Future of manufacturing
Grant scheme DHI –
Internationalisation policy measure (Netherlands)

Born globals and their value chains

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1. Context

1.1. Circumstances in which the measure was introduced, rationale, and relevance
Emerging markets and developing countries offer increasing numbers of opportunities for Dutch companies to engage in exports and investments. The traditional trade flows show lower growth rates, and new, more complex markets are taking an increasingly important place in the world economy. It is therefore important to increase the Dutch participation in these markets and to capitalise on these new opportunities. However, Dutch SMEs threaten to miss such opportunities, because they are not familiar with these markets. Besides the potential value for Dutch enterprises in the emerging markets, there is the added value that Dutch SMEs participating in these new markets and developing countries can give a positive boost to regional development abroad.

1.2. The process of developing the measure
The grant scheme for demonstration projects, feasibility studies and investment preparatory studies (DHI) is the successor of the grant scheme for demonstration projects, feasibility studies and expertise (DHK), which stopped in 2015. The expertise component of the DHK programme was transferred to the Starters International Business (SIB) programme. The feasibility studies component within the DHK programme already included preparatory studies for investment. Within the DHI programme these preparatory studies for investment were included as a separate category, to give this type of activity more focus. In the DHI the differences between the feasibility studies and the preparatory studies for investments seemed less clear.

The initiative for the scheme came from the Ministry of Foreign Affairs. The measure was developed by the Netherlands Enterprise Agency (RVO) in cooperation with the Ministry of Foreign Affairs. RVO is carrying out the DHI commissioned by the Ministry of Foreign Affairs.

1.3. Any changes in policy context over time
The DHK measure was introduced in 2013 (during the crisis) to help companies to enter new, emerging and complex markets. The interest and need for this type of support appeared to be large at the time. Therefore, after the crisis the DHK measure was continued though adjusted in the form of the DHI measure in 2016.

1.4. Evidence of complementarity and/or overlap between the measure and other policy measures
In the Netherlands, several programmes exist for enterprises targeted at different stages of the internationalisation process. The DHI aims to help companies in one of the last stages in this process. In the next step (after DHI) there may be a need for financing. Therefore, there are also programmes available, such as the Dutch Good Growth Fund (DGGF) and the Dutch Trade and Investment Fund (DTIF), which are related to financing. The instruments are aligned to each other as far as possible. Most enterprises are aware of different relevant instruments via their contacts with RVO.

2. Content

2.1. Objectives of the measure
The specific objectives of DHI are:
- Increasing the number of Dutch companies and improving their position in emerging markets and developing countries by removing (financial) problems as a further step in the internationalisation of these enterprises.
• Increasing Dutch exports to emerging markets and in developing countries.
• Increasing Dutch investments in emerging markets and in developing countries.

No information is found on further operationalisation of these objectives.

2.2. General description of the measure
The DHI scheme supports Dutch enterprises wishing to invest in or execute a project in emerging markets and in developing countries.

The DHI scheme consists of three modules:
• Demonstration projects: presentation of a technology, capital good or service in one of the DHI countries to potential customers in the relevant market, not consumers.
• Feasibility studies: assessment of the profitability of a foreign investment by a Dutch enterprise in one of the DHI countries regarding a product or service (study whether it is profitable for foreign customers to invest in a product or service).
• Investment preparation studies: assessment of the technical and commercial profitability of an investment in a company in one of the DHI countries (study whether it is profitable to invest in a foreign company).

The costs of the projects are subsidised up to a maximum of 50%, with a maximum of € 200,000 for demonstration projects and € 100,000 for feasibility studies and preparatory investment studies. Eligible costs are costs of own or hired experts, costs of use of technologies (in case of demonstration projects), travel and subsistence costs.

2.3. Available budget
The budget is divided in a portion dedicated to emerging markets and developed countries and a part dedicated to developing countries. The available budget for 2016 was € 5 million for the activities focusing on emerging markets and developed countries, and € 4 million for activities focusing on developing countries. The available budget for 2017 is €7.5 million for the whole year for activities focusing on emerging markets, and €2 million for the first half of 2017 for activities in developing countries.

2.4. Target groups of the measure
The DHI measure focuses on Dutch SMEs (EU definition) in all sectors with international ambitions (export and foreign investment) and an interest in emerging markets, developed countries, and in developing countries. These include all countries except the Netherlands and sanction countries.

At the start of the DHK measure, the internationalisation ambitions of the SMEs should have been focussed on emerging countries. In 2014, this was extended to developing countries. Since 2017 (within the DHI) an SME could also be aiming to export to or invest in developed countries, as long as these activities were related to complex markets where support of the SMEs is reasonable.

The SMEs should have enough experience and a sound track record. They should already have finished the orientation phase (market orientation). The DHI is not focussed specifically on start-ups, though if young enterprises meet the acceptance criteria they can make use of the measure.
3. Relevance of the measure to SMEs/born globals and internationalisation

3.1. Relevance in relation to different types and stages of internationalisation
The DHI measure is related to SMEs that wish to export to or invest in emerging markets, developed countries and in developing countries. The DHI measure aims to support enterprises in the final stages before actually exporting or investing.

3.2. Support for cooperation between SMEs/born globals and wider international collaboration (if any)
The aim of the DHI is to establish new business relations (export and foreign investment) between Dutch enterprises and enterprises in complex foreign markets.

3.3. Contribution of the measure to tackle SMEs’/born globals’ internationalisation support needs
The measure contributes to tackling barriers originating from the challenge that Dutch SMEs are not familiar with the characteristics of emerging markets, of developed countries and of developing countries. By allowing for feasibility and preparatory studies, the DHI helps in breaking down these barriers and corresponding risks. Without the support from the DHI, this will not be achieved or will be achieved later.

4. The operation of the measure

4.1. Promotion of the measure to internationalising businesses
As the Ministry’s agency, the RVO carries out the promotional activities for the measure on behalf of the Ministry of Foreign Affairs. The measure is listed and promoted on the website of the Netherlands Enterprise Agency (RVO.nl). It should be noted that many SMEs that are interested in using the DHI are already familiar with RVO because they also make use of their other programmes. Furthermore, there are many intermediaries (such as consults and subsidy advisors) in the Netherlands who are familiar with the support programmes provided by the RVO. The RVO also holds information sessions where many intermediaries and companies can participate.

4.2. The process of application and assessment of applications
The process starts with a stage where enterprises can first test whether they qualify as an SME. The test is accessible on the website of the Netherlands Enterprise Agency (RVO.nl).
Twice a year there is a tender procedure; SMEs have to submit a quick scan for one of the three modules (the forms for the quick scans can be downloaded from the RVO-website). In the quick scan questions are asked about the SME and about the project they intend to initiate. Based on the quick scan RVO gives advice whether or not to submit an application. This advice is not binding, but most enterprises follow the advice.

The RVO then assesses the application using initial screening criteria (such as SME, relevant experience and knowledge, subsidy in relation to turnover, minimum of three employees, expected export) and exit criteria (such as is the project in accordance with the programme, are the project costs eligible, contribution to sustainable local development in developing countries). Next the RVO judges the application by awarding points. These points are based on criteria with respect to the objectives of the DHI, the target market and the experience, knowledge and continuity of the applicant and the quality of the project. The applications with the most points are first eligible for receiving a subsidy.
One of the requirements of the DHI is that the DHI-grant should result in an export or foreign investment ten times the amount of the grant within three years after the project is finished. In their applications applicants have to demonstrate that this will be achieved. In the application the applicants have to give an estimate of the resulting export of foreign investment after three years and they have to explain this estimate. The assessment of the applications takes up to 13 weeks.

**4.3. Delivery mechanism of the measure**

The SME receives a grant decision containing the details of the payment and the obligations as a grant recipient. The subsidy is paid through advances. The recipient has to report regularly concerning the progress of the project. The frequency of the reporting depends on the project duration, but in multi-annual projects recipients must report once per year. The demonstration project should be finished within three years and the feasibility studies and investment preparation studies should be finished within two years.

**4.4. Administration of the measure**

The administration is carried out by the Netherlands Enterprise Agency, which is part of the Ministry of Economic Affairs and works at the instigation of ministries (including the Ministry of Foreign Affairs) and the European Union.

The Netherlands Enterprise Agency has two clients, namely the Directorate for International Business (Directie International Ondernemen, DIO) and the Directorate Sustainable Economic Development (Directie Duurzame Economische Ontwikkeling, DDE), both being part of the Ministry of Foreign Affairs. The objective of the DIO is more related to export and foreign investment, while the focus of the DDE is on development in developing countries.

**5. Monitoring and evaluation**

**5.1. Monitoring of the implementation and take-up of the measure: method and contents**

The SMEs which are supported by the DHI measure must provide regular reports on their activities. The RVO only monitors whether the proposed activities are carried out. This data is collected for internal use and is not publically available.

RVO is discussing how best to monitor the requirement of the DHI that the DHI-grant should result in export or foreign investment ten times the amount of the grant within three years after the project is finished. It is not the intention to withdraw the grant when this requirement is not met, as there could be a variety of potentially changing circumstances such as changing political situations.

**5.2. Evaluation of the measure: methods and contents**

An evaluation of DHK and DHI is scheduled for 2017. Since the DHI was introduced in 2016, this part will only look at the implementation processes of the measure. For the DHK measure, the impacts on export and foreign investment will be part of the evaluation. These impacts were only realised a few years after the project came to an end. Currently (2017) the first projects set up via the DHK measure are reporting on the overall results regarding exports and foreign investment.

**5.3. Any changes to the content or delivery of the measure following monitoring and evaluation**

An important change is the way the application process is shaped. For the DHK measure, the principle was that the first applicant that met the criteria received a grant until the whole budget was used. Within the DHI measure this was changed to a tendering system; SMEs can submit an application twice a year. These proposals are judged and the proposals with the highest scores receive a grant. This change is expected to result in projects of a better quality.
6. Evidence of outcomes and impact

6.1. Evolution of the measure’s spending
See 2.3. on available budget.

6.2. The quantitative and qualitative outcomes of the measure
In 2016, there were 357 applications, of which 101 received grants (28%). A substantial part of the applications were rejected because they were too late or because they did not meet the criteria.

6.3. Impact of the measure on its beneficiaries and other actors
Enterprises face severe bottlenecks and risks in entering complex foreign markets. Differences in and unfamiliarity with local habits, local circumstances, etc. lead to uncertainties about market opportunities in complex foreign markets and higher risks. The DHI programme helps to reduce these uncertainties and risks in the final stage of their activities before exporting or investing in foreign countries, giving the beneficiaries new opportunities in (for them) new markets. Although the impact is not monitored, positive impact on the beneficiaries is assumed.

6.4 Evidence of economic and employment impact
Since the measure is relatively new, there is not much evidence in terms of the economic and employment impacts. The overall impacts achieved can only be estimated a few years after finishing the projects. The first impacts on export and foreign investment are now being reported on.

7. Strengths and weaknesses of the measure

7.1. Strengths of the measure
Key strengths of this measure include the following:

• For companies, the DHI measure eliminates bottlenecks and risks in the final stage before exporting and investing in foreign countries, such as unfamiliarity with local habits, local circumstances, etc. that lead to uncertainties about market opportunities. Otherwise the internationalisation of these companies in complex foreign markets would be more restrained. The measure provides solutions to practical business needs amongst SMEs looking to export or invest abroad.

• The tender system results in qualitatively better projects and to a better level playing field for the applicants. With the tender system, the best proposals are chosen instead of the first applications irrespective of the quality of the proposal.

• The measure is easily transferable to other countries, although information on the effectiveness and impact of the measure is lacking. This makes it difficult to judge whether the instrument might be effective in other countries.

7.2. Weaknesses of the measure
Some of the weaknesses identified for this measure include the following points:

• The tendering system is less flexible (only twice a year) than the previous approach under the DHK measure.

• The tendering system reduces the possibilities for consultation and discussion with the companies in advance. This is partly solved by the quick scans beforehand. Based on the quick scan RVO advises whether it is recommended to subscribe with a proposal.
• The rules and criteria are relatively rigid.
• The lack of monitoring and evaluation can be seen as a weakness.
• No information is available on administrative burdens.

7.3. Evidence of policy learning over time
The introduction of the tendering system followed an important learning point. The principle of ‘first come first served’, used in DHK, did not lead to the best projects. As the programme was very popular lots of companies submitted an application. These applications were judged on criteria that were less strict than under DHI. The first applicants that met the criteria received a grant. Applicants who applied later, which might have had better projects, did not receive a grant because the programme already ran out of budget. In the tender system companies can submit a proposal twice a year. All proposals are assessed on how they meet the criteria and the projects with the highest score receive the grants.

8. Recommendations

8.1. Overall recommendations regarding the measure
It is important to have clear rules and criteria that are transparent for SMEs to follow. In the case of DHI, the rules and criteria are transparent. Furthermore, it is important to inform companies about why they were rejected and to explain this clearly, in order to help companies to produce better proposals in following tender periods. In the case of DHI, RVO always try to explain clearly and help enterprises.

8.2. Recommendations on the national support system for SME/born globals’ internationalisation
In the Netherlands, there are several support programmes for different stages of internationalisation. Indeed, tailored support to SMEs is quite common, where the measures can focus on different aspects of an enterprise’s business activities (formalising administrative processes, getting financing or setting up partnerships for instance), or stage in development (start-up, growth period, etc.) In the case of the DHI and DHK, this case by case approach and examination of a specific enterprise and its internationalisation plans are important to help enterprises to overcome bottlenecks and risks in entering complex and potentially risky foreign markets. It is important to keep the system up-to-date and adjust the system to changing circumstances and developments in order to be able to permanently match the specific needs of enterprises.

8.3. Any gaps in the provision of policy support and suggestions
There appear to be no important gaps given that different measures exist for enterprises in different stages of development, or which focus on a specific aspect of the business activities, or which are geared to helping enterprises grow in specific markets. It is, however, especially important to adapt the support programmes to developments and changing situations which SMEs may find themselves in, and this is especially the case for SMEs going into foreign and complex markets.

Only innovative start-ups who wish to enter complex foreign markets for the first time are not covered by the DHI measure. In the DHI criteria it is required to have already some experience with export or foreign investment. Innovative start-ups do not have such experience and cannot use the DHI to enter complex foreign markets.
References

All Eurofound publications are available at www.eurofound.europa.eu


Government Gazette (2017), Wijziging van beleidsregels en vaststelling van subsidieplafond DHI-regeling (‘Modification of policies and adoption of DHI subsidy scheme’), 2 March.


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