membership of approximately 30 farmers. In addition the project will improve segregation and management of grain enabling larger more valuable bulks of grain, reduced operational costs for both co-op and farmer members. It was estimated that the impact would be an improvement in product prices for the 30 new members of between £2-3,000 per holding and improve the long-term sustainability of the co-op.

Prior to investment the turnover of the co-op was £0.5m, employing 4 full time workers with an additional 6 seasonal workers taken on at harvest. The co-operative does not take ownership of the grain thus its turnover is made up of running costs and marketing charge. The storage capacity is 48,000t and about this quantity is stored and marketed on behalf of 105 members.

A particular feature of this project was the delay between application and grant being awarded. This was due to a debate at policy level within Defra on the eligibility of grain storage as an "added value" process. After initially turning down the application with subsequent appeal, Defra agreed that although the process did not physically change the nature of the raw material it did enhance the management, marketing and handling of the grain beyond that achieved on the majority of farms and it directly provided benefits to the primary producer involved.

As a result of the delay the original application changed as some investment took place in the interim. The current application is as detailed above.

### 6.5.3 *Scheme objectives*

The following scheme objectives were relevant:

- Guide production in line with foreseeable market trends
- Encourage the development of new outlets for agricultural products
- Improve or rationalise marketing channels
- Improve or rationalise processing procedures
- Improve the presentation and preparation of products
- Improve and monitor quality
- Protect the environment

### 6.5.4 *Project assessment*

The project application was accompanied by a well-presented and detailed business plan. The technical assessment provided a medium score of M2:

**Table 6.9 Technical Assessment for Case Study D**

| Criterion | Score |
|---|---|
| Project need | 2 |
| Project objectives, performance indicators and milestones | 2 |
| Sustainability | 3 |
| Key policy themes and issues | 3 |
| Financial viability | 2 |
| Additionality and displacement | 2 |
| Project management and delivery | 1 |
| Risk assessment | 2 |

The total score of 17 points is categorised as a Medium mark (M). In addition, the project scored 2 on Regional Fit – good contribution to regions priorities (>40% of all Goals/Objectives/other regional/sub strategies). On the basis of this assessment, the Regional Assessment Panel passed the project for a PMG grant support at 30%.

There is a doubt about the need of the business for grant support given that they made a substantial investment with no aid, although they are looking at retrospective funding. There is no question however that at £12k grant investment per farm providing a £2-3k return (16-25%) the project demonstrates good value for money.

### 6.5.5 *Project Indicators and Outcomes*

The performance targets and milestones are listed below. They have changed since the original application due to the delay and interim investment discussed above.

**Table 6.10 Project Indicators and Outcomes – Case study D**

| | Prior to Grant | Target | Current |
|---|---|---|---|
| Processing capacity (tonnes) | 48,200 | 56,000 | 52,400 |
| Employment (FTE) | 4 | +1 | +1 |
| No. of suppliers (farmers) | 105 | 130 | n/a |
| Benefits to members | | 94,000 | n/a |
| Extra turnover (£m) | £0.5 | £0.6 | £0.55 |

The project has been very well managed and indeed owes much to the tenacity of the development manager to get acceptance of its eligibility from Defra. The project milestones to date have been met but project indicators have not as the project is not due for completion until next year. There is a positive indication that the capacity will be sold with one farmer alone looking to take 4,000 tonnes. The environmental impact is neutral at the site but likely to be positive overall as many individual storage sites have been concentrated into one thus reducing frequency of transportation, noise pollution and drying energy efficiency.

## 6.6 Case Study E

### *6.6.1 Key Facts*

| | | | | |
|---|---|---|---|---|
| Business description: | Vegetable packhouse (onions) | | | |
| Project description: | Build and equip a new packhouse and convert existing to cold stores and a dedicated organic packhouse | | | |
| Project cost | Application | £930,000 | Actual | |
| PMG funding | Approved | - | Claimed | - |
| Application date | 5 January 2001 | | | |
| Rejection letter date | 14 June 2001 (23 weeks) | | | |
| Start date | Application | | Actual | |
| End date | Application | | Actual | |

### *6.6.2 Background*

The aim of the project was to develop the existing onion packing business to allow the business to develop and service contracts with the multiples. This is part of an ongoing expansion and development process, which is essential to maintain and capture new markets. There has been considerable rationalisation in the vegetable-processing sector as retailer concentration and category management reduces the number of suppliers. This business has a track record of successful growth based on offering modern facilities and quality produce and service.

Prior to investment, the business had a turnover of approx. £18m and employed 280 FTEs. The processing capacity was an input of 35,000 tonnes of product with approximately 24, 000 tonnes from 16 onion growers in the area and some bought on spot-markets from UK traders. The remainder (30%) is taken as imports when UK supply is not available. The applicant reports that any loss of processing capacity would result in a combination of expansion of other sites and increased reliance in imports as some UK growers would not have a local buyer.

*6.6.3 Scheme objectives*

The following scheme objectives were relevant.

- Guide production in line with foreseeable market trends
- Improve the presentation and preparation of products
- Achieve the better use or elimination of by-products or waste
- Apply innovation
- Improve and monitor quality
- Improve and monitor health conditions
- Protect the environment.

*6.6.4 Project assessment*

The project application was accompanied by a poorly presented business plan, prepared with the help of a consultant. Evidence of support from the Local Authority, RDA and NFU was also provided. The technical assessment was not very positive with the following scoring:

**Table 6.11 Technical Assessment for Case Study E**

| Criterion | Score |
|---|---|
| Project need | 3 |
| Project objectives, performance indicators and milestones | 1 |
| Sustainability | 3 |
| Key policy themes and issues | 4 |
| Financial viability | 1 |
| Additionality and displacement | 5 |
| Project management and delivery | 3 |
| Risk assessment | 5 |

The project anticipated a modest increase in output (10%) over the course of the investment and the creation/safeguarding of 55 jobs. On this basis, and the scale of the business, the RDS assessment was poor although it is now clear that this is largely due to a very poor quality presentation – by a consultant. The business plan did not make it clear that the 55 jobs were additional and these were assumed by the assessor to be existing jobs, which would be safeguarded. The economic need was also poorly presented and exaggerated the return on investment.

The total score of 25 points is categorised as a low mark (L). In addition, the project scored 3 on Regional Fit – moderate contribution to regions priorities (<30% of all Goals/Objectives/other regional/sub strategies). On the basis of this assessment, the project was deemed to "*represent poor value for money* *when judged against the financial resources of the company*" and the Regional Assessment Panel rejected the project.

While most of these scores seem appropriate, the assessors' comments were often not fully objective. This is borne out by what has actually happened with this project in the absence of funding. The investment has proceeded but on a much-delayed basis – this brings into question the assessment score for additionality. In the meantime, business opportunities have been developed through stretching existing resources and operating a night shift but this is causing difficulties with the Working Hours Directive.

This project highlights several key weaknesses of the assessment system, notably:

- Presentation of the business case has an undue influence on project scoring
- The scoring criteria are too subjective – not always consistent with the evidence
- Additionality and displacement are difficult to assess objectively.

*6.6.5 Project Indicators and Outcomes*

Although the project did not receive PMG funding, it has gone ahead on a delayed timescale. The performance targets and milestones for this project are presented with the targets in the initial application in table 6.12.

**Table 6.12 Project Indicators and Outcomes – Case Study E**

| | Prior to Grant | Target | Current |
|---|---|---|---|
| Processing capacity (tonnes) | 35,000 | 38,500 | 60,000 |
| Employment (FTE) | 280 | 335 | 320 |
| No. of direct suppliers (farmers) | 16 | 16 | 18 |
| Volume of supply (tonnes) | 35,000 | 38,500 | 50,000 |
| Organic processing (tonnes) | 2,000 | 2,500 | 2,000 |
| Extra turnover (£m) | | £1.7 | £9.0 |

To consider the potential value for money of funding this project, additionality and displacement have been estimated. It is estimated that the additionality of the investment is only 30% and displacement would also be expected to relatively high at 80%. In this instance, net impacts are estimated at only 6% of actual gross (40 jobs created plus 280 sustained and extra sales of £9 million). At a public cost of £279,000 this is comparable to the successful Case Study C in terms of value for money.

## 6.7 Case Study F

### *6.7.1 Key Facts*

| | | | | |
|---|---|---|---|---|
| Business description: | Farmhouse cheese production (dairy farm) | | | |
| Project description: | Build a new cheese storage and processing unit | | | |
| Project cost | Application | £115,392 | Actual | |
| PMG funding | Approved | - | Claimed | - |
| Application date | 27 February 2001 | | | |
| Rejection letter date | Not pursued – applied under RES in July 2002 | | | |
| Start date | Application | | Actual | |
| End date | Application | | Actual | |

### *6.7.2 Background*

The aim of the project was to build a 200 tonne cheese store for maturing own-branded farmhouse cheese to accommodate sales growth and extend product range. The dairy farm had diversified into cheese making in 1992 and built a dairy in 1995 with RDC funding. After winning an award for their cheese in 1997, there was interest from the multiples but this represents only 20% of sales. The main outlets are Farmers Markets and specialist food retailers – 25% is retailed direct.

Prior to investment, the business employed 4.5 FTEs and produced 90 tonnes of cheese at maximum capacity. All the milk is home produced with surplus sold wholesale. The farm is in the process of organic conversion and the objective is to expand product range and sales to a range of mainly small-scale outlets, including export markets.

An application was made for PMG grant in February 2001 but no business plan was sent. Despite written requests from Defra RDS for additional information, the application lapsed. The project was picked up again in 2002 but Defra advised the business to apply through RES. An application was made and accompanied by a business plan but due to protracted timescales for the next Panel, the work went ahead without funding.

The business did receive a £5,000 grant from the East Midlands Food and Drink Forum under the 'Food Manufacturing Investment Fund' (Objective 2). Accessing this was a very simple process – a project worker came out to the dairy and helped complete the application.

### *6.7.3 Scheme objectives*

The following PMG scheme objectives were relevant.

- Guide production in line with foreseeable market trends
- Encourage the development of new outlets for agricultural products
- Improve or rationalise marketing channels
- Improve or rationalise processing procedures

- Improve the presentation and preparation of products
- Achieve the better use or elimination of by-products or waste
- Improve and monitor quality
- Protect the environment.

*6.7.4 Project assessment*

The project was never assessed but would be expected to score highly based on the scale of investment relative to business size, economic and environmental sustainability, jobs sustained and created, high additionality and low displacement, benefits to producers and financial viability. There may have been a problem with the need to purchase at least 20% of raw materials from outside the business as only 60% of own-milk is currently used.

This project highlights several problems with accessibility to PMG/RES grants, notably:

- Constraints placed on timing by the quarterly panel process – this has improved with the introduction of interim panels
- The process is unclear with little requirement for information on the application form and limited guidance on the business plan
- Confusion between whether PMG or RES is appropriate for smaller schemes

*6.7.5 Project Indicators and Outcomes*

Although the project did not receive PMG or RES funding, it has gone ahead on a smaller scale. The performance targets and milestones for this project are presented with the targets in the initial application in table 6.13.

**Table 6.13 Project Indicators and Outcomes – Case Study F**

| | Prior to Grant | Target | Current |
|---|---|---|---|
| Processing capacity (tonnes) | 90 | 250 | 100 |
| Employment (FTE) | 4.5 | 7.5 | 6.0 |
| No. of direct suppliers (farmers) | 1 | 1 | 1 |
| Extra turnover (£'000) | | £445 | £180 |

To consider the potential value for money of funding this project, additionality and displacement have been estimated. It is estimated that the investment is only 50% additional but displacement would be expected to relatively low at 20%. In this instance, net impacts are estimated at 40% of actual gross. At a public cost of £34,618 this represents good value for money. In addition, there are many indirect benefits in terms of environmental and social regional goals.

## 6.8 Case Study G

### *6.8.1 Key Facts*

| | | | | |
|---|---|---|---|---|
| Business description: | Ice cream manufacturer | | | |
| Project description: | To process own milk into ice cream and sell in own tea rooms and sell wholesale. Provide toilets/shower facilities for caravan park | | | |
| Switched from PMG to RES | | | | |
| Project cost | Application | £204,954 | Actual | £184,335 |
| PMG funding | Approved | £81,982 | Claimed | £73,734 |
| Application date | 23/01/01 | | | |
| Offer letter date | 22 May 2001 (17 weeks) | | | |
| Start date | Application | May 01 | Actual | May 01 |
| End date | Application | August 01 | Actual | March 02 |

### *6.8.2 Background*

The aim of the project was to re-focus an uneconomic dairy farm towards niche market production of high quality Jersey ice-cream supported by an on site tea-room and the provision of facilities for touring caravans. The bid was submitted to Defra for both the PMG and RES grants. On advice from RDS the application was submitted for RES funding due to the broad nature of the investment.

Prior to investment, the business was milking 100 Holstein cows and had seen its profits fall dramatically since 1997. Although profits had stabilised the partners did not have a positive view of the dairy industry and the driving force for the sale of the herd in October 2000 was the need to secure a higher income. The 90ha of land remain in the farm business and are rented out. The business at that time employed the two farming partners.

During the project one variation was made with funds required for a mobile retail unit. The variation was retrospective which caused problems for all parties.

### *6.8.3 Scheme objectives*

This was a RES application and met the following RES objectives:

- Diversification into an alternative agricultural activity
- Marketing of quality agricultural products
- Diversification of agricultural activities to provide multiple activities or alternative incomes
- Encouragement for tourist activities.

*6.8.4 Project assessment*

The project application was accompanied by a detailed business plan. The application did undergo substantial alteration and amendment since submission in part to meet the requirements of the grant for adequate information. The partners received some help in preparing the application through FBAS. In retrospect both partners believed they would have benefited from more professional help during planning and preparation of the bid. Evidence of support from the Local Authority through planning consent and the Tourism Better Business Scheme was also provided. The technical assessment provided a medium score of M2:

**Table 6.14 Technical Assessment for Case Study G**

| Criterion | Score |
|---|---|
| Project need | 1 |
| Project objectives, performance indicators and milestones | 3 |
| Sustainability | 2 |
| Key policy themes and issues | 2 |
| Financial viability | 4 |
| Additionality and displacement | 2 |
| Project management and delivery | 3 |
| Risk assessment | 3 |

The total score of 20 points is categorised as a Medium mark (M). In addition, the project scored 2 on Regional Fit – good contribution to regions priorities (>40% of all Goals/Objectives/other regional/sub strategies). On the basis of this assessment, the Regional Assessment Panel passed the project for a RES grant support at 40%.

This project brings to the fore the issue of difference between the various schemes within ERDP, particularly RES and PMG. The latter funds capital only and due to its minimum grant levels tends to be taken up by larger businesses further up the food chain. RES however funds both capital and revenue and does provide a higher level of grant. In addition, when one considers the Agricultural Development Scheme, which sits outside ERDP, there is an understandable confusion amongst the target audience.

### 6.8.5 *Project Indicators and Outcomes*

The performance targets and milestones are listed below.

**Table 6.15 Project Indicators and Outcomes – Case study G**

| | Prior to Grant | Target | Current |
|---|---|---|---|
| Ice Cream Sales(litres/day) | | 20 | 35 |
| Employment (FTE) | 2 | 5.5 | 3.5 |
| Caravans on site | | 40 | 10✶ |
| Average price per l of ice cream(£) | | 8 | 8 |
| Visitors per day | | 50 | 50 |
| Profit index | 100 | 200 | 200 |

✶*The Caravan Park, although having planning permission for 60 caravans only has a licence for 30 given the level of facilities. The site is occupied by on average 10 caravans over a 6-month season. This has increased from last year and is projected to increase in 2004. The main limitation is the number of electric points, which at present is 14. The mains supply can be used for 60, but as yet investment has been targeted at growing the ice-cream business.*

The project has relied upon the energy and ideas of the partners. Both remain highly enthused and seeking to develop the business further. The project has been managed successfully although it has taken longer to reach the milestone targets than was originally anticipated. The partners would consider a PMG application to increase the cold storage area. However there are a number of other investment opportunity's which are available which would point the total project toward a RES application. The partners agreed that the application and administration process could be more transparent and would be helped if RDS appointed a single member of staff to communicate with the applicant at the beginning of the process. RDS have indicated that this is now the case.

## 6.9 Conclusions from Case Studies

The case studies demonstrate the range of projects – both sector and scale – which have applied to PMG. They have highlighted a number of issues with regard to project assessment and administration as follows:

- Where PMG funding is awarded, there are significant impacts on the applicant business, even where additionality is relatively low – projects are more ambitious and have a motivating impact
- There is often little difference between successful and unsuccessful projects in terms of business objectives and in some cases potential outcomes
- There is considerable confusion between PMG and RES from an applicants perspective
- Technical assessments rely too heavily on presentation of the business plan. The scoring system is unduly biased in this respect.

- Facilitation is important in securing a result – a good consultant can almost guarantee a positive result – and avoiding delays through ineligibility, incomplete information etc.
- Assessment of additionality and displacement is too subjective
- Assessment of positive social and environmental impacts is very subjective – in some cases a presentational issue – and is difficult to assess against economic benefits
- The assessment process is not sufficiently transparent
- The application and administration process is often too long and bureaucratic.

# 7 CONCLUSIONS AND RECOMMENDATIONS

## 7.1 Introduction

Conclusions have been structured around the terms of reference. Recommendations follow in the subsequent section.

## 7.2 Economic Rationale

While there are a number of potential areas of market failure for capital grants to support processing and marketing, the evidence from the research in this evaluation and other secondary data is limited in regard to most types of market failure. The case for market support through various aspects of market failure mentioned in Chapter 3 are considered in turn:

### 7.2.1 *Agricultural producers that are often small and disparate in comparison with their markets*

There is much evidence from the survey that the PMG is highly valued by successful applicants and has a significant impact on the scale and nature of proposed investments. However, it is clear that the grant enables rather than stimulates investment and additionality is likely to be modest. However, the arguments which were rehearsed in the Fundamental Expenditure Review when the previous FEOGA programme was withdrawn, still pertain – it is difficult to achieve additionality without selecting the financially weaker projects. The latter may be a reflection of scale, in which case there needs to be a high degree of innovation to avoid displacement and ensure sustainability.

Scale does provide a convincing rationale for support, subject to achievement of additionality and innovation.

### 7.2.2 *Positive connection between capital grants and productivity*

There is a clear correlation between uptake of technology and productivity through improved efficiency and economies of scale. However, this is likely to be relevant to expansion of existing production, as well as process or product innovation. There is also some danger of an imbalance of capital and labour resources in small firms.

Enabling companies to update their processing lines and expand, will increase productivity and therefore competitiveness but there is a major concern over displacement. In practice the limited amounts of funding and poor scheme accessibility risks selective displacement. This only provides a sound rationale where grants are widely available and the competitive process works effectively. This is not the case at present with PMG but could be remedied by increasing the budget and/or reducing the rate of grant.

### 7.2.3 *Innovation support in small and medium-sized enterprises (SMEs)*

There is a rationale for supporting innovation, as this is the key to growth, productivity and employment creation. However, there is little evidence of innovation among the approved PMG projects – with a few notable exceptions. Part of the problem may be that the technical assessment does not favour innovation over financial viability, risk management and other factors which may bias selection towards existing companies with existing markets and products. It could also be argued that the current rate of grant is insufficiently high for new companies and higher-risk projects – a maximum rate of grant of 40% is available under the regulation. The scoring system needs to better reflect the objective of stimulating innovation.

### 7.2.4 *Encouragement of local networks*

While this may be relevant to some projects, most have not shown real impacts in terms of collaboration. It might be argued that a revenue grant is more applicable to developing networks, rather than capital investment *per se*. This may provide a rationale for RES funding.

### 7.2.5 *Capital grants have a greater employment effectiveness in small firms*

This is a very difficult case to make, as capital investment is likely to increase the allocation of resources towards capital and away from labour. There may be overall employment creation but unless the competitors that are displaced are outside the UK, the net impact at a national level may be negative. This is consistent with productivity growth and increased competitiveness. However, job creation is an indicator for the measure and the current approach may be inadvertently favouring job displacement – this is a particular concern in view of the regional context, on which projects are assessed.

It might be argued that job creation should not be an indicator for assessing capital grants and that this should be considered as a local or regional impact. A significant proportion of projects is located in Objective 2 areas (13 from 54) and these structural funds already target job creation.

## 7.3 Effectiveness

The objective of the PMG is to increase competitiveness of primary producers through encouraging investment in improved processing and marketing. The scheme has been reasonably effective in delivering approved applications but in its first two years, the budget has been underspent. This is largely due to problems of forecasting when claims will be paid within a strict financial year but there is also evidence that some regions have failed to engender enthusiasm for the scheme – through a combination of poor awareness beyond the farming sector and perceived cost of accessing the scheme. This is something that can be remedied.

More significant is the impact of projects which have been funded in returning a share of the economic benefits direct to primary producers and indirectly through increasing the demand and value-added in the wider market place. In the opinion of the evaluators, in the main food sectors, the number of projects and level of investment is unlikely to have a significant impact on markets. At a more local level, there will be some more significant effects. However, evidence from the consultation suggests that the involvement of primary producers in schemes that are not farm-based is limited and any premiums will only reflect the specification of produce demanded. In other words, primary producers received no financial benefit.

## 7.4 Impacts

It is still very early in the life of the scheme to gauge impacts but the scheme monitoring data, case studies and survey responses did suggest that this grant appeals to most businesses for purely commercial reasons. While reference may be made to cross-cutting issues in the application such as job creation, contribution to the local economy, environmental and health benefits, these are a generally not the primary motivation. In many cases they are driven by economic need of the applicant business and statutory regulation.

There are two main issues with this, additionality and displacement. While it is widely held that it is not for the public sector to dictate which sectors or types of investment are ‘needed’ in the market place, the competitive award of grants up to a limit of £1.2 m has a considerable capacity to favour the development of some businesses at the expense of others. In practice, displacement is perceived as a regional issue rather than a national one and government may be achieving little at country level.

Even in the absence of displacement, there is concern over the level of additionality. While some projects would genuinely not go ahead without the grant others most certainly would, albeit on a less ambitious scale or over a longer timescale. The current scoring system does not appear to deal effectively with additionality – too much relies on the presentation of the business case received by RDS. Additionality tends to be higher for smaller businesses yet it appears that there are some conflicting effects of the scoring system. For example large businesses with relatively small projects score better on criteria such as ‘jobs created and safeguarded per £ of grant’. Conversely small businesses with large projects score badly.

If a business is strong, it is highly debatable that jobs safeguarded can be attributed to public funding through PMG. Indeed, additionality is likely to be low and actual jobs created may be minimal. The tendency to overstate employment impacts is highlighted in a National Audit Office report (2003) which places a question mark over the value of regional intervention in general, a key strategy over the past 30 years for reducing economic disparities across the UK. NAO analysis of Regional Selective Assistance awards to companies creating jobs in deprived English regions showed expectations of the extra jobs created are far too high.

If it is assumed that additionality is around 50% as in the previous PMG evaluation and that displacement at country level is 80%, only 10% of headline impacts can be seen as a direct result of public funding. Given the high public (and private) costs of administering these grants, the case for this capital grant scheme is not strong.

## 7.5 Wider Impacts

Perhaps the most persuasive case for capital grants is the general effect of encouraging businesses to invest in new technology, expansion and other measures that increase productivity and competitiveness. This only has an impact if these businesses add value at a country level, rather than displacing other non-assisted businesses. However, it was clear from the case studies that much of the opportunity which businesses see for growth is at the expense of other competitor businesses, which have already failed. In the absence of investment, it might be argued that imports would be drawn in due to inadequate capacity or lack of modern facilities. On an international basis, capital grants may encourage growing companies to bring forward investment or to be more future-proof in their processes.

It is also evident that many non-applicant businesses were not aware of the PMG grants and it is essential that a truly competitive environment exists if the wider food processing industry is to be motivated to invest. A more widely promoted and accessible scheme would also ensure that projects which deliver on wider public priorities such as the development of local food supply chains are brought forward, but the impact on running costs must be minimised.

## 7.6 Cost Effectiveness

The cost of administering the PMG in 2002/03 was high at £724,000 (before policy and other central costs). While the cost per unit of grant paid is reasonable at 15%, this relies heavily on the high average award of £211,053. The cost per successful award is less encouraging at an estimated £12-15,000.

In addition to the public administration costs, there are also private costs of accessing the scheme and complying with the claim and reporting procedures – all PMG applicants are visited at least twice. The common practice of employing a consultant to put together the business plan and liase with Defra RDS can add up to £5,000 to application costs – with no guarantee of success.

Cost-effectiveness is largely concerned with the public cost of operating the scheme against the benefits it delivers to the regional and national economy. It is still too early in the life of the scheme to gauge this with any accuracy but given the concern over impacts and the relatively high cost of administration, thought needs to be given to the delivery mechanism.

There are four options to make the scheme more cost-effective:

i) Maintain the scheme as at present but work harder to streamline the administration and the quality of projects. This might be achieved in part by promotion and administration through a single office.

ii) Reduce the funding rate and the expectations of additionality so that more projects are funded and benefits are increased for a given budget.

Costs of delivery could be reduced by simplification of the application, assessment and claim process.

iii) Delegate the PMG budget to a single regional body that has a remit to administer all economic and rural development initiatives to food and farming. The ambition would be to secure lower administration costs across the board through rationalisation and improved benefit from better matching of schemes with industry needs.

iv) Discontinue PMG and roll the funds into another scheme (perhaps an enhanced RES – marketing of quality agricultural products) to reduce the high costs of operating a scheme which is very small in scale.

## 7.7 Other conclusions

There is an issue over the administration of PMG (and other ERDP project based schemes RES and VTS) which involves two policy divisions, a specialist unit and 8 regional units to administer. The concern is over policy ownership and effective communication between scheme users, administrators and policy makers and the implications for cost and responsiveness of delivery. The Haskins Review is currently considering delivery of public support and any changes should await the outcome of this initiative.

## 7.8 Recommendations

On the basis of the evidence provided by the research undertaken in this evaluation, the following recommendations are made:

i) Defra should reconsider the objectives of PMG and try to simplify and clarify them. The objective of Defra should be to encourage small food businesses to innovate in terms of processes, products and markets. *See sections 3.6, 4.3 and 5.3.*

ii) With the objective above, the targeting of applicants and projects for funding, needs to be revised in order to stimulate demand and create a truly competitive process. Since the target population includes those outside farming, promotion should be through appropriate regional food groups, representative bodies and trade associations. *See sections 4.3, 5.1.4, 5.2 and 5.3.*

iii) Consider whether ERDP funding might be directed to some existing or merged scheme, which might include PMG and RES funding and elements of funding from other regional allocations. The essential aim is that industry perceives a single scheme for similar projects. The experience of support for the rural economy in Objective 1 areas (where RES and PMG type project are delivered as a single scheme) might provide a model. *See sections 5.3 and 6.10.* **This would require the Commission to approve amendments to the ERDP.**

iv) Adopt a variable grant rate to take account of the scored degree of additionality or displacement and contribution to objectives. *See sections 5.3, 6.10 and 7.6.*

v) This will require a more rigorous and focused scoring approach than at present. In particular, there should be less emphasis on the presentation of the case and more onus on providing evidence to support additionality, displacement, return to primary producers and other project benefits. *See sections 5.3 and 6.10.*

vi) Substantially reduce the administration involved in the scheme by using a single application form that allows the applicant to set out all the necessary details, as required by the scheme. This should require certain details to be attached e.g. financial accounts, supporting letters etc. from a specified list. *See sections 4.2 and 5.3.*

vii) Closely define the rules of the scheme so that the selection process is transparent. Applicants should be advised to consult the body administering the grant scheme to get guidance on eligibility and the chance of success. *See sections 5.1.8 and 5.1.13.*

**viii)** Second hand equipment should be eligible. *See section 5.1.7.* **This would require changes to the EU legislation governing the scheme.**

ix) Discontinue the common practice of allowing grant claims after significant project delays through variations. The onus should be on the applicant to ensure that the milestones are met and that most eventualities are considered at the application stage. The loss to regions and the country of limited funding and the additional administration costs cannot be allowed to continue. *See section 4.2.*

x) Develop and promote the existing RDS pre-application information and advice service to applicants to ensure a consistent approach across the country. This would involve a quick eligibility check on capital funding and provide information on panel dates, funds available and so on. *See sections 4.2, 5.1.10 and 5.1.13.*

xi) Facilitation for the application process should be provided by an independent body, which has a broad view of the support and training available to industry. This should be part of a wider support service to food and farming to ensure coherent and effective use of public funds and would best be provided regionally. *See sections 5.1.8 and 5.3.*

# Appendix A

# References

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**Chapter 4 Objectives and Operation**

**Chapter 5 Views of Stakeholders**

**Chapter 6 Case Studies**

**Chapter 7 Conclusions And Recommendations**

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# Appendix B

## PMG Survey

## Successful Beneficiaries

## Quantitative Analysis

## Results

### Table 1: Your business

*Question 2: Which of the following best describe your business?*

| | Total | Turnover less than £1m | Between £1m and £10m (inclusive) | More than £10m |
|---|---|---|---|---|
| **Total** | **45** | **12** | **27** | **6** |
| Family-owned farm business | 20 | 7 | 13 | 0 |
| | 44% | 58% | 48% | 0% |
| Other family-owned business | 15 | 4 | 8 | 3 |
| | 33% | 33% | 30% | 50% |
| Corporate business | 9 | 1 | 5 | 3 |
| | 20% | 8% | 19% | 50% |
| Local authority operation | 0 | 0 | 0 | 0 |
| | 0% | 0% | 0% | 0% |
| Trust/Charity/NGO operation | 0 | 0 | 0 | 0 |
| | 0% | 0% | 0% | 0% |
| Not stated | 1 | 0 | 1 | 0 |
| | 2% | 0% | 4% | 0% |

**Table 2: Your role**

*Question 3: What is your role in your business?*

| | Total | Turnover less than £1m | Between £1m and £10m (inclusive ) | More than £10m |
|---|---|---|---|---|
| **Total** | **45** | **12** | **27** | **6** |
| Sole owner | 7 | 2 | 5 | 0 |
| | 16% | 17% | 19% | 0% |
| Business Partner | 15 | 7 | 7 | 1 |
| | 33% | 58% | 26% | 17% |
| Manager | 14 | 2 | 9 | 3 |
| | 31% | 17% | 33% | 50% |
| Other | 9 | 1 | 6 | 2 |
| | 20% | 8% | 22% | 33% |
| Not stated | 0 | 0 | 0 | 0 |
| | 0% | 0% | 0% | 0% |

**Table 3: Annual turnover**

*Question 4: What is the approximate annual turnover of the business?*
*Question 2: Which of the following best describe your business?*

| | Total | Family-owned farm business | Other family-owned business | Corporate business | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | **20** | **15** | **9** | **1** |
| Mean score | £7,762,242 | £3,440,044 | £9,980,000 | £14,366,667 | £1,500,000 |

**Table 4: Employees**

*Question 5: How many employees do you have?*

| | Total | Family-owned farm business | Other family-owned business | Corporate business | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | **20** | **15** | **9** | **1** |
| Fewer than 10 | 9 | 5 | 3 | 0 | 1 |
| | 20% | 25% | 20% | 0% | 100% |
| Between 10 and 50 | 20 | 8 | 7 | 5 | 0 |
| | 44% | 40% | 47% | 56% | 0% |
| Between 51 and 250 | 10 | 4 | 3 | 3 | 0 |
| | 22% | 20% | 20% | 33% | 0% |
| Over 250 | 6 | 3 | 2 | 1 | 0 |
| | 13% | 15% | 13% | 11% | 0% |

**Table 5: Employees**

*Question 5: How many employees do you have?*

| | Total | Turnover less than £1m | Between £1m and £10m (inclusive) | More than £10m |
|---|---|---|---|---|
| **Total** | **45** | **12** | **27** | **6** |
| Fewer than 10 | 9 | 7 | 2 | 0 |
| | 20% | 58% | 7% | 0% |
| Between 10 and 50 | 20 | 5 | 15 | 0 |
| | 44% | 42% | 56% | 0% |
| Between 51 and 250 | 10 | 0 | 7 | 3 |
| | 22% | 0% | 26% | 50% |
| Over 250 | 6 | 0 | 3 | 3 |
| | 13% | 0% | 11% | 50% |
| Not stated | 0 | 0 | 0 | 0 |
| | 0% | 0% | 0% | 0% |

**Table 6: PMG scheme**

*Question 6: How did you first find out about the PMG scheme?*

| | Total | |
|---|---|---|
| **Total** | **45** | |
| Took part in the MAFF (now Defra) consultation | 4 | 9% |
| Information sent from MAFF (Defra) | 10 | 22% |
| MAFF (now Defra) web site | 2 | 4% |
| Involvement in another ERDP scheme | 3 | 7% |
| Information from other Government Agency (e.g. Government Office, Regional Development Agency) | 3 | 7% |
| Information from environmental organisation (e.g. LEAF, Soil Association, FWAG, Wildlife Trust) | 0 | 0% |
| Press/Media | 2 | 4% |
| Business associate | 5 | 11% |
| Business advisory service/Consultant | 12 | 27% |
| Trade Association/Special Interest Group | 0 | 0% |
| Other | 4 | 9% |
| Not stated | 0 | 0% |

**Table 7: Grant application**

*Question 7: What led you to a decision to apply for a grant?*
*Question 2: Which of the following best describe your business?*

| | Total | Family-owned farm business | Other family-owned business | Corporate business | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | **20** | **15** | **9** | **1** |
| The scheme enabled an existing idea to be developed | 35 | 14 | 14 | 6 | 1 |
| | 78% | 70% | 93% | 67% | 100% |
| The scheme was a catalyst to develop an eligible project | 9 | 6 | 1 | 2 | 0 |
| | 20% | 30% | 7% | 22% | 0% |
| Not stated | 1 | 0 | 0 | 1 | 0 |
| | 2% | 0% | 0% | 11% | 0% |

**Table 8: Features - Limiting funding to 30% of eligible costs**

*Question 8a: Please indicate what your view is of these features? - Limiting funding to 30% of eligible costs*

| | Total | About right | Too low | No limit should apply |
|---|---|---|---|---|
| Total | 45 | 27 | 15 | 3 |

**Table 9: Features - Projects expenditure having to be at least £70k to be eligible**

*Question 8b: Please indicate what your view is of these features? - Projects expenditure having to be at least £70k to be eligible*

| | Total | Too high | About right | Too low |
|---|---|---|---|---|
| Total | 45 | 10 | 33 | 2 |

**Table 10: Features - Having a maximum grant of £1.2m**

*Question 8c: Please indicate what your view is of these features? - Having a maximum grant of £1.2m*

| | Total | Too high | About right | Too low | No limit should apply |
|---|---|---|---|---|---|
| Total | 45 | 5 | 34 | 4 | 2 |

**Table 11: Features - Insisting that 45% of total eligible costs are funded from your own resources**

*Question 8d: Please indicate what your view is of these features? - Insisting that 45% of total eligible costs are funded from your own resources*

| | Total | Too high | About right | Too low | No limit should apply | Not stated |
|---|---|---|---|---|---|---|
| Total | 45 | 5 | 37 | 1 | 1 | 1 |

**Table 12: Application restrictions - Limiting eligibility to primary agricultural projects listed in the application pack**

*Question 9a: Additional rules, listed below, relating to eligibility apply. Do you think that these restrictions are reasonable? - Limiting eligibility to primary agricultural projects listed in the application pack*

| | Total | |
|---|---|---|
| **Total** | **45** | |
| Yes | 39 | 87% |
| No | 4 | 9% |
| Not stated | 2 | 4% |

**Table 13: Application restrictions - Insisting that 20% of primary produce being processed must come from other producers**

*Question 9b: Additional rules, listed below, relating to eligibility apply. Do you think that these restrictions are reasonable? - Insisting that 20% of primary produce being processed must come from other producers*

| | Total | |
|---|---|---|
| **Total** | **45** | |
| Yes | 39 | 71% |
| No | 4 | 22% |
| Not stated | 2 | 7% |

**Table 14: Application restrictions - Excluding second hand equipment from being funded**

*Question 9c: Additional rules, listed below, relating to eligibility apply. Do you think that these restrictions are reasonable? - Excluding second hand equipment from being funded*

| | Total | |
|---|---|---|
| **Total** | **45** | |
| Yes | 14 | 31% |
| No | 28 | 62% |
| Not stated | 3 | 7% |

**Table 15: Eligibility rules having negative effect - Limiting eligibility to primary agricultural projects listed in the application pack**

*Question 10a: Do you think any of the eligibility rules had a negative effect on your application? - Limiting eligibility to primary agricultural projects listed in the application pack*

| | **Total** | |
|---|---|---|
| **Total** | **45** | |
| Yes | 1 | 2% |
| No | 42 | 93% |
| Not stated | 2 | 4% |

**Table 16: Eligibility rules having negative effect - Insisting that 20% of primary produce being processed must come from other producers**

*Question 10b: Do you think any of the eligibility rules had a negative effect on your application? - Insisting that 20% of primary produce being processed must come from other producers*

| | **Total** | |
|---|---|---|
| **Total** | **45** | |
| Yes | 4 | 9% |
| No | 39 | 87% |
| Not stated | 2 | 4% |

**Table 17: Eligibility rules having negative effect - Excluding second hand equipment from being funded**

*Question 10c: Do you think any of the eligibility rules had a negative effect on your application? - Excluding second hand equipment from being funded*

| | **Total** | |
|---|---|---|
| **Total** | **45** | |
| Yes | 16 | 36% |
| No | 27 | 60% |
| Not stated | 2 | 4% |

**Table 18: View of application process - A competitive application process is a fair way to distribute funds**

*Question 11a: Please indicate your view on this aspect of the application process. - A competitive application process is a fair way to distribute funds*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | **9** | **28** | **2** | **3** | **3** |
| | | 20% | 62% | 4% | 7% | 7% |

**Table 19: View of application process - The scheme documentation provided clear guidelines on the criteria for selection**

*Question 11b: Please indicate your view on this aspect of the application process. - The scheme documentation provided clear guidelines on the criteria for selection*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | **7** | **27** | **5** | **5** | **1** |
| | | 16% | 60% | 11% | 11% | 2% |

**Table 20: View of application process - I felt pressurised to use an adviser/consultant to ensure my application stood a reasonable chance of selection**

*Question 11c: Please indicate your view on this aspect of the application process. - I felt pressurised to use an adviser/consultant to ensure my application stood a reasonable chance of selection*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Stongly disagree | Not stated |
|---|---|---|---|---|---|---|---|
| **Total** | **45** | 9 | 16 | 7 | 10 | 2 | 1 |
| | | 20% | 36% | 16% | 22% | 4% | 2% |

**Table 21: Important factors - Creation of new jobs**

*Question 12a: How important were the following factors in influencing your decision to apply for a grant? - Creation of new jobs*

| | Total | Very important | Some importance | No importance | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 17 | 22 | 5 | 1 |
| | | 38% | 49% | 11% | 2% |

**Table 22: Important factors - Safeguarding existing jobs**

*Question 12b: How important were the following factors in influencing your decision to apply for a grant? - Safeguarding existing jobs*

| | Total | Very important | Some importance | No importance | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 35 | 6 | 3 | 1 |
| | | 78% | 13% | 7% | 2% |

**Table 23: Important factors - Opportunity to form collaborative partnership**

*Question 12c: How important were the following factors in influencing your decision to apply for a grant? - Opportunity to form collaborative partnership*

| | Total | Very important | Some importance | No importance | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 10 | 15 | 19 | 1 |
| | | 22% | 33% | 42% | 2% |

**Table 24: Important factors - Opportunity to develop a new product**

*Question 12d: How important were the following factors in influencing your decision to apply for a grant? - Opportunity to develop a new product*

| | Total | Very important | Some importance | No importance | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 33 | 7 | 4 | 1 |
| | | 73% | 16% | 9% | 2% |

**Table 25: Important factors - Opportunity to move into a new market**

*Question 12e: How important were the following factors in influencing your decision to apply for a grant? - Opportunity to move into a new market*

| | Total | Very important | Some importance | No importance | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 34 | 6 | 4 | 1 |
| | | 76% | 13% | 9% | 2% |

**Table 26: Scheme administration - The application process involved too much paperwork**

*Question 14a: To what extent do you agree or disagree with the following statements about the way the scheme is administered? - The application process involved too much paperwork*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 9 | 18 | 14 | 2 | 2 |
| | | 20% | 40% | 31% | 4% | 4% |

**Table 27: Scheme administration - The application process was open and transparent**

*Question 14b: To what extent do you agree or disagree with the following statements about the way the scheme is administered? - The application process was open and transparent*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 6 | 20 | 12 | 4 | 3 |
| | | 13% | 44% | 27% | 9% | 7% |

**Table 28: Scheme administration - The scheme was run efficiently**

*Question 14c: To what extent do you agree or disagree with the following statements about the way the scheme is administered? - The scheme was run efficiently*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 7 | 24 | 10 | 3 | 1 |
| | | 16% | 53% | 22% | 7% | 2% |

**Table 29: Scheme administration - Project reporting and claiming procedures were too onerous**

*Question 14d: To what extent do you agree or disagree with the following statements about the way the scheme is administered? - Project reporting and claiming procedures were too onerous*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 9 | 8 | 15 | 10 | 3 |
| | | 20% | 18% | 33% | 22% | 7% |

**Table 30: Scheme administration - Grant payments procedures were efficient**

*Question 14e: To what extent do you agree or disagree with the following statements about the way the scheme is administered? - Grant payments procedures were efficient*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Strongly disagree | Not stated |
|---|---|---|---|---|---|---|---|
| **Total** | **45** | 4 | 18 | 14 | 6 | 1 | 2 |
| | | 9% | 40% | 31% | 13% | 2% | 4% |

**Table 31: Grant outcome - The grant award has ensured the viability of my business/sector**

*Question 15a: Which of the following statements do you feel reflect the outcome of the grant award? - The grant award has ensured the viability of my business/sector*

| | Total | Strongly agree | Agree | Disagree | Not applicabl e | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 15 | 21 | 5 | 2 | 2 |
| | | 33% | 47% | 11% | 4% | 4% |

**Table 32: Grant outcome - The grant award has enabled my business/sector to grow**

*Question 15b: Which of the following statements do you feel reflect the outcome of the grant award? - The grant award has enabled my business/sector to grow*

| | Total | Strongly agree | Agree | Disagree | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 24 | 17 | 2 | 2 |
| | | 53% | 38% | 4% | 4% |

**Table 33: Grant outcome - The grant award has enabled my business/sector to develop new products**

*Question 15c: Which of the following statements do you feel reflect the outcome of the grant award? - The grant award has enabled my business/sector to develop new products*

| | Total | Strongly agree | Agree | Disagree | Not applicable | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 16 | 17 | 2 | 6 | 4 |
| | | 36% | 38% | 4% | 13% | 9% |

**Table 34: Grant outcome - The grant award has enabled my business/sector to develop new markets**

*Question 15d: Which of the following statements do you feel reflect the outcome of the grant award? - The grant award has enabled my business/sector to develop new markets*

| | Total | Strongly agree | Agree | Disagree | Not applicable | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 17 | 21 | 2 | 3 | 2 |
| | | 38% | 47% | 4% | 7% | 4% |

**Table 35: Grant outcome - The grant award has enabled my business to adopt new technologies**

*Question 15e: Which of the following statements do you feel reflect the outcome of the grant award? - The grant award has enabled my business to adopt new technologies*

| | Total | Strongly agree | Agree | Disagree | Not applicable | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 14 | 22 | 1 | 6 | 2 |
| | | 31% | 49% | 2% | 13% | 4% |

**Table 36: Direct benefits to producers**

*Question 16: Do you think that the project has led to direct benefits to producers?*

| | Total | |
|---|---|---|
| **Total** | 45 | |
| Yes, by increasing volume of sales | 34 | 76% |
| Yes, by increasing value of produce | 25 | 56% |
| Yes, by securing existing markets | 34 | 76% |
| Yes, by securing new markets | 34 | 76% |
| Yes, by bringing producers together to collaborate | 16 | 36% |
| Yes, by involving producers directly in food processing and marketing | 17 | 38% |
| No | 2 | 4% |
| Not stated | 1 | 2% |

**Table 37: Business more competitive**

*Question 17: Do you think that your business is more competitive as a result of the grant award?*

| | Total | Yes | No | Don't know | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 39 | 2 | 3 | 1 |
| | | 87% | 4% | 7% | 2% |

**Table 38: Wider industry more competitive**

*Question 18: Do you think that the grant award has helped the wider industry become more competitive?*

| | Total | Yes | No | Don't know | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 13 | 13 | 17 | 2 |
| | | 29% | 29% | 38% | 4% |

**Table 39: Other benefits**

*Question 19: Has this project resulted in any other benefits, not expected or directly related to the original objectives of the grant application?*

| | Total | Yes | No | Don't know | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 12 | 17 | 8 | 8 |
| | | 27% | 38% | 18% | 18% |

**Table 40: Non-capital spend – Total spend**

*Question 20a: Did you need to commit non-capital spend on your project, relating to processing and marketing? If so, did you secure any funding for this and from where? - Total spend*

| | Total |
|---|---|
| **Total** | **45** |
| Mean score | £27,471 |

**Table 41: Non-capital spend – Grant awarded**

*Question 20b: Did you need to commit non-capital spend on your project, relating to processing and marketing? If so, did you secure any funding for this and from where? - Grant awarded*

| | Total |
|---|---|
| **Total** | **45** |
| Mean score | £4,794 |

**Table 42: Non-capital spend – Grant source**

*Question 20c: Did you need to commit non-capital spend on your project, relating to processing and marketing? If so, did you secure any funding for this and from where? - Grant source*

| | Total |
|---|---|
| **Total** | **45** |
| Not stated | 3 |
| | 7% |

**Table 43:**

*Question 21: Which of the following statements do you think best describes your situation?*

| | Total | |
|---|---|---|
| **Total** | 45 | |
| Without the PMG grant this initiative would not have been undertaken | 18 | 40% |
| Without the PMG grant this initiative would have been undertaken on a smaller scale and/or may not have been as successful | 24 | 53% |
| Without the PMG grant my business would still be much the same as it is now | 0 | 0% |
| Not stated | 3 | 7% |

**Table 44: Rating the PMG scheme - Administration of application process**

*Question 22a: Overall how would you rate the PMG scheme? - Administration of application process*

| | Total | Excellent | Good | Neither good or bad | Poor |
|---|---|---|---|---|---|
| **Total** | **45** | 7 | 28 | 7 | 3 |
| | | 16% | 62% | 16% | 7% |

**Table 45: Rating the PMG scheme - Scheme administration once grant was approved**

*Question 22b: Overall how would you rate the PMG scheme? - Scheme administration once grant was approved*

| | Total | Excellent | Good | Neither good or bad |
|---|---|---|---|---|
| **Total** | **45** | 7 | 29 | 9 |
| | | 16% | 64% | 20% |

**Table 46: Rating the PMG scheme - Guidance provided by scheme staff**

*Question 22c: Overall how would you rate the PMG scheme? - Guidance provided by scheme staff*

| | Total | Excellent | Good | Neither good or bad | Poor | Don't know | Not stated |
|---|---|---|---|---|---|---|---|
| **Total** | **45** | 10 | 28 | 4 | 1 | 1 | 1 |
| | | 22% | 62% | 9% | 2% | 2% | 2% |

**Table 47: Rating the PMG scheme - Overall scheme objectives**

*Question 22d: Overall how would you rate the PMG scheme? - Overall scheme objectives*

| | Total | Excellent | Good | Neither good or bad |
|---|---|---|---|---|
| **Total** | **45** | 7 | 33 | 5 |
| | | 16% | 73% | 11% |

**Table 48: Rating the PMG scheme - Levels of grants provided**

*Question 22e: Overall how would you rate the PMG scheme? - Levels of grants provided*

| | Total | Excellent | Good | Neither good or bad | Poor |
|---|---|---|---|---|---|
| **Total** | **45** | 5 | 26 | 11 | 3 |
| | | 11% | 58% | 24% | 7% |

**Table 49: Rating the PMG scheme - Effectiveness in meeting industry needs**

*Question 22f: Overall how would you rate the PMG scheme? - Effectiveness in meeting industry needs*

| | Total | Excellent | Good | Neither good or bad | Poor | Don't know |
|---|---|---|---|---|---|---|
| **Total** | **45** | 5 | 32 | 5 | 1 | 2 |
| | | 11% | 71% | 11% | 2% | 4% |

**Table 50: Rating the PMG scheme - Effectiveness in stimulating innovation**

*Question 22g: Overall how would you rate the PMG scheme? - Effectiveness in stimulating innovation*

| | Total | Excellent | Good | Neither good or bad | Poor | Don't know |
|---|---|---|---|---|---|---|
| **Total** | **45** | 8 | 28 | 5 | 1 | 3 |
| | | 18% | 62% | 11% | 2% | 7% |

**Table 51: Success of PMG project**

*Question 23: How would you rate the success of your PMG project?*

| | Total | Excellent | Good | Neither good or bad | Too early to say |
|---|---|---|---|---|---|
| **Total** | **45** | 15 | 17 | 1 | 12 |
| | | 33% | 38% | 2% | 27% |

**Table 52: England Rural Development Programme**

*Question 24: Have you heard of the England Rural Development Programme?*

| | Total | Yes | No |
|---|---|---|---|
| **Total** | **45** | 42 | 3 |
| | | 93% | 7% |

**Table 53: Awareness of PMG being part of ERDP**

*Question 25: Are you aware that the PMG is a part of the ERDP?*

| | Total | Yes | No | Not stated |
|---|---|---|---|---|
| **Total** | **45** | 37 | 7 | 1 |
| | | 82% | 16% | 2% |

**Table 54: Awareness of schemes and if funding applied for - Rural Enterprise Scheme**

*Question 26a: Please could you indicate which of the following schemes your are aware of and whether you have applied for funding from these schemes - Rural Enterprise Scheme*

| | Total | I have an agreement under this scheme | I have heard of it and looked at its relevance to my business | I have heard of it but not looked into it | No I have not heard of it | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 8 | 15 | 15 | 2 | 5 |
| | | 18% | 33% | 33% | 4% | 11% |

**Table 55: Awareness of schemes and if funding applied for - Woodland Grant Scheme**

*Question 26b: Please could you indicate which of the following schemes your are aware of and whether you have applied for funding from these schemes - Woodland Grant Scheme*

| | Total | I have an agreement under this scheme | I have heard of it and looked at its relevance to my business | I have heard of it but not looked into it | No I have not heard of it | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 7 | 10 | 17 | 9 | 2 |
| | | 16% | 22% | 38% | 20% | 4% |

**Table 56: Awareness of schemes and if funding applied for - Farm Woodland Premium Scheme**

*Question 26c: Please could you indicate which of the following schemes your are aware of and whether you have applied for funding from these schemes - Farm Woodland Premium Scheme*

| | Total | I have an agreement under this scheme | I have heard of it and looked at its relevance to my business | I have heard of it but not looked into it | No I have not heard of it | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 6 | 7 | 17 | 11 | 4 |
| | | 13% | 16% | 38% | 24% | 9% |

**Table 57: Awareness of schemes and if funding applied for - Countryside Stewardship Scheme**

*Question 26d: Please could you indicate which of the following schemes your are aware of and whether you have applied for funding from these schemes - Countryside Stewardship Scheme*

| | Total | I have an agreement under this scheme | I have heard of it and looked at its relevance to my business | I have heard of it but not looked into it | No I have not heard of it | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 9 | 11 | 16 | 8 | 1 |
| | | 20% | 24% | 36% | 18% | 2% |

**Table 58: Awareness of schemes and if funding applied for - Environmentally Sensitive Area**

*Question 26e: Please could you indicate which of the following schemes your are aware of and whether you have applied for funding from these schemes - Environmentally Sensitive Area*

| | Total | I have an agreement under this scheme | I have heard of it and looked at its relevance to my business | I have heard of it but not looked into it | No I have not heard of it | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 1 | 9 | 21 | 9 | 5 |
| | | 2% | 20% | 47% | 20% | 11% |

**Table 59: Awareness of schemes and if funding applied for - Hill Farm Allowance**

*Question 26f: Please could you indicate which of the following schemes your are aware of and whether you have applied for funding from these schemes - Hill Farm Allowance*

| | Total | I have an agreement under this scheme | I have heard of it and looked at its relevance to my business | I have heard of it but not looked into it | No I have not heard of it | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 1 | 6 | 20 | 13 | 5 |
| | | 2% | 13% | 44% | 29% | 11% |

**Table 60: Awareness of schemes and if funding applied for - Vocational Training Scheme**

*Question 26g: Please could you indicate which of the following schemes your are aware of and whether you have applied for funding from these schemes - Vocational Training Scheme*

| | Total | I have an agreement under this scheme | I have heard of it and looked at its relevance to my business | I have heard of it but not looked into it | No I have not heard of it | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 1 | 12 | 17 | 10 | 5 |
| | | 2% | 27% | 38% | 22% | 11% |

**Table 61: Awareness of schemes and if funding applied for - Organic Farming Scheme**

*Question 26h: Please could you indicate which of the following schemes your are aware of and whether you have applied for funding from these schemes - Organic Farming Scheme*

| | Total | I have an agreement under this scheme | I have heard of it and looked at its relevance to my business | I have heard of it but not looked into it | No I have not heard of it | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 6 | 9 | 21 | 7 | 2 |
| | | 13% | 20% | 47% | 16% | 4% |

**Table 62: Awareness of schemes and if funding applied for - Energy Crop Scheme**

*Question 26i: Please could you indicate which of the following schemes your are aware of and whether you have applied for funding from these schemes - Energy Crop Scheme*

| | Total | I have heard of it and looked at its relevance to my business | I have heard of it but not looked into it | No I have not heard of it | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 8 | 18 | 14 | 5 |
| | | 18% | 40% | 31% | 11% |

**Table 63: ERDP schemes**

| | No. | % |
|---|---|---|
| **Total** | **45** | |
| RES | 8 | *18* |
| WGS | 7 | *16* |
| FWPS | 6 | *13* |
| CSS | 9 | *20* |
| ESA | 1 | *2* |
| HFA | 1 | *2* |
| VTS | 1 | |
| OFS | 6 | |
| One or more | 21 | |
| None | 24 | |

**Table 64: Employees**

| | No. | % |
|---|---|---|
| **Total** | **45** | |
| Full-time family - male | 27 | *60* |
| Full-time family - female | 17 | *38* |
| Part-time family - male | 6 | *13* |
| Part-time family - female | 10 | *22* |
| Full-time employee - male | 39 | *87* |
| Full-time employee - female | 31 | *69* |
| Part-time employee - male | 19 | |
| Part-time employee - female | 24 | |
| Casuals - male | 19 | |
| Casuals – female | 11 | |
| Self-employed (not family) – male | 9 | |
| Self-employed (not family) - female | 1 | |

**Table 65: Created**

| | No. | % |
|---|---|---|
| **Total** | **45** | |
| Full-time family - male | 1 | *2* |
| Part-time family - female | 1 | *2* |
| Full-time employee - male | 23 | *51* |
| Full-time employee - female | 15 | *33* |
| Part-time employee - male | 5 | *11* |
| Part-time employee - female | 5 | *11* |
| Casuals - male | 8 | |
| Casuals - female | 2 | |
| Self-employed (not family) - male | 4 | |
| Any created | 30 | |
| None created | 15 | |

**Table 66: Safeguard**

| | No. | % |
|---|---|---|
| **Total** | **45** | |
| Full-time family - male | 9 | *20* |
| Full-time family - female | 6 | *13* |
| Part-time family - male | 1 | *2* |
| Part-time family - female | 4 | *9* |
| Full-time employee - male | 26 | *58* |
| Full-time employee - female | 17 | *38* |
| Part-time employee - male | 9 | |
| Part-time employee - female | 13 | |
| Casuals - male | 7 | |
| Casuals - female | 2 | |
| Self-employed (not family) - male | 4 | |
| Any safe guarded | 28 | |
| None safeguarded | 17 | |

**Table 67: Source of income - Farming Activities (e.g. crops, livestock, farming subsidies)**

*Question 29a: If your business is a farm, approximately, what proportion of your 'farm family' income over the last 12 months has come from each of the following sources? - Farming Activities (e.g. crops, livestock, farming subsidies)*

| | Total | 1-10% | 11-25% | 26-50% | Above 50% | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 1 | 4 | 4 | 10 | 26 |
| | | 2% | 9% | 9% | 22% | 58% |

**Table 68: Source of income - Diversification (e.g. adding value to produce, rented accommodation, livery)**

*Question 29b: If your business is a farm, approximately, what proportion of your 'farm family' income over the last 12 months has come from each of the following sources? - Diversification (e.g. adding value to produce, rented accommodation, livery)*

| | Total | None | 1-10% | 11-25% | 26-50% | Above 50% | Not stated |
|---|---|---|---|---|---|---|---|
| **Total** | **45** | 1 | 5 | 5 | 2 | 7 | 25 |
| | | 2% | 11% | 11% | 4% | 16% | 56% |

**Table 69: Source of income - Off-farm income (e.g. wages, pensions, investments)**

*Question 29c: If your business is a farm, approximately, what proportion of your 'farm family' income over the last 12 months has come from each of the following sources? - Off-farm income (e.g. wages, pensions, investments)*

| | Total | None | 1-10% | 26-50% | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 5 | 8 | 2 | 30 |
| | | 11% | 18% | 4% | 67% |

**Table 70: ERDP umbrella**

*Question 30a: Please tick a box in each row to show your level of agreement with each of these statements: Putting the schemes under the ERDP umbrella makes them more accessible*

| | Total | Strongly agree | Agree | Neither agree or disagree | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 1 | 14 | 26 | 4 |
| | | 2% | 31% | 58% | 9% |

**Table 71: Grant**

*Question 30b: Please tick a box in each row to show your level of agreement with each of these statements: My ERDP funded projects would not have happened without the grant*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 11 | 22 | 7 | 2 | 3 |
| | | 24% | 49% | 16% | 4% | 7% |

**Table 72: Community initiatives**

*Question 30c: Please tick a box in each row to show your level of agreement with each of these statements: The ERDP should support rural community initiatives (e.g. transport, village shops)*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Strongly disagree | Not stated |
|---|---|---|---|---|---|---|---|
| **Total** | **45** | 7 | 22 | 5 | 7 | 2 | 2 |
| | | 16% | 49% | 11% | 16% | 4% | 4% |

**Table 73: Problems facing the rural economy**

*Question 30d: Please tick a box in each row to show your level of agreement with each of these statements: The ERDP does not address the problems facing the rural economy*

| | Total | Agree | Neither agree or disagree | Disagree | Strongly disagree | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 4 | 27 | 11 | 1 | 2 |
| | | 9% | 60% | 24% | 2% | 4% |

**Table 74: Significant environmental benefits**

*Question 30e: Please tick a box in each row to show your level of agreement with each of these statements: The ERDP results in significant environmental benefits*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 4 | 12 | 25 | 2 | 2 |
| | | 9% | 27% | 56% | 4% | 4% |

**Table 75: ERDP publicity**

*Question 30f: Please tick a box in each row to show your level of agreement with each of these statements: The ERDP is well publicised*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 2 | 11 | 18 | 12 | 2 |
| | | 4% | 24% | 40% | 27% | 4% |

### Table 76: ERDP influence in land management

*Question 30g: Please tick a box in each row to show your level of agreement with each of these statements: The ERDP will have a big influence in the way I manage my land*

| | Total | Agree | Neither agree or disagree | Disagree | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 11 | 22 | 5 | 7 |
| | | 24% | 49% | 11% | 16% |

### Table 77: ERDP influence in future investment

*Question 30h: Please tick a box in each row to show your level of agreement with each of these statements: The ERDP will have a big influence in future investment in my business*

| | Total | Strongly agree | Agree | Neither agree or disagree | Disagree | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 4 | 28 | 9 | 2 | 2 |
| | | 9% | 62% | 20% | 4% | 4% |

### Table 78: Financial effect of ERDP

*Question 31: What has been the financial effect that the ERDP had on your business?*

| | Total | Negative effect (i.e. it has cost me money) | Some contributio n to income | Significant contributio n to income | Don't know | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 2 | 20 | 12 | 6 | 5 |
| | | 4% | 44% | 27% | 13% | 11% |

### Table 79: Financial effect of grant – On suppliers

*Question 32a: If you have received a grant for an ERDP project, what has been the financial effect on your suppliers, customers and competitors? - On suppliers*

| | Total | Beneficia l effect | No effect | Do not know | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 32 | 3 | 4 | 6 |
| | | 71% | 7% | 9% | 13% |

**Table 80: Financial effect of grant – On customers**

*Question 32b: If you have received a grant for an ERDP project, what has been the financial effect on your suppliers, customers and competitors? - On customers*

| | Total | Beneficial effect | No effect | Do not know | Not stated |
|---|---|---|---|---|---|
| **Total** | **45** | 29 | 6 | 2 | 8 |
| | | 64% | 13% | 4% | 18% |

**Table 81: Financial effect of grant – On competitors**

*Question 32c: If you have received a grant for an ERDP project, what has been the financial effect on your suppliers, customers and competitors? - On competitors*

| | Total | Beneficial effect | No effect | Negative effect | Do not know | Not stated |
|---|---|---|---|---|---|---|
| **Total** | **45** | 2 | 15 | 4 | 15 | 9 |
| | | 4% | 33% | 9% | 33% | 20% |

# Appendix C

## PMG Survey

## Unsuccessful Beneficiaries

## Quantitative Analysis

# Appendix D

## PMG Survey

## Non-applicants

## Quantitative Analysis

## Results

**Table 82: Your role**

*Question 6: Could you please tell me what you role is in the organisation?*

| | Total | |
|---|---|---|
| Technical Director | 1 | 4% |
| Owner | 4 | 15% |
| Managing Director/Joint MD | 11 | 42% |
| Farm Manager | 1 | 4% |
| Chairman | 1 | 4% |
| Commercial Manager | 2 | 8% |
| Financial Controller | 1 | 4% |
| Partner | 2 | 8% |
| General Manager | 1 | 4% |
| Sales Manager | 1 | 4% |
| Sales and Marketing Manager | 1 | 4% |

**Table 83: Processing primary agricultural produce**

*Question 8: Firstly, can I ask whether your business is involved in processing primary agricultural produce?*

| | Total | |
|---|---|---|
| Yes | 26 | 100% |

**Table 84: Supply to**

*Question 10: Who do you supply your processed food to?*

| | Total | |
|---|---|---|
| Food manufacturers | 13 | 50% |
| Food distributors | 11 | 42% |
| Wholesale markets | 10 | 38% |
| Food retailers | 18 | 69% |
| Direct to consumers | 8 | 31% |

**Table 85: Marketing**

*Question 11: Who is responsible for marketing your processed products?*

| | Total | |
|---|---|---|
| Ourselves | 25 | 96% |
| Our marketing group | 1 | 4% |

**Table 86: Investing in equipment**

*Question 13: Investing in equipment to ensure production capability and capacity meets market trends*

| | Total | |
|---|---|---|
| Made investments in the previous 2 years | 23 | 88% |
| Improvements could be made | 21 | 81% |
| Not stated | 2 | 8% |

**Table 87: Investing to identify products for new markets**

*Question 14: Investing to identify products for new markets*

| | Total | |
|---|---|---|
| Made investments in the previous 2 years | 15 | 58% |
| Improvements could be made | 23 | 88% |
| Not stated | 3 | 12% |

**Table 88: Investing to improves efficiency**

*Question 15: Investing to improves efficiency of processing and distribution*

| | Total | |
|---|---|---|
| Made investments in the previous 2 years | 20 | 77% |
| Improvements could be made | 22 | 85% |
| Not stated | 3 | 12% |

**Table 89: Investing to improve quality and presentation**

*Question 16: Investing to improve quality and presentation of products*

| | Total | |
|---|---|---|
| Made investments in the previous 2 years | 22 | 85% |
| Improvements could be made | 21 | 81% |
| Not stated | 2 | 8% |

**Table 90: Investing to reduce waste and protect the environment**

*Question 17: Investing to reduce waste and protect the environment*

| | Total | |
|---|---|---|
| Made investments in the previous 2 years | 19 | 73% |
| Improvements could be made | 22 | 85% |
| Not stated | 2 | 8% |

**Table 91: Investing in new technology or innovation**

*Question 18: Investment in new technology or innovation*

| | Total | |
|---|---|---|
| Made investments in the previous 2 years | 20 | 77% |
| Improvements could be made | 22 | 85% |
| Not stated | 3 | 12% |

**Table 92: Government funded schemes**

*Question 19: Are you aware of any Government funded schemes that are aimed at providing support to businesses in any of these areas?*

| | Total | |
|---|---|---|
| Yes | 20 | 77% |
| No | 6 | 23% |

**Table 93: Government funded schemes**

*Question 20: Can you give me any details of these schemes?*
*Question 19: Respondents aware of schemes in the above areas*

| | Total | |
|---|---|---|
| Did not mention PMG | 10 | 50% |
| Mentioned PMG | 10 | 50% |

**Table 94: Government funded schemes**

*Question 21: Are you aware of Processing and Marketing Grant?*
*Question 20: PMG not mentioned when not prompted & Q19 Respondents aware of Government schemes in the above areas OR Q19 Respondents not aware of Government schemes in the above areas*

| | Total | |
|---|---|---|
| Yes | 8 | 50% |
| No | 8 | 50% |

**Table 95: Employees**

*Question 22: How did you first find out about the Processing and marketing grant?*
*Question 20: Respondent mentioned PMG OR Q21 is aware of PMG when prompted*

| | Total | |
|---|---|---|
| Information sent from MAFF (Defra) | 2 | 11% |
| MAFF(Defra) Web site | 1 | 6% |
| Press/Media | 2 | 11% |
| Business advisory service / Consultant | 3 | 17% |
| Other (please describe) | 11 | 61% |

**Table 96: Employees**

*Question 22a: How did you first find out about the Processing and marketing grant?*
*Question 22: Other ways how first respondent found out about PMG stated*

| | Total | |
|---|---|---|
| Had one before | 1 | 9% |
| ADAS Consultant | 3 | 27% |
| Trade Association | 1 | 9% |
| District Council | 1 | 9% |
| Can't remember/Don't know | 4 | 36% |
| <?> 6 | 1 | 9% |

**Table 97: Government funded schemes**

*Question 23: Has your organisation been involved in any applications under this scheme?*
*Question 20: Respondent mentioned PMG OR Q21 is aware of PMG when prompted*

| | Total | |
|---|---|---|
| Yes | 12 | 67% |
| No | 6 | 33% |

**Table 98: Government funded schemes**

*Question 24: When was this application made?*
*Question 20: Respondent mentioned PMG OR Q21 is aware of PMG when prompted*

| | Total | |
|---|---|---|
| 2003 | 3 | 25% |
| 2002 | 3 | 25% |
| 2001 | 3 | 25% |
| 1997 | 1 | 8% |
| 1996 | 2 | 17% |

**Table 99: Government funded schemes**

*Question 25: If respondent applied ask them if they would be happy to be sent a questionnaire to obtain their views of the scheme. Record their contact details, thank them and end interview.*
*Question 24: Application was made*

| | Total | |
|---|---|---|
| Happy to be sent questionnaire | 7 | 58% |
| Not happy to be sent questionnaire | 5 | 42% |

**Table 100: Government funded schemes**

*Question 25: CLOSE. Thank respondent and close the interview*
*Question 24: Application was made*

| | Total | |
|---|---|---|
| Thank and close | 11 | 92% |

**Table 101: Government funded schemes**

*Question 26: Did your organisation consider applying for a PMG grant?*
*Question 23: Organisation involved in any application under PMG*

| | Total | |
|---|---|---|
| Not stated | 12 | 100% |

**Questions 28-33 are answered by those aware of PMG but did not consider applying**

**Table 102: Government funded schemes**

*Question 28: Can you tell me why your organisation did not consider applying for the scheme?*
*Question 26: Organisation did not consider or (Q23) has not been involved in applying for PMG grant*

| | Total | |
|---|---|---|
| Did not think I would be awarded a grant | 1 | 17% |
| Other (please describe) | 5 | 83% |

**Table 103: Government funded schemes**

*Question 28a: Can you tell me why your organisation did not consider applying for the scheme?*
*Question 28a: Other reasons why organisation did not consider applying for the scheme stated*

| | Total | |
|---|---|---|
| Didn't think we were eligible at the time | 1 | 20% |
| Lack of awareness/knowledge | 1 | 20% |
| Not sure why not | 1 | 20% |
| Didn't meet the criteria | 1 | 20% |
| Through our producer organisation | 1 | 20% |

**Table 104: Government funded schemes**

*Question 29: Are you aware of the progress of any projects that were successful in obtaining a PMG Grant?*
*Question 26: Organisation did not consider or (Q23) has not been involved in applying for PMG*

| | Total | |
|---|---|---|
| Yes | 3 | 50% |
| No | 3 | 50% |

**Table 105: Government funded schemes**

*Question 31: Has your business/Sector benefited in any way from this/these schemes?*
*Question 29: Respondent aware of progress of other projects successful in obtaining PMG funds*

| | Total | |
|---|---|---|
| Yes | 1 | 33% |
| No | 2 | 67% |

**Table 106: Government funded schemes**

*Question 34: Will you consider applying for a PMG grant in the future?*

| | Total | |
|---|---|---|
| Yes definitely | 5 | 20% |
| I will consider it | 6 | 24% |
| No | 1 | 4% |
| I don't know | 1 | 4% |
| Not stated | 12 | 48% |

# Appendix E

## PMG Survey

## Successful & Unsuccessful Applicants

## Qualitative Analysis

**Question 21 – Successful**

Grant brought costs of development into the area of feasibility

We would have been very nervous of the total expenditure without the grant aid.

We could not continue in out old premises for much longer. We would have had to close the business

There were 'offers' from other regions in the country, these were tempting.

We would have slowed the project down had we not had grant aid.

The capital costs of new stainless steel plant, such as required for our project, is extremely expensive for small companies to purchase with their limited resources, and so the PMG scheme is absolutely essential to them to ensure they can grow within their individual industry sectors.

The PMG grant encouraged me to go for expansion more boldly and do it to a higher standard. We had the resources to do quite a lot of the project without the grant, but I am very grateful that we did not do it slowly and piecemeal as it would otherwise have been done.

Insufficient capital resource without PMG

This project represented a significant move away from the normal business activity. The timing conflicted with increasing customer requirements in the normal business which had to have first call on the company's resources. As such the grant capital was critical to enable the business to invest appropriately and deliver a credible, on-going profitable enterprise.

Capex too much for one business

Internal funding for this type of project is limited. M The company's capital expenditure programme is large and there is no doubt that the project would have been completed on a considerably smaller scale without grant aid.

Smaller scale because of lack of additional funding.

Without grant support, the project would have been cut back to fit the budget - this would reduce capacity, reduce efficiency and make the facility less attractive to blue chip customers.

It is very difficult for small companies to accumulate capital.

More second hand - less new

The availability of the grant enabled us to develop this sector quicker and with more confidence.

Total size of project would be too big to invest in ourselves.

The grant enabled us to do a lot more

The business is still a 'young' business and as such £300,000 is a lot of money to invest in one go.

A 30% grant is better than none - and helped to pay for the fitting out of the plant.

The reasons were mainly financial. However, the award of the PMG gave the directors more confidence that the project was worthwhile.

Because there is not too much money floating around for projects such as this within the business.

We would not have been able to incorporate all the new innovation and technology without the PMG grant. We would have relied on outside assistance to manage all our by-products created by our processing.

Could not have secured funding without PMG.

We would not have considered building own plant without grant, but having set off down the path, the scale required to make the project viable made the project too large and too risky. Perhaps we could have discovered this sooner!

Given us the chance to go 'state of art' rather than average.

Without the grant I would not have been able to fund the balance.

**Question 21 – Successful**

The project was planned before the Defra grant was applied for. However, the scale and cost was prohibitive even though we could see significant benefits. The Defra grant proved to be the catalyst to actually go ahead with the project.

Could not have justified the borrowing

This scheme could neither have been afforded or justified without the PMG grant.

**Q18 unsuccessful**

A rural enterprise grant was given and the business is growing in line with this year's predictions. The most encouraging factor is to thin that I have found a crop that can be processed on the farm for direct sale and the feedback from customers is that their health is greatly improved. I am now increasingly giving health advice from experience gained from customers and reading about oils and diet. Good support from the Defra team has helped me and indirectly the health of all those who are benefiting from my efforts.

We have not been able to employ the extra bodies planned in our high unemployment area. Our expansion plans have been severely curtailed.

Work done more slowly as we can afford it. Expansion taking longer.

I have already set up the business of coursing local grain and cleaning and grading it up to top spec for millers. However, with the grant I could have taken out the middle man, i.e. the grain merchants and passed the extra profit back to local farmers. Instead I now work 80% for mills and merchants instead of farmers.

We are unable to raise more funds from any other source. My business will not be able to take full advantage of the expansion opportunities available and will continue to import more products due to our location. If we do expand it will be in an area where we are unable to take full advantage of British farm produce.

Project wasn't viable without Grant

**Question 9 (successful)**

Purchasing new equipment if a full processing plant is required can impose substantial - even prohibitive - cashflow obligations on the applicant when second hand equipment will perform effectively and with reduced costs

Some second-hand equipment is very usable and sometimes nearly new and can save vast sums of money for the total cost of the project

There is some inconsistency in government department grants as sometimes second hand plant is allowed for funding. (NB Why not suggest no second hand plant is eligible on which grant aid has previously been given).

The world is always changing and you should not exclude projects that were not thought about by the people who devise the scheme. Discretion should be used at the time of allocating the grants. 2. Second hand equipment - this is a silly exclusion as the purpose of the grant should be to achieve as much as possible with the limited resources - not just to spend the money. I recognise there are potential quality control issues but these definitely should be surmountable.

Second hand equipment should be allowed if it meets certain specs and criteria. Allows grant to go further.

Some elements of a process, e.g. a boiler are non-specific long life assets that are perfectly valid is functional as second hand assets

Much good second hand equipment available

Good second hand equipment can reduce project costs if used carefully. Exclusion can increase project costs.

**Question 9 (successful)**

Second hand prices for dairy equipment could be 10% of the new cost, enabling big capital savings which could be used to extend or improve the project that is being funded.

Depending on year 20% of primary produce may not be available. Second hand equipment can reduce costs considerably.

Some non-co-operative ventures are worthy of support. Excluding 2nd hand CAP Equip increased cost of project by more than the value of the grant.

Specialist second hand equipment can be just as effective as new - however substantially cheaper. Often no market for second hand.

We are slightly biased as we were successful with a PMG application previously which worked very well. Some cost savings could be made by using an element of second hand equipment, which would help in some cases where the individual company is struggling to have all the cashflow required for new equipment.

It is always prudent to buy second hand if possible - and environmentally beneficial. Projects should not be penalised against this.

It is perfectly commercially reasonable to produce your own primary produce and often raw materials of good enough quality are not available. Second hand equipment with a 1 or 2 year guarantee should be acceptable.

Second hand equipment should be permitted so long as it is bought from a UK source.

Some equipment in manufacturing is extremely expensive to buy new, with rationalisation in the dairy industry. Nearly new equipment can be purchased at a fraction of new price.

Good second hand equipment may offer best value for money option.

There is a large quantity of good meat?? Processing equipment available second hand but to lift?? Restructuring of the industry. If a business uses its own product and it is successful it will expand use to other produce later. Difficult to get suppliers to commit early.

Some specialised machinery/equipment could be ?? And would avoid possible replication.

1. 20% rule: many growers are already co-operating in other ways re marketing but might not be able to meet 20% rule. 2. Second hand equipment should be possible in very specialised areas.

In certain instances good quality second hand equipment can be equally as effective as brand new but at a lower cost - saving both the company and Defra spending unnecessary funds. However, there could need to be some controls.

It should be as flexible as possible

Some equipment could have been cheaper

High quality, second hand plant and machinery nowadays are very expensive items and it would seem to make sense/ or such goods subject to age and condition to be considered for grant purposes. Such plant could well be out of reach financially even taking grant aid into account.

No 2. There may be possibilities when more or less could come from others so flexibility is needed here. No 3 second hand equipment may well help the project to be more successful

Requirement for 20% of primary produce to come from the producers can build in inefficiencies. More flexibility needed. Second hand equipment can often be better value. The criteria should be 'fit for purpose'.

By buying good second hand equipment can sometimes mean the project can get started.

Good second hand properly reconditioned equipment may be as good as new.

**Question 10**

We had to borrow more money from the bank by way of a loan for the project because new equipment had to be purchased instead of refurbished equipment available at substantially lower prices.

I was successful so it did not have a negative effect on my application - but it may result in my not taking full advantage of the grant I have been offered. I included full costings for equipment that I may still opt for the second hand route.

Additional funding required

We had the opportunity to buy some good second hand equipment for a fraction of the value of new but were unable to do so.

As above.

Brought forward the Co-op nature of the project to be effective at establishment. In addition to point 2 above, a large amount of investment was unaided because of its 2nd hand nature

Other EU producers not available for some products unable to support them even when want to. Additional cost of new equipment reduced amount of equipment purchased.

Could have bought additional second hand equipment if time had allowed.

Second hand equipment could have been purchased to reduce the coverall costs of the project without affecting the project objectives or length of service.

We used an RES application for second hand equipment it is just more bureaucracy,

Not in our case.

Need for flexibility in a very difficult market

Restricted options offered by machinery agent

Some machinery items were not considered because even taking grant into account, we felt the capital cost of own scheme had to be limited to what we feel we could justify and control.

Pushed up Costs

**Question 16 (for responses please, see page 14)**

Our specialist ewe and buffalo milk suppliers depend upon our ability to increase and improve our sales and marketing activity. The rigours of their market place do not seem to encourage activity under items 5 and 6.

Significant Sales Gains = Larger volumes from producers 2. Niche Products Developed = Higher Value 3. Greater Range of Products = Retention of Customer Base 4. Greater Range of Products = Entry into Additional Product Categories

Overall factory output up by 25% since the grant aided machinery came into place. New products will increase the value of produce.

Increased raw material volumes from growers at improved price levels required to service the new added value products developed as a result of the project

As our sales grow, our requirement for fruit increases. Unfortunately, the vegetable juice production is not yet underway so this aspect has not yet borne fruition. There are still some technological issues we are trying to clear up before we can proceed.

Allowed the principal growing business, F Dring & Son Ltd, to expand and concentrate, with confidence of a professional marketing and packing, selling its products.

The processing plant built by QV with assistance from the PMG grant opened a new market for producer's potatoes whose skin finish was not good enough for retail packs. It also meant that QV purchased processing potatoes from the open market, increasing outlets for producers not normally aligned to the business.

**Question 16 (for responses please, see page 14)**

The infrastructure is now in place to sustain a greater throughput of salad and new potatoes, many of which are now grown on contract by primary producers.

It has assisted our move to install our own processing plant but at a higher cost than originally (pre PMG) envisaged

We have been able to develop new products into new markets, i.e. venison (wild) sold to Sainsburys. This has developed public awareness, which has created more demand for a product which has been in decline since the foot and mouth crisis, which has of course, given a valued return to our producers.

Only when we have fully appraised and instigated a payment system based on autoform data will the producers see some benefit. This will take time.

Displace imported salami. Introduce more people to product - chefs, shops etc. Will pay more for quality product, e.g. free range, organic.

After receiving a grant award further research ? Extra costs which questioned the viability of the project - We also were able to out-source our cutting and packing - so decided not to go ahead with building.

Over the past 2 year period covering the period of the project, sweetcorn sales have increased 50% in volume (new sales to consumer not increased market share). This is due to the processing of the corn, the new varieties and packaging, the extra shelf life and the product presentation.

The improved quality of product sold has increased sales volume and value of product. l Crop utilisation has been improved.

The grant has secured the market by assisting with rationalisation of space to bring on alternative income streams, the processing facility has added value to product to suppliers and provides accessible skills/facilities to producers engaged in retailing. Opportunity to collaborate on future branding initiatives is important future development.

**Question 17**

Involved in new products

We have been able to upgrade and improve our manufacturing processes to increase output without the loss of quality essential in our niche market.

Improving returns from by-product usage

We will be able to export, within Europe and supplier another UK retailer

Larger Volume throughput, longer production runs, everything under one roof, greater purchasing power ref, packing, distribution. Efficiencies and economies of scale are being achieved.

On onion feeding we have seen an overall volume uplift with low extra staffing on this line. Waste has been reduced by 10%.

More turnover, lower product cost ratios. Reduced cost of staffing per product line when including new business.

More efficient production operations, with better quality control.

Now able to enter new markets.

Too early to give definite examples

Increasing the diversity of the markets served by the business has increased its attraction to producers, utilising and adding value to what may have been wasted as stockfeed has increased margin enabling the business to buy more competitively and pass benefits on to customers, increasing its competitiveness.

Through quality achieved

This market sector traditionally produces higher margins and ??????

Enable us to give producers more scope for their products thereby using us for the complete package.

**Question 17**

The grant has enabled us to establish a top class, dedicated production facility which will be attractive to blue chip customers.

We have in the past run out of cider - a quick way to lose customers.

Not solely due to the grant. Acorn Dairy is now in control of its own processing and quality

It has enabled us to fulfil the retailers' demands quicker

Delivered efficient production

We are more efficient

EC export licence will open up new markets - UK and Export.

Production facilities now meet current health and safety and food hygiene expectations. Less manual handling is involved.

Too early to say

Now less dependent on other businesses to dispose of by-products.

Better position to market company - bringing customers to show round. Increased scale.

Can offer 52 week supply

Given us the opportunity to review and change working methods.

Enabled us to meet customers' needs in packaging and presentation - ahead of competitors who do not have the specialised cooking equipment and packing lines, or space.

We are now capable of handling much higher volumes and operating more efficiently.

Better sales staff and packaging.

Have been able to reduce costs

Accuracy and consistency of processing/packing product has given an edge with our customer. Other growers and source of raw materials have been attracted to our facilities as a service provider.

Investment in technology has reduced costs

We have the latest equipment to allow us to be competitive.

Prior to our recent investment in building the plant our premises were very outdated and labour intensive.

Primarily has secured future for livestock sales for farmer shareholders by diversifying income base.

**Question 18**

We are in a niche market.

Any manufacturing business could become more competitive by widening their horizons on product usage.

By raising the profile of Organic Processing and Production

We need all the help that we can get to compete with Polish imports.

Helped to reduce unit costs of our products and therefore has a 'knock-on' effect with our competitors.

Only because fruit juice manufacturers are by their nature scavengers on the fruit growing industry - we marginally increase their level of income, but you do not make an adequate return growing fruit for sale to the juicing industry (we use their reject fruit).

Increased grower efficiency.

Shareholder did not have enough capital to finance whole of necessary expenditure

The dominant dairy in the area now provides organic milk on the doorstep at ordinary milk prices and ordinary milk in large polybottles at near supermarket prices - obviously benefiting the consumer.

**Question 18**

Suppliers to the supermarkets need to be efficient and show they are progressive

Again too early to say

Too small scale.

We now buy British beetroot less imports.

Unfortunately no measurement

"Upstream mixing" - will allow our customers to be more competitive.

This investment will allow us to improve almost every aspect of our business.

In general Yes, but livestock shortages post F&MD have masked problems in the industry which has slowed the change by creating higher values than anticipated.

**Question 19**

Increased publicity

e.g. The company has achieved a higher profile, particularly in the local job market, recruitment is easier, and staff retention has improved.

Our increase in onion peeling capacity has resulted in increased volumes of other vegetables.

Helps to provide a wider range of products on one delivery lorry thereby reducing intake times at distribution depots.

Confidence in the future of the business from our employees is demonstrably greater, and I think we have achieved a higher profile both locally and nationally - this is not directly as a result of the grant - rather it is the growth of the company that has done this - but pushed by the grants.

By having a processing business for food manufacturing customers this has created opportunities to pack retail and food service products which could increase market penetration and pave the way for further processed product development.

Quality of cider has improved.

Our main customer gave us more orders straight away

Everyone is more tidy

More recognition, with the FSWC (Forest Stewardship Council) accreditation, in that this is a world first, and a UK first in the First Food Product to gain this accreditation.

General positive feeling in the business that there is a hopeful future.

Tourism attraction for the area next to Bolsover Castle - happy to give tour.

Given further scope for expansion.

Although we feel we wasted a huge amount of time collecting data and completing the application I doubt the butcher/abattoir would have agreed to do our cutting and packing if he hadn't seen how determined we were.

Some medium coverage

Just the sheer growth in demand for products directly benefiting from the project.

Too early to say.

Too early to say because we are only 2/3rds of the way through the building programme.

Collaboration has brought contacts in many new areas presenting opportunities for future development.

# Appendix F

## ERDP Survey Results

## (PMG Awareness)

| Q14. Are you aware of the Processing and Marketing Grant (PMG) scheme? | Total | Project-based beneficiary | Land-based beneficiary | Beneficiary of any ERDP Scheme | Non ERDP beneficiary |
|---|---|---|---|---|---|
| Total | 2725 | 389 | 1762 | 2006 | 719 |
| Yes, but I have not looked into it | 634 | 135 | 447 | 508 | 126 |
| | 23% | 35% | 25% | 25% | 18% |
| Yes, and I have looked at its relevance to my business | 296 | 114 | 230 | 266 | 30 |
| | 11% | 29% | 13% | 13% | 4% |
| No | 1704 | 126 | 1033 | 1171 | 533 |
| | 63% | 32% | 59% | 58% | 74% |
| Not stated | 91 | 14 | 52 | 61 | 30 |
| | 3% | 4% | 3% | 3% | 4% |

| Q15. Were you aware that this PMG scheme is a part of the ERDP? | Total | Project-based beneficiary | Land-based beneficiary | Beneficiary of any ERDP Scheme | Non ERDP beneficiary |
|---|---|---|---|---|---|
| Total | 930 | 249 | 677 | 774 | 156 |
| Yes | 661 | 206 | 508 | 579 | 82 |
| | 71% | 83% | 75% | 75% | 53% |
| No | 197 | 30 | 119 | 138 | 59 |
| | 21% | 12% | 18% | 18% | 38% |
| Not stated | 72 | 13 | 50 | 57 | 15 |
| | 8% | 5% | 7% | 7% | 10% |

| Q17A. If you are aware of PMG but not applied please state how much you agree or disagree with the following statements - It would be difficult to find capital required from my business | Total | Project-based beneficiary | Land-based beneficiary | Beneficiary of any ERDP Scheme | Non ERDP beneficiary |
|---|---|---|---|---|---|
| Total | 829 | 211 | 607 | 690 | 139 |
| Strongly agree | 113 | 22 | 84 | 93 | 20 |
| | 14% | 10% | 14% | 13% | 14% |
| Agree | 132 | 35 | 89 | 108 | 24 |
| | 16% | 17% | 15% | 16% | 17% |
| Neither agree or disagree | 141 | 41 | 106 | 119 | 22 |
| | 17% | 19% | 17% | 17% | 16% |
| Disagree | 58 | 17 | 45 | 51 | 7 |
| | 7% | 8% | 7% | 7% | 5% |
| Strongly disagree | 7 | 2 | 5 | 6 | 1 |
| | 1% | 1% | 1% | 1% | 1% |
| Not stated | 378 | 94 | 278 | 313 | 65 |
| | 46% | 45% | 46% | 45% | 47% |
| Mean score | 3.6 | 3.5 | 3.6 | 3.6 | 3.7 |

| Q17A. If you are aware of PMG but not applied please state how much you agree or disagree with the following statements - There were no suitable projects identified by my business | Total | Project-based beneficiary | Land-based beneficiary | Beneficiary of any ERDP Scheme | Non ERDP beneficiary |
|---|---|---|---|---|---|
| Total | 829 | 211 | 607 | 690 | 139 |
| Strongly agree | 109 | 27 | 80 | 86 | 23 |
| | 13% | 13% | 13% | 12% | 17% |
| Agree | 197 | 67 | 136 | 167 | 30 |
| | 24% | 32% | 22% | 24% | 22% |
| Neither agree or disagree | 120 | 27 | 89 | 99 | 21 |
| | 14% | 13% | 15% | 14% | 15% |
| Disagree | 49 | 12 | 44 | 45 | 4 |
| | 6% | 6% | 7% | 7% | 3% |
| Strongly disagree | 28 | 6 | 24 | 26 | 2 |
| | 3% | 3% | 4% | 4% | 1% |
| Not stated | 326 | 72 | 234 | 267 | 59 |
| | 39% | 34% | 39% | 39% | 42% |
| Mean score | 3.6 | 3.7 | 3.5 | 3.6 | 3.9 |