

DRAFT THEMATIC GUIDANCE FICHE FOR DESK OFFICERS

COMPETITIVENESS OF SMALL AND MEDIUM-SIZED ENTERPRISES (SME)

VERSION 2 - 13/03/2014

RELEVANT PROVISIONS IN THE LEGISLATION

Regulation	Articles
Common Provisions Regulation No 1303/2013	Article 9 (3) - Thematic objective: enhancing the competitiveness of SME Related provisions: Article 9 - Thematic objectives (1), (2), (4), (6), (8), (9) Recital 34-35, Art.37– Financial instruments supported by ESI Funds
European Regional Development Fund Regulation No 1301/2013	Article 5(3) - Investment priorities relating to TO3 (enhancing the competitiveness of SMEs) Related provisions: Article 3 (1) a, d, e, f - Scope of support from the ERDF Article 5(1) - Investment priorities relating to TO1 (strengthening research, technological development and innovation) Article 5(2.) - Investment priorities relating to TO2 (enhancing use and quality of ICT) Article 5(4.b) - Investment priority: promoting energy efficiency and renewable energy use in enterprises Article 5(6.g)- Investment priority: supporting industrial transition towards a resource-efficient economy, promoting green growth, eco-innovation and environmental performance management in the public and private sectors Article 5(8.a) - Investment priority: development of business incubators and investment support for self-employment and business creation Article 5(9.c) - Investment priority: support for social enterprises
European Social Fund Regulation No 1304/2013	Related provisions: Article 3(1) (a) (iii) Self-employment, entrepreneurship and business creation; (v) Adaptation of workers, enterprises and entrepreneurs to change; Article 3(1) (b) (v) Promoting the social economy and social enterprises; Article 3 (2) d - Scope of support: contribution to TO 3

<p>EAFRD Regulation No 1305/2013</p>	<p>Article 5 (6.a) - facilitating diversification, creation of new small enterprises and job creation</p> <p>Article 14 - Knowledge transfer and information actions</p> <p>Article 15 - Advisory services, farm management and farm relief services</p>
<p>EMFF Regulation</p>	<p>Article 51 - Encouraging new aquaculture farmers</p>
<p>European Territorial Cooperation Regulation No 1299/2013</p>	<p>Related provisions:</p> <p>Recital 7 - cooperation between innovative research-intensive Clusters</p>

This is a draft document based on the new ESIF Regulations published in OJ 347 of 20 December 2013 and on the most recent version of the relevant Commission's draft implementing and delegated acts. It may still require review to reflect the content of these draft legal acts once they are adopted.

1. INTRODUCTION

This guidance explains issues related to thematic objective (TO) 3 “*enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF)*” and the related investment priorities for the ERDF. It also provides suggestions for questions that could be raised by the negotiators.

2. STRATEGIC FRAMEWORK

2.1. *Importance of SME competitiveness*

Support to SMEs' competitiveness is a priority of the ESI Funds: Thematic objective (TO) 3 is part of thematic concentration requirements (80% of the ERDF allocation in more developed regions / 60% in transition regions / 50% in less developed regions).

SMEs are key actors of the European economy, providing two out of three private sector jobs and more than half of the total value-added created by business. In recent years (2000-2010) SMEs had the double employment growth rate (1% annually) than large enterprises (0.5% a year). SMEs cover a wide range of businesses with very different sizes, capacities and types of activities.

Competitiveness of enterprises can be defined as the advantage that a firm gains by lowering costs, increasing productivity, improving the quality of and differentiating and innovating products and services offered, and by improving marketing and branding. However, the simple expansion of production capacity, mergers with other firms, transfer of the ownership of an SME, or simple increase of the number of staff, do not per se increase competitiveness and are thus no priority for ERDF support.

2.2. *SME competitiveness versus SME innovation*

Innovation is certainly one of the major drivers for competitiveness but compared to the related TO1 this thematic objective allows the provision of broader support to SMEs' competitiveness going beyond pure innovation support and/or working with a broader portfolio of SMEs, including those that focus mainly on local and regional markets.

For instance, cluster support under TO3 should only be regarded a priority when it focuses on areas identified in the RIS3. For other areas, it should be ensured that there is a sufficient critical mass and management quality and that the overall number of clusters funded remains limited to areas of real potential.

2.3. *Relation to ex-ante conditionalities*

SME support under TO3 triggers the obligation to fulfil *ex ante* conditionality 3, i.e. Member States need to demonstrate that they (1) have put in place *measures to reduce the time and cost involved in setting up a business, as well as the (2) time needed to get licences and permits to take up and perform the specific activity of an enterprise, taking account of the targets of the SBA, and that they (3) have an appropriate monitoring of SBA measures in place, assessing the impact on SMEs.*¹

¹ See: Guidance on ex ante conditionalities (fiche 3 on Part II)

SME support may also be related to support under IP8a, i.e. to entrepreneurship, the development of business incubators and investment support for self-employment, micro-enterprises and business creation. For the sake of greater policy coherence and synergies between different investments, it is advised to verify the consistency of SME support measures with the content of the “*strategic policy framework for inclusive start-up support*”, an *ex ante* conditionality that applies to TO 8a.

2.4. *Relation to Research and Innovation Strategies for Smart Specialisation*

The relation to TO1 and the Smart Specialisation Strategies (RIS3) can be summed up as follows:

RIS3 rely both on the concept of entrepreneurial discovery and on the notion of unique competitive advantages. Therefore, RIS3 implementation and success will logically hinge upon the ability of business support services deployed, to enable SMEs to leverage new markets resulting from the RIS3 visioning and priority-setting.

SMEs should have been taken into account for the identification of niche markets and/or sectoral/cross-sectoral specialisations in which businesses and (tech and non-tech) centres of excellence enjoy unique competitive advantages that led to the RIS3 priority choices.

Territories have their own industrial fabric and entrepreneurial culture, therefore support service provision needs to adjust, i.e. generalist services need to exist alongside high-value added services and their provision needs to be segmented to meet the needs of the different categories of businesses/entrepreneurs, of the stages in the business lifecycle and of the type of activity in which the companies operate (e.g. high-tech, low-tech, start-ups, micro-businesses and crafts, growth companies, social enterprises, champions of successful sector diversification, etc.).

To provide inspiration and guidance to Managing Authorities and stakeholders developing RIS3 in the entrepreneurial discovery and to design SME support measures targeted towards the specific requirements of their territories, a dedicated guide (“Regional Policy for Smart Growth of SMEs”) has been published:

http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/sme_guide/sme_guide_en.pdf

2.5 *Large firms vs. SMEs*

SMEs can be supported across all TOs (also under ESF, EAFRD and EMFF), whereas the ERDF Regulation limits the support to large firms to TO1 (research and innovation), TO4 (shift towards low-carbon economy) and to ICT (covered by IP (2b and c)) only if it involves cooperation between large enterprises and SMEs.

Support measures under TO3 should cover, in general, three main aspects where SMEs are at a disadvantage vis-à-vis larger firms:

- ✓ Access to finance (credit and capital): This can be counterbalanced by grants, loans, loan guarantees, venture capital, business angels, etc.
- ✓ Asymmetry of information i.e. access to business-relevant know-how, information and contacts: This can be counterbalanced by consultancy services, business advice, networking, innovation consortia, etc.

- ✓ Market access (including improving the position in value chains) and entrepreneurial risk: This can be counterbalanced by internationalisation initiatives and risk reduction tools (e.g. investment readiness, proof of concept)

Public intervention should systematically combine financial assistance with non-financial support, i.e. diagnostics, advice, access to specialist infrastructure as well as a network of professional facilitators.

3. REGULATORY SCOPE OF SUPPORT

3.1. *Eligible operations*

In line with the results orientation of the new legislative framework for Cohesion policy, the ERDF regulation distinguishes clearly between:

- the **scope of support** for the ERDF (the activities it may support) and
- the **investment priorities for each thematic objective** (objectives to which the ERDF shall contribute).

The investment priorities should form the basis for the definition of **specific objectives** within programmes that take into account the needs and characteristics of the programme area.²

For an operation to be eligible for ERDF support it must contribute to a specific objective defined for an investment priority and fall within the scope of the fund's activities.

ERDF - scope of support (cf. Article 3.1) particularly relevant for TO3:

*a) **productive investment**, which contributes to creating and safeguarding sustainable jobs, through direct aid to investment in small and medium-sized enterprises (SMEs).*

...

*(e) **investment in the development of endogenous potential through fixed investment in equipment and small-scale infrastructure**, including small-scale cultural and sustainable tourism infrastructure, services to enterprises, support to research and innovation bodies and investment in technology and applied research in enterprises;*

...

*(f) **networking, cooperation, and exchange of experience** between competent regional, local, urban and other public authorities, economic and social partners, and bodies representing civil society referred to in Article 5 of Regulation 1303/2013, studies, preparatory actions and capacity building.*

² Cf. Recital 7 of the ERDF Regulation: (...) investment priorities should set out detailed objectives, which are not mutually exclusive, to which the ERDF is to contribute. Such investment priorities should form the basis for the definition of specific objectives within programmes that take into account the needs and characteristics of the programme area

Primarily the ERDF supports the development of endogenous potential for SME competitiveness. It allows for productive investments, fixed investment in infrastructure, support for enterprises, networking, cooperation and technical assistance. Support under thematic objective 3 should contribute to enhancing the competitiveness of SMEs, as defined in Article 2 (28) of Regulation (EU) 1303/2013 (CPR), i.e. aid has to focus on enterprises and the result indicators also have to relate directly to the impact on these enterprises.

Investment into the construction or upgrading of any public infrastructure under this TO is therefore not a priority for the ERDF and, possible only where this is clearly necessary for the achievement of the specific objective set out in the operational programme. Accordingly, ERDF support under thematic objective 3 should contribute to enhancing the competitiveness of SMEs, which should be reflected in the specific objectives, the results and result indicators. For example, investment in the construction of a road under this thematic objective can therefore be supported, provided that it serves exclusively to give access specifically to an SME and only if such a construction is an accessory part to the core intervention and ancillary in nature i.e. limited in scope, necessary for the achievement of a specific objective and intrinsically linked to the intervention logic of the selected operation. Such transport investment under thematic objective 3 should only be envisaged in remote and sparsely populated areas.

The same applies for any other type of 'SME support infrastructure' for instance in the area of tourism. Any such investment into the creating and upgrading of public infrastructure, if funded under TO3, need to be linked closely to the operation in question focusing on the competitiveness of concrete SMEs (no stand-alone operations).

3.2. *SME definition*

Small and Medium-sized Enterprises (SMEs) are those which employ fewer than 250 persons and have an annual turnover not exceeding EUR 50 million or an annual balance sheet total not exceeding EUR 43 million.^{3,4} It applies to all sectors and also defines micro enterprises (less than 10 staff, under EUR 2 million turnover or under EUR 2 million annual balance sheet total).

3.3. *Non eligible operations*

Support for investments in SMEs in the **tobacco** and related industries, as well as in **undertakings in difficulty** is explicitly excluded from the scope of the ERDF.

3.4. *ESF, EAFRD and EMFF investments in SME competitiveness*

The ESF shall invest in activities that are closely related to the ERDF TO 3, notably in self-employment, entrepreneurship and business creation (Article 3(1.a) iii) of the ESF Regulation, in adaptation of workers, enterprises and entrepreneurs to change (Article 3(1.a) v), and in promoting the social economy and social enterprises (*Article 3(1.c) v*). The ESF shall also contribute to thematic objective 3 (see ESF Article 3 (2) d), through promoting the adaptability of enterprises, managers and workers and increased investment in human capital. Multi-fund solutions for ERDF and ESF can be very efficient to foster SME competitiveness.

³ See SME definition <http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/>

⁴ See also annex I and II to the General Block Exemption Regulation with a definition of "small and medium enterprise"

The EAFRD shall foster knowledge transfer and innovation in agriculture, forestry, and rural areas and enhance farm viability and competitiveness of all types of agriculture, through advisory and other SME support measures, e.g. investments in new forestry technologies and in processing and marketing of forest products.

The EMFF shall foster innovative, competitive and knowledge based fisheries and aquaculture through strengthening technological development, innovation and knowledge transfer, enhancement of the competitiveness and viability of fisheries and aquaculture enterprises, in particular SMEs.⁵

According to section 3.2 of the Common Strategic Framework (Annex I to the CPR), the demarcation lines between the ERDF, the EAFRD and EMFF programmes should be clearly defined, whilst ensuring that all SMEs in the agri-food, maritime and fisheries sectors can benefit from relevant ERDF support. This should exclude the primary production of agricultural products.

The ERDF OPs should however avoid giving any sectoral preference or pre-allocation to these sectors in the context of TO 3 (please note that these sectors may be specifically targeted under TO 1 operations, provided these sectors are relevant for the smart specialisation priority areas).

4. KEY MEASURES LINKED TO INVESTMENT PRIORITIES

The thematic objective 3 "Enhancing the competitiveness of SMEs"⁶ includes four investment priorities are related to which the programme specific objectives should be applied:

4.1. Investment priority 3.a:

promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators;

Measures to support **entrepreneurship** should be designed with the objective of facilitating the economic exploitation of new ideas and foster the creation of new firms. For this purpose specific business support services and capital should be provided. The provision of support for financing to enterprises under the form of grants, but also financial instruments, should target the establishment of new enterprises, and early stage-capital (i.e. seed capital and start-up capital, expansion capital)

 See [guide on entrepreneurial mind-set](#)

The investment in **incubators** is particularly adequate to start-ups. These incubators can also develop several types of services for new companies including access to first clients, sharing of intellectual property rights, facilitation of investors, investment readiness, etc.

 See [guide on incubators](#)

⁵ Provisional text: the EMFF regulation has not been adopted yet.

4.2. Investment priorities 3.b-d

(b) developing and implementing new business models⁷ for SMEs, in particular for internationalisation; (c) supporting the creation and the extension of advanced capacities for product and service development and (d) supporting the capacity of SMEs to engage in growth in regional, national and international markets, and in innovation processes.

Access to finance:

Please note that in 2014-2020 OP support can be provided to this thematic objective through **Financial Instruments** (FIs) set-up at EU, national, regional, transnational or cross border level, under the form of equity, quasi-equity investments, loans, guarantees, or other risk-sharing instruments (see the separate guidance on FIs).

SME Support services

Measures to support existing SMEs need among others intelligent support services tailored to the needs of businesses, targeting, among others:

- Support for the commercialization of new products and services and optimal use of the innovation potential of regional enterprises
- Innovation management advice, IP advice, tech transfer, prototyping, market replication/market penetration, demonstrator projects, large scale demonstrators, proof-of concept (i.e. the existence or creation of 'spaces' for the test of new technologies or processes of production)
- Market intelligence, analysis of emerging market opportunities
- Supporting the introduction of new methods of management
- Reducing time to market, in particular by making public procurement more open to innovative businesses and developing new forms of private-public cooperation (PPPs)
- Facilitating the recruitment and retention of talent – the existence of talent and skills to attract foreign and other private investment is often more relevant than the existence of low taxes or other types of benefits (points at the need to have a clear view and relevant measures in the OP - under TOs 8 and 10 on the skills dimension)
- Internationalisation support (knowledge of international market and demand, strategy development for international action, identification and selection of partners, supply of skilled personnel (by involving local universities in the creation of talent), informatics (hardware and software) supporting international activities (on supply and demand side), etc.)



See the smart guide on [SME support services](#)

⁷ **New business models** can be for instance based on different customer / supplier relation systems (e.g. ICT-based, crowd-sourcing for product design), different pricing methods (e.g. the closer to delivery, the more expensive, or auctioning via Internet), different process management or logistics methods, different billing/income system (e.g. not user pays, but advertiser or sell of user data), different branding / marketing (e.g. environmental / social responsibility as sales argument), different capital raising (e.g. crowd-funding), new combination of existing business models/sectors (e.g. construction with leasing with entertainment business)

5. LESSONS FROM THE PAST AND RESULT ORIENTATION

The ERDF has supported many SME-related projects, but they have attained results of very different kinds. Accordingly, one crucial issue for ensuring the effectiveness of ERDF support, in view of obtaining better results, will be to analyse why some projects give good results and others don't.

- Measures to attract Foreign Direct Investment will be treated under TO1. Nevertheless they should be complementary to measures for support to SMEs. A frequent mistake is the lack of coordination between these two types of instruments.
- The support to SMEs, specifically through grants, should be based on the 'proximity principle' and avoid the top down approach where targeted support is not possible. It is also relevant to consider this in terms of OPs' design. Support to SMEs should be singled out in Regional OPs whenever these exist. For countries that have OPs at national level it is important to ensure that support to SMEs is clearly specified within the Competitiveness OPs
- For the latter case (which usually reveals less political and administrative capacity at regional level) it seems more appropriate to develop financial engineering schemes within the OPs at national level and leave the other type of measures (grants, business services) to regional OPs.
- In a nutshell: **Money is not all** (services and contacts may be equally or more important) and **not all money is the same** (the regulatory and information context matters).
- Instead of trying to provide everything in-house/in the region/country, in some cases bold regional outsourcing or offshoring support policies should be deployed in order to help SMEs acquire components — including knowledge — at affordable prices, thereby enabling them to remain competitive and hence ensure their long term survival.

As noted above, SMEs form the bulk of the regional economy, but face particular hurdles in terms of access to capital and business relevant information. However, this is not enough by itself to justify the intervention.

Examples of possible result indicators include⁸:

- Number of start-ups/new companies founded in supported sectors
- Productivity increase for certain sector(s) or size class of enterprise
- New/improved products/services brought to market/their share on company turnover
- Employment increase in supported companies
- Number of supported business/university partnerships or number of innovation consortia
- Number of companies cooperating in innovation-oriented clusters
- Number of supported market-oriented cooperations/projects between companies and knowledge providers
- Measurable increase of innovation skills/technical competence levels in specific sectors
- Export levels (total or by sector)
- Community Innovation Survey indicators for the region
- Patent applications by SMEs
- Registered trademarks or designs
- Business survival rates

⁸ Result indicators should be linked with the needs identified in the Member State or region and specific programme objectives, which of course is not the case of the theoretical examples given in this list.

- Employment numbers or rates, either for the region as a whole or for specific sectors

We recommend for reasons of clarity that the programme selects just one result indicator per specific objective. Once the most appropriate indicator has been selected, the programme should provide a baseline, set a target and plan for appropriate data collection.

Evaluations identify several main families of SME support actions (see table). These instruments have different impacts and different questions are appropriate.

Example: Region x is concerned about the lack of SMEs (or uncompetitive SMEs) in a particular strategic sector

What do the programmers want to change? And how would they know if they have done it?

They want more SMEs. So:

- The result indicator is the number of new enterprises created in the sector.
- They note a baseline: the low number of SMEs in the sectors
- Since 1000 new businesses were created over the last 7 years in this sector, they aim for 1500 new businesses in the coming period.

What is the intervention?

Business incubators, with adequate business advice (including access to ideas, capital and clients).

What are the output indicators⁹?

Common indicator 1: Number of enterprises receiving support.

Common indicator 4: Number of enterprises receiving non-financial support.

Common indicator 5: Number of new enterprises supported.

For the evaluation

Count the survival rate of the new businesses compared to similar businesses which did not benefit from the incubators.

Some action-specific questions, based on evaluation findings

Instrument	Evaluations find...	Questions to ask
Non-repayable grants to enterprise	<ul style="list-style-type: none"> • In terms of financial volume, by far the most common instrument in the current period • Good evidence for increased production and employment, little evidence that a grant alone increases productivity • There is evidence that grants are 	<ul style="list-style-type: none"> • Could the grant be replaced by a loan or VC for the same amount? Or the sum reduced to the minimum necessary for the project to proceed? • If increased productivity is a goal, what will be done to ensure the grant

⁹ Common indicators must be used where they are relevant. In this case, 3 of them are available and sufficient to reflect the output of this intervention. There is no need to add a specific output indicator.

	often over-generous – a loan for the same amount (or a smaller grant) could be just as effective.	contributes to this?
Loans, loan guarantees, venture capital or other financial engineering	<ul style="list-style-type: none"> • More cost-effective than grants, though a longer lead time and can be difficult to set up • Evidence on productivity benefits is mixed • Sometimes used as an "n+2" shelter 	<ul style="list-style-type: none"> • If increased productivity is a goal, what will be done to ensure support contributes to this? • What will be done to ensure timely set-up of the fund and disbursement of the money?
Non-financial support (advice, clustering, networking, innovation consortia)	Evaluation evidence is at an early stage here. Impacts tend to be small, but there are hints that non-financial support (or combined financial and non-financial support) is more cost-effective than financial support alone. However, there are also hints that non-financial support can sometimes simply be "tourism".	How will the programmers ensure that advice has an impact and is not just "tourism" or "entertainment" for business people?

Annex: Links and relevant sources of policy know-how in this field

Title + description + link	All MS	Regional level	Accession countries
Guidance & good practices			
RIS3 guide (see also annexes: Innovation friendly business environment for SMEs and internationalization) http://s3platform.jrc.ec.europa.eu/s3pguide	X	X	X
Regional policy for smart growth of SMEs – Guide for Managing Authorities and bodies in charge of the development and implementation of Research and Innovation Strategies for Smart Specialisation http://s3platform.jrc.ec.europa.eu/documents/10157/0/SMEs_guide.pdf%20-%20Adobe%20Acrobat%20Pro.pdf	X	X	X
The smart guide to innovation-based incubators (IBI) http://s3platform.jrc.ec.europa.eu/guides	X	X	X
Service innovation guide http://s3platform.jrc.ec.europa.eu/guides	X	X	X
How can cultural and creative industries contribute to economic transformation through smart specialisation? http://s3platform.jrc.ec.europa.eu/guides	X	X	X
Policy learning database – INFOREGIO – examples of projects http://ec.europa.eu/regional_policy/projects/practices/index_en.cfm			
Good practices in SME policy - database: http://ec.europa.eu/enterprise/policies/sme/best-practices/database/SBA/index.cfm?fuseaction=welcome.detail			
Examples of good practices http://www.eriknetwork.net/erikaction -	X	X	X
Example of good intermediary bodies and projects: http://www.scottish-enterprise.com/grow-your-business.aspx	X	X	X
DG ENTR SMEs and SBA http://ec.europa.eu/enterprise/policies/sme/links/index_en.htm	X		
European Small Business Portal http://ec.europa.eu/small-business/index_en.htm	X		
EEN – ENTREPRISE EUROPEAN NETWORK http://portal.enterprise-europe-network.ec.europa.eu/	X		

Title + description + link	All MS	Regional level	Accession countries
<p>Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Think Small First - A Small Business Act for Europe (COM(2008) 394 of 23.6.2008):</p> <p>http://eur-lex.europa.eu/Result.do?T1=V5&T2=2008&T3=394&RechType=RECH_naturel&Submit=Search</p>			
<p>Conclusions of the Competitiveness Council: Think Small First – A Small Business Act for Europe (doc. 16788/08, 1.12.2008):</p> <p>http://register.consilium.europa.eu/pdf/en/08/st16/st16788.en08.pdf</p>			
<p>Conclusions of the Competitiveness Council: Conclusions on the Review of the "Small Business Act" for Europe (doc. 10975/11 of 30.5.2011):</p> <p>http://register.consilium.europa.eu/pdf/en/11/st10/st10975.en11.pdf</p>			
<p>Entrepreneurial mind-sets and skills – guide</p> <p>http://ec.europa.eu/enterprise/policies/sme/regional-sme-policies/documents/no.1_entrepreneurial_mindsets_en.pdf</p>			