



The 2014-2020 Interreg Programme Management Handbook is composed of fact sheets. Each theme is covered by one fact sheet so that the reader can easily and quickly choose the relevant fact sheet.

## Fact Sheet; **Involvement of SMEs in Interreg**

### 1. What is it? What is the definition of the term / theme of this fact sheet?

Small and medium-sized enterprises (SMEs) form a distinctive group of Interreg beneficiaries. The General Block Exemption Regulation (GBER)<sup>1</sup> defines an SME as an entity engaged in an economic activity, irrespective of its legal status and whether or not it is oriented towards profit making. The GBER establishes the staff headcount and financial thresholds, which determine the SME category. It clarifies that the SME category is made up of enterprises employing fewer than 250 persons, and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

Category	Employees	Turnover	AND/OR	Balance sheet
Micro	< 10	EUR 2 million		EUR 2 million
Small	< 50	EUR 10 million		EUR 10 million
Medium	< 250	EUR 50 million		EUR 43 million

### 2. Why are we discussing it?

Europe 2020 sets ambitious targets in order to turn the EU into a smart, sustainable and inclusive economy by the end of the decade, with a particular focus on SMEs. In the 2014-2020 period, Interreg programmes are expected to contribute to the delivery of these Europe 2020 objectives. Therefore, the discussion on the involvement of SMEs in Interreg programmes is more pertinent today than ever before.

The involvement of SMEs in Interreg programmes can take different forms. These can in general be classified within the following two categories:

- *direct involvement*: SMEs are beneficiaries of the funds and act as project partners directly responsible for the delivery of project activities.
- *indirect involvement*: SMEs are a target group of the project activities, becoming users of the products, trainings, tools, solutions, etc. developed within the project. In other words, SMEs utilise project outputs which are specifically designed to fulfil their needs. In this respect, SMEs are often represented through sectoral associations, chambers of commerce, or other public or private law bodies that are directly engaged in the project as partners and are recipients of the funds. In some other cases, SMEs are consulted on activities carried out within the projects and/or they provide opinions on project outputs; e.g., they form part of the project steering group or reference groups.

Direct involvement of SMEs in Interreg programmes has never been an easy task. For many years, programme rules and procedures were mostly designed to suit public sector logic, and they did not leave much room for manoeuvre in order to address the specificities and needs of private businesses. Despite the goals set for 2014-2020, the characteristics of Interreg programmes continue to make it challenging for the SMEs to participate. However, a growing number of programmes are now providing possibilities for SMEs to be directly involved.

<sup>1</sup> Annex I of Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.



### 3. Reference to the regulations and what is new in the 2014-2020 programming period compared with the 2007-2013 programming period

In the 2007-2013 period, less than 10% of projects supported by Interreg programmes involved SMEs as beneficiaries. For the 2014-2020 period, the EU regulations include an explicit invitation to engage SMEs. The need to promote innovation and the development of SMEs in order to enhance their competitiveness has been set as one of the thematic objectives on which to concentrate the Interreg efforts and ERDF support allocated through Interreg programmes. Engagement of SMEs can also contribute to a better achievement of a number of other thematic objectives. It is expected that by the end of the 2014-2020 programming period the numbers about the involvement of SMEs, including the share of projects with SMEs as beneficiaries, will be higher.

It must be also noted that - addressing one of the major obstacles for SMEs in the past - for the first time there is now a State aid block exemption for SMEs in European Territorial Cooperation (Article 20 of the GBER). This makes it very easy to deal with State aid for SMEs, as up to EUR 2 million per SME and project can be provided by the programme without having to worry about State aid. While many programmes plan on applying Article 20, some fear that the maximum co-financing rate allowed under this article (i.e. 50%) is too low to attract SMEs in their programme area.

Legislative framework:

- Regulation (EU) No 1303/2013, e.g. Article 9 (Thematic objectives)
- Regulation (EU) No 1301/2013, e.g. Article 3 (Scope of support from the ERDF), Article 5 (Investment priorities)
- **Regulation (EU) No 651/2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty**

### 4. Challenges and frequently-asked questions

There are a number of factors that make it rather challenging for Interreg programmes to attract SMEs and for SMEs themselves to participate in Interreg projects.

Based on experience, the following challenges that impact the level of SME involvement are typically:

- *Management of State aid and ensuring compliance with State Aid rules.* For programmes able to use Article 20 of the GBER the issue of State aid for SMEs seems solved. For others (e.g., those that want to provide co-financing rates higher than 50%), de minimis will have to be used to address State aid for SMEs. De minimis has a ceiling of EUR 200.000 per SME and requires rather elaborate State aid assessments.
- *Management of issues related to Intellectual Property Rights (IPR).* By nature, SMEs are interested in being able to protect their rights to innovative products and solutions developed in the framework of Interreg projects. SMEs retaining IPR through Interreg projects will likely be subject to State aid rules, and Article 20 of the GBER or de minimis will have to be applied.
- *Revenue generation.* SMEs are inherently profit-oriented establishments. On the other hand, EU rules applicable to Interreg programmes demand that net revenue generated in Interreg projects must be deducted from the ERDF support. One exception is net revenue related to project activities that fall under State aid; in such a case, net revenue does not have to be deducted.
- *Administrative procedures related to the implementation of Interreg projects.* The rules applying to Interreg programmes require SMEs to report in detail on activities carried out, and provide all necessary documents to prove costs incurred. The reporting process must follow programme procedures, which often differ from the typical dealings of any SME. Additional administrative obstacles include the need to archive documents in order to comply with ERDF rules and State aid rules. Moreover, programmes sometimes require SMEs to follow complex public procurement rules, which they are not familiar with and normally do not have to apply.



- *Time-intensive procedures.* The issue of time appears problematic as early on as the application stage. Application procedures are lengthy, and decision-making by Interreg programme bodies takes more time than many SMEs can afford to wait. In the majority of cases, SMEs are not in a position to commit their usually scarce resources to activities which might be approved or not in several months' time. In addition, during the project implementation phase it takes time for programme bodies to process claims and authorise payments. This increases the potential risk of cash flow problems for SMEs.

Apart from the above-mentioned challenges of a rather operational nature, one must recognise that the level of information among SMEs on how to participate in Interreg projects is rather low. The majority of SMEs do not have much understanding of the application process, and they lack information on how participation in Interreg projects is arranged. A good communication strategy with messages and communication tools designed to target SMEs has proven to be a challenging task for many Interreg programmes - or perhaps this area is not given sufficient attention.

## 5. How are they addressed and how does it work in practice?

The revised State aid rules provide some new opportunities with regard to the involvement of SMEs in Interreg programmes. In particular, the new GBER introduces an exemption specifically for SMEs in Interreg. The maximum co-financing of 50% allowed under the GBER puts some limits on its usefulness, and requires some programmes to apply *de minimis* instead. Still, once the ERDF support to an SME is considered a compatible State aid, the challenges associated with the generation of net revenue are eliminated.

As regards administrative management of Interreg programmes, which can be particularly heavy for SMEs, programmes introduce various mechanisms in order to reduce the administrative burden. This also reflects the general wave towards simplifying Interreg rules and procedures, in line with the simplification principles defined for the 2014-2020 period<sup>2</sup>.

The following examples can be mentioned:

- *Simplified cost options.* By applying simplified cost options (e.g., lump sums, flat rates), SMEs can calculate eligible costs faster, easier and with higher certainty. This also simplifies the reporting procedure, as not all invoices and other documents of probative value have to be provided. In addition, the use of simplified cost options allows programme bodies to verify the declared expenditure in a quicker manner, enabling SMEs to receive ERDF in due course and without delay.
- *Fast and objective selection process and support at the application stage.* Interreg programmes can set up a selection process that allows for faster decision-making on project applications. Examples include the following measures: pre-selection of project proposals before full project applications are drafted, provision of seed money to facilitate development of project applications, organisation of special calls for proposals targeted at SMEs with simplified application procedures, etc.
- *Priority in the processing of Progress Reports from projects that include SMEs as beneficiaries.* There are different internal procedures for how programmes monitor the progress of project implementation and execute periodic payments to beneficiaries. In the majority of cases, programme bodies process progress reports on a "first-come first-served" basis; i.e., those reports that are submitted first are assessed first. However, programmes can also prioritise projects that involve partners prone to cash flow risks. This includes SMEs.
- *Electronic systems.* Using on-line systems limits the paper work and the number of physical documents that must be provided. This also facilitates exchange of information on an on-going basis, thus speeding up processes.

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<sup>2</sup> Article 4 of Common Provisions Regulation (EU) No 1303/2013 of 17 December 2013.



## 6. Good practice examples

Already in the 2007-2013 period, several Interreg programmes took special steps to facilitate the involvement of SMEs. Some of the 2014-2020 programmes may follow these good practice examples. The practices presented below are selected examples of how it can be made possible for SMEs to participate, despite their limited resources and restricted financial capacity:

- simplified procedure for selecting micro-projects. Micro-projects are designed in particular for applicants with limited financial capacity. The procedure is based on the following principles: project applications can be submitted on a continuous basis; there is a fast-track process for the assessment of the application; there is the possibility of a written approval procedure by the Steering Committee.
- flexible system of the so-called 'project partner light' (PP Light). An SME is able to join a project at any point during the project lifetime and become a beneficiary of the programme funds. Without any changes to the project's planned budget, the SME can start carrying out activities. In the Application Form, the budget of the PP Light (not yet known SME) is allocated to another partner; this part does not have to be secured with any match-funding from the PP Light at the stage of the project approval.

## 7. Reference to other, more detailed papers

- *Involvement of SMEs in ETC programmes: achievements and future perspectives*, INTERACT, September 2013