

**3rd MEETING of the High Level Expert Group
on Monitoring Simplification for Beneficiaries of ESI Funds**

Access to EU Funding for SMEs

1. The members of the High Level Group stressed the importance of overcoming the barriers for this particular group of beneficiaries because of the potential they represented for generating growth and jobs in Europe and for their specific weakness in facing administrative issues. They recognised the opportunity to foster an SME-centric approach especially in areas of managing, applying, auditing and reporting for ESI Funds through the Small Business Act¹ approach.
2. They strongly encouraged Member States to apply the "Think Small First" principle to the design and implementation of the project cycle for SMEs, to adopt specific simplification measures at national and regional level and proactively include stakeholders in those processes.
3. They recommended a reinforced co-ordination within the Commission (also to promote harmonization with State aid rules) in the current period to ensure that clear and stable rules were established early, before implementation. They stressed that changes in interpretation of the rules should not result in a retroactive application for SMEs.
4. For the post 2020 period, the members of the High Level Group called on the Commission to further harmonise the rules between the funds, to promote a revision of State aid rules more consistent with the aim of cohesion policy and learn from the good practices in the EU level instruments supporting SMEs. They also suggest strengthening the role of intermediary subjects, both to assist SMEs, to promote integrated approaches to funds and to simplify controls, thus improving the subsidiarity principle.

¹ Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions - "Think Small First" - A "Small Business Act" for Europe COM/2008/0394.

Interim Report on Access to EU Funding for SMEs from the High Level Expert Group on Monitoring Simplification for Beneficiaries of ESI Funds

Small and medium-sized enterprises are vital for the EU's economy, accounting for more than 99% of European businesses and two thirds of private sector jobs.

Improving the competitiveness of SMEs is one of the 11 thematic objectives for Cohesion Policy in 2014-2020. Additional investments in SMEs will also be made under other thematic objectives, particularly research and innovation, the low-carbon economy and information and communication technologies. €57 billion or around 20% of funding from the European Regional Development Fund (ERDF) will be dedicated explicitly to SMEs. The increased use of financial instruments mobilising additional EU, national and regional funds during the 2014-2020 funding period is also expected to benefit SMEs.

Conclusions:

- The members of the High Level Group recognised the complexity faced by SMEs in accessing EU funding from the ESI Funds as this group of beneficiaries had only limited skills and resources to dedicate to what can in many cases be lengthy and detailed application processes.
- They stressed the importance of overcoming unnecessary barriers for this particular group of beneficiaries because of the potential they represented for generating growth and jobs in Europe, especially considering the comparative low numbers of SMEs who currently access aid.
- They also emphasised that SMEs as a group of beneficiaries represented a broad range of organisations from the independent craftsperson to the non for profit service provider and the innovative start-up companies, as well as manufacturing and service oriented ones.
- From the evidence presented during the meeting, they noted the following challenges for SMEs:
 - The ESIF management system was too complex and distant from the needs of the companies. There was insufficient collaboration among the Administrations involved, which generated a low level of integration of resources and hampered integrated projects. There was also a mixed approach across Member States and regions to partnership and providing support to SMEs to navigate the administrative channels of ESIF.
 - The delay in introducing delegated and implementing acts created uncertainty and hampered access to the funds.
 - Some of the simplification measures included in the ESIF regulations, such as the use of simplified costs and shorter periods for retention of documents, were not as effective if the support was considered State Aid as the competition rules often negated these possibilities by having different requirements.

- The inconsistency between the state aid rules for direct management EU funds and shared management also led to confusion, disincentives and complications for synergies between the funds.
- The cost of completing the necessary information for applications, as well as layered controls dissuaded SMEs from applying as the ESI Funds did not always "think small first" (as per Small Business Act). In the current regulation, SMEs are no longer considered only as "recipients" of resources, but also as "beneficiaries" ("The body which receives the aid") and have, in this case, the same status therefore as the Public Administrations, with similar obligations.
- They highlighted the way programmes directly managed at the European level such as Horizon 2020 strive to apply a more standardised "light touch" approach to application, management and control, focused on the needs/capacities of the target group of beneficiaries. However, the multiplication of different approaches under the ESI Funds meant that SMEs often had to navigate their way through different aid schemes at national, regional or local level, as well as different approaches depending in the fund being accessed. Nevertheless, it is necessary to take into account the fact that different EU funds have different objectives and implementation conditions.
- From the example of the process for SMEs applying for and receiving a grant from the Horizon 2020 programme under the SME instrument, the members of the High Level Group noted the following elements of good practice:
 - A phased approach to support with the time from submission of application to receiving the grant of 3 months for phase 1 and 6 months for phase 2.
 - The use of lump sums in phase 1.
 - A fully digital system with all processes online and the support of national contact points.
 - The "seal of excellence" for projects that could not be supported due to availability of budget, but met the excellence criteria, which could be used to support applications for other funding streams, as long as the projects also meet their specific funding criteria.
 - Project evaluations carried out with a "business" approach.
- From the presentation of stakeholders and Managing Authority at regional level, the members of the High Level Group also noted the following additional elements of good practice:
 - Definition of aid schemes tailor made for the specific needs of SMEs in a region. Effective stakeholders' involvement in the definition of such aid schemes is crucial.
 - The usefulness of impact assessment on SMEs with regards to the measures adopted in Operational Programmes.
 - The opportunity of specific simplification measures for SMEs at national/regional level.
 - The effectiveness of an integrated approach to achieve better results.

Recommendations to the Commission for the 2014-20 period:

In general terms, the members of the High Level Group suggest that the European Commission could better coordinate, in the light of the Better Regulation Initiative, the impact assessments on ESI Funds regulations and delegated acts at European and national level: this

overall assessment could help to prevent gold plating, allow to verify the effectiveness of the rules, and lead to a substantial reduction of their volume.

They also recommend that the Commission ensures a timely adoption of the delegated and implementing acts of the current regulations, also by setting deadlines in the regulations for their adoption, if necessary. They suggested a similar approach to guidelines and guidance materials that interpret the delegated and implementing acts and that the documents are available in all languages.

They propose prohibiting retroactive application – especially in the case of audits – of existing rules, guidelines and guidance materials, texts, doctrines or decisions (except in the case of favourable simplification measures): the lack of retroactivity would be a source of stability and legal certainty in the implementation of funds. It would mean moving towards a system where beneficiaries do not have to assume the burden of regulatory changes or the development of a new legal interpretation. (See confirmatory ruling method). It is important to ensure that the audit is performed in accordance with the standard applicable at the time the operation is approved and not on the date on which the audit is performed, as currently provided for in Article 27 §2a) of the Commission's delegated act (EU) No. 480/2014;

They also suggest examining the opportunity to amend the definition in Article 2.10 CPR in order to better define the role of SMEs under ESI Funds.

They also recall their recommendations on Simplified Costs Options and e-Governance as important tools of simplification for SMEs.

In specific terms, the members of the High Level Group recommend that the Commission improve the possibility for SMEs to access ESI Funds by:

- Promoting good practice examples such single calls for proposals for SMEs that bring together different funding streams and would allow SMEs to apply for an overall investment covering different activities (such as research, training and energy efficiency) and different kinds of support, as well as a helpdesk at regional or national level (or a network of them) that could act as an intermediary and help companies to engage with ESI Funds.
- Strengthening coordination within the Commission in order to improve stability, coherence and transparency in the interpretation of rules.
- Also promoting good practice from outside of the ESI Funds, such as the SME instrument under Horizon 2020, where they can bring a more streamlined and SME-centric approach, such as calls for SMEs with multiple steps that would be a lighter touch in the first phase and use of lump sums, where appropriate and while different objectives of these instruments are taken into account.
- Further publicising the "seal of excellence" approach and encouraging Member States to take advantage of the potential in relevant ESIF programmes where appropriate.
- Considering what kind of actions could already be taken in the short term to address the State Aid issues such as parity between the rules for direct and shared management programmes for the same sectors, including considering extending the exemption in Article 61.8 CPR (revenue-generating projects) to all projects subject to State Aid rules, and introducing more exceptions to the ESI Fund regulations for SMEs and other relevant stakeholders.
- Establishing a common doctrine between the various directorates of the European Commission describing the method of simplified costs especially for projects under State Aid and explaining how to use it.

- Opening up support for capacity building to SMEs and their organisations to assist them and facilitate the relationship between them and the programme authorities also for very small businesses and for social economy SMEs.
- Promoting and exploring options for alignment and greater harmonisation of the legal basis and rules between different funds, for instance by establishing a permanent round table with the involvement of different Commission services, Member States and relevant stakeholders / practitioners, supported by a platform on the interpretation of rules and with a clear workflow for dealing with interpretative questions.
- Exploring the possibility for resolving disputes between SMEs and programme authorities such as the ADR (Alternative Dispute Resolution System) and the possibility to consider private audit costs as eligible expenses.
- Disseminating existing best practices in establishing voluntary targets at national level to reduce administrative burden and costs.

Recommendations for the Commission to encourage action by the Member States for 2014-2020 period:

The members of the High Level Group recommend that the Commission encourage Member States and Managing Authorities, at national and regional level, to:

- Make the implementation of the Small Business act mandatory at national and regional level under ESI Funds, with specific reference to the “Only Once Principle” (on information request and audit) and the “Think Small First Principle” (proportionality of administrative and financial burdens for projects involving SMEs).
- Further promote the dissemination of SMEs Test on programming acts and calls under ESI Funds. By assessing the costs and benefits of policy options, it helps implement the 'Think Small Principle' and improve the business environment.
- Promote wider coordination between Managing Authorities of different funds at all levels in order to facilitate the setting up of integrated actions and aid schemes, where appropriate.
- Make full use of the tools (such as Enterprise Europe Network, European Business Test Panels, etc.) aimed at collecting the business “point of view” with a view to adopting aid schemes for SMEs. According to EEN evaluation, synergies are far from optimal, and there is room for improvement.
- Support Capacity Building of both Public Administration and stakeholders in defining, acting and evaluating aid schemes for SMEs (as stated in the European Code of Conduct on Partnership), also providing joint training activities for the partners involved.
- Promote simplification of eligibility rules at European, national and regional level, as well as simplification/harmonization of application forms.
- Support application planning of SMEs, by adopting annual calendars for project calls at program level, where relevant.

Suggestions for further reflection for post 2020:

- The members of the High Level Group suggest that the Commission reflect further on the following ideas: Common rules and procedures for all ESI funds and for directly managed programmes for SME support.
- Providing a comprehensive legal framework that allows for SME support in all cases where it is needed for jobs and growth.

- The opportunity to establish, where appropriate, Single Entry point at national/regional level and mandatory involvement of stakeholders in developing SME measures.
- A revision of state aid rules more consistent with the aims of cohesion policy including identifying common concepts between the different regulations (ESI Funds, directly managed programmes and State aid) and ensuring a joint approach, for example regarding eligible bases, zoning, the use of identical terminology according to each base category (operating costs, investment, general expenses, wage costs, etc.), a simplified calculation mechanism, and adoption of programmes acting also as a notification completed in the context of regional aid.
- A wider use of aid schemes, as well as management and auditing systems, similar to those used under direct management funds, where appropriate and while different objectives of these instruments are taken into account
- Addressing the administrative burden for SMEs through assessing the achievement of current ex-ante conditionalities and promoting the wider use of targets at national level to reduce administrative burden and costs.
- Exploring the potential for specialised intermediaries (enterprise associations, chambers of commerce, etc.) to support SMEs and move controls from recipient to intermediaries.