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Jacqueline Brouwer, Netherlands Enterprise Agency
Lidwien Slothouwer, Netherlands Enterprise Agency
Gé Huismans, Netherlands Enterprise Agency
Richard Baas, Ministry of Infrastructure & Environment, The Netherlands
Frank Everaarts, Ministry of Infrastructure & Environment, The Netherlands
Edwin Koning, Ministry of Infrastructure & Environment, The Netherlands
Martijn den Burger, Central Government Audit Service, The Netherlands
Reinier Zweers, Province of Gelderland, The Netherlands

Subject

Research into SME and new organisation form participation in transnational INTERREG programmes NWE and NSR.

Translation

The original text makes use of examples specific to the Dutch market situation. In the case where organisation forms are used specific to a member state, a comparable structure in either legal or social status is used; the original where needed is placed in brackets following the organisation form. In the case of country specific jargon, a translation is made and where applicable the original Dutch phrasing is placed in brackets. Translation choices have been made on a case by case basis to resolve.

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1 SUMMARY

The 2007 – 2013 programme period has learned that SMEs are reluctant to participate in projects in the INTERREG programme's IVB NSR and NWE. Trends however indicate the growing importance that these companies have on technological and process innovation and the application of these advancements in daily practice. An associated European trend is that more and more micro-enterprises come into existence in The Netherlands but equally so in Belgium or the United Kingdom. These organisations have no personnel or are organisations with up to 10 people and that might not be structured in the traditional sense but increasingly operate as network organisations devoid of a hierarchical structure. A cooperative of independent-contractors (independent entrepreneurs with no staff) for example. These types of organisations are faced with several hurdles when determining and accounting for costs and tariffs in INTERREG projects.

Daily practice shows that, despite the European Commission and INTERREG authorities promoting SME participation in INTERREG projects, that entrepreneurs remain hesitant as the (financial) complexity of the associated conditions and processes do comply with daily operations of an organisation. Research has revealed that a part of these administrative conditions and processes applying to the (transnational) INTERREG programme's cannot be linked to relevant European directives, regulations and decisions but are added on a programme level by the member states in question, as reinforcements of and additions to these directives, regulations and decisions.

To achieve greater SME involvement in INTERREG V NWE and NSR programme's this report, commissioned by Netherlands Enterprise Agency, analyses the most common and relevant bottlenecks currently faced by SMEs when partaking in a transnational INTERREG project or what keeps them from doing so. We found market, personnel, administrative, and process bottlenecks. We have sought solutions for the 17 selected bottlenecks within the frameworks of existing relevant (concept) legal acts applicable for the Dutch situation. Risk assessments have been made where applicable.

A part of the solutions does not restrict themselves to SMEs but equally apply for public partners in NWE or NSR programme's and can therefore be seen as a part of the general simplification of the administrative processes in European subsidy programmes.

2 INTRODUCTION

2.1 CASUS

The implementation of current NSR and NWE programmes revealed a reluctance for SMEs to actively take part in the projects within these programmes.

Studies and research have identified a number of reasons. For example, the extensive administrative burden and the lengthy flow of finances proved to be hindrances, as well as, unfamiliarity with the complex rules and legislation associated with these programmes.

With SMEs playing an increasingly important role in process and technological innovations and the application of these advancements in daily practice, this sector is becoming progressively more important in realising the objectives set in the programmes. Another related trend is the growing number of micro-enterprises. These organisations with not less than ten employees are not always structured in the traditional sense but are increasingly functioning as network organisations devoid of a formal hierarchical structure. For example, a cooperative of independent-contractors. When participating in INTERREG projects these types of organisation forms face several issues regarding the pinpointing of and accounting for certain costs and tariffs.

The Netherlands greatly values the increased participation of the before mentioned groups in INTERREG projects for the forthcoming programme period (2014-2020).

2.2 RESEARCH QUESTION

In order to promote the participation of micro-enterprises in INTERREG VB projects it is essential to review and chart the obstacles that these entrepreneurs are facing. After which it is intended (within current rules and legislation) to work out suggestions and solutions to facilitate a smoother participation. For example, with regards to state aid, procurement tenders and the (concept) regulations regarding the EU cohesion policy,. The goal is to provide the Dutch delegation with the input for the consultations regarding the shape and structure of the transnational INTERREG V programmes.

Before taking stock of the bottlenecks, we have been asked to confirm if the presumed relevance of executing these operational programmes can be confirmed for SMEs.

2.3 METHODOLOGY

Our approach to answer the before mentioned question is divided into two phases.

Phase 1. Desk and field research

In Phase 1 we researched why or why not micro-enterprises participate in EU financed projects, what keeps them from participating as (lead) partners, and their experiences regarding application, implementation and completion procedures when taking part. In addition, we have researched what solutions have been found in programmes that faced comparable limitations. In part we have made use of existing reports and research that looks at the participation of small and medium sized businesses in EU programmes. The interviews with programme and project employees, as well as the documents they provided us with, were the principal source of information in this research.

Phase 2. Solutions and advice

The inception of phase 2 was marked by a brainstorm with the project team where phase 1 results served as input for these sessions from which we drew up an initial overview of directions in which solutions could be found. These directions were subsequently investigated and feasibility and impact evaluated. The results of the analyses have been collated into individual factsheets for each of the bottlenecks. This way we were able to compose a practical panoply of bottlenecks and their related solutions in detail. The initial results have been discussed in concept with the commissioning clients and have subsequently been drawn up in more detail in this report.

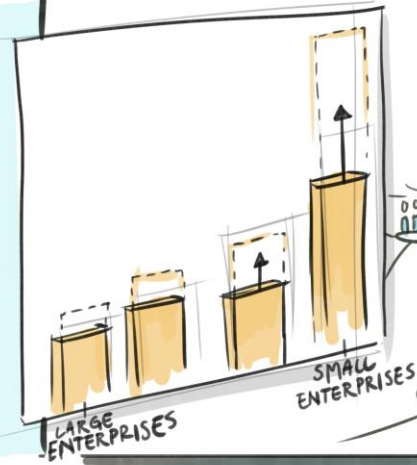
2.4 REPORT LAYOUT

The layout of this report follows the research question and our methodology. Before answering the central question at hand, we investigate in Chapter 3 the relevance of participation of SMEs. Chapter 4 places emphasis on what value is being adhered to SME participation in INTERREG B programmes, how this translates into legislation and the SMEs own perceptions. The answer to the first part of these questions determines how ambitious and far-reaching a solution may be. Chapter 5 provides an introduction to the identified bottlenecks that in Chapter 6 will be dealt with in greater detail. Each of the bottlenecks is accompanied by a solution in this chapter whilst equally charting potential associated risks. The conclusion reviews the research question and the results that this research has identified.

This report uses the terms micro-enterprises as well as SMEs. This report uses the term SMEs in the definition used by the EU. This means, broadly speaking, that we use the term SMEs when discussing organisations with up to 250 employees, the EU uses a set of additional criteria. For micro-enterprises we also initially follow the EU's definition of companies with up to 10 employees but we expand on that scope. In this report we equally discuss new (small) organisation forms like foundations, associations and cooperatives that unify independent contractors but also 'Flex-Ltd's that have a holding / subsidiary construction (Flex B.V.)'. Micro-enterprises and these types of organisations are not structured in the same way but face similar bottlenecks when they participate in programmes.

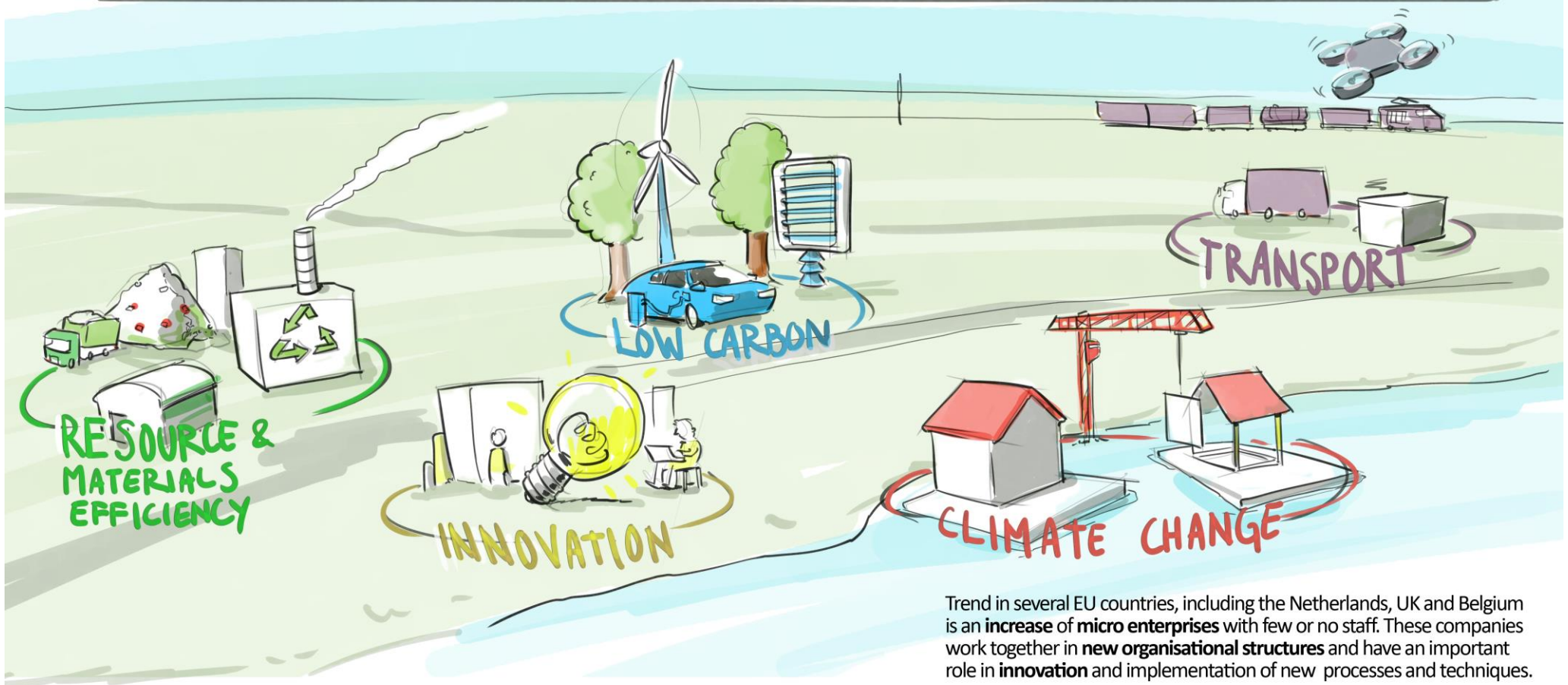
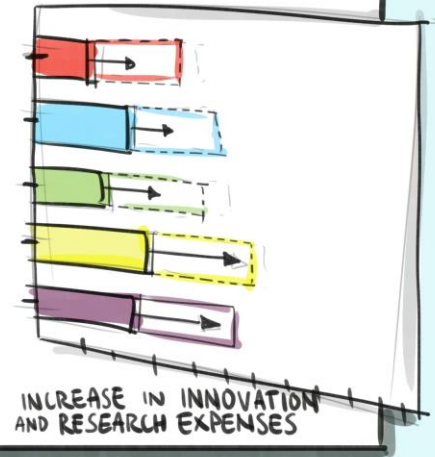
Developments and trends regarding innovation and organisational structures

How can we involve the drivers of innovation in the ETC programmes?



Increase of new micro enterprises

Network organisations with horizontal structure



Trend in several EU countries, including the Netherlands, UK and Belgium is an **increase** of **micro enterprises** with few or no staff. These companies work together in **new organisational structures** and have an important role in **innovation** and implementation of new processes and techniques.

3 RELEVANCE

3.1 BACKGROUND

The transnational INTERREG programmes for the new European programme period 2014 – 2020 focus on furthering sustainable economic growth. Furthermore the programmes place specific accents on environmental, innovation and infrastructure/transport themes. These formulated objectives are aligned with the Europe 2020 strategy that positions the European Union as a smart, sustainable and inclusive economy with special dedication to the creation of jobs, increased productivity and enhanced social cohesion¹.

This chapter, in the light of these European programmes, highlights the role of SMEs in The Netherlands and the extent of their potential within projects within the NWE and NSR programmes. First of all we will outline the role that the SME sector plays within the Dutch economy and the weight that this sector puts on (amongst others) innovation. Developments with regards to certain organisation forms, legal entities and innovation, with a specific focus on micro-enterprises (<10 employees), have been taken into account. A link between the role emerging organisation forms, (such as independent contractors united in cooperatives), have to play when it comes to innovation and the position that they are able to assume within INTERREG VB programmes will be established.

3.2 SME_s ROLE IN INTERREG B PROGRAMMES

The ability for SMEs to play a role within the INTERREG programmes becomes visible when one turns to the content of the NSR and NWE programmes. Priorities have already been established, in the 2007 - 2013 programme period, to enhance innovation and fortify the knowledge economy in the form of operational programmes with specific attention given to entrepreneurship, solidifying growth clusters and networks of small and medium sized businesses².

3.2.1 SME_s IN THE NWE PROGRAMME

The NWE programme places specific emphasis on such subjects as sustainable growth, the environment, transport and logistics, energy and more specifically on innovative products/services and processes in the field of biomass, increased energy efficiency and active inclusion³.

An important point of interest is the fact that the focus on SMEs already present in the current programme period will continue to play an important role in the forthcoming 2014 – 2020 programme. The strategy for the 2014 – 2020 programme period stresses the innovative strengths of the SME

¹ Source: http://ec.europa.eu/europe2020/index_nl.htm

² Source: <http://www.nweurope.eu>, operationeel programma Noordwest Europa, 2007-2013.

³ Source: Concept operationeel programma NWE, 2014-2020.

sector. Of note is the agility with which these organisations are able to incorporate new technologies as well as responding to rapidly changing demands in the marketplace. Therefore development requirements exist within NWE with regards to developing the international competitiveness of the small and medium sized business sector, sharing experiences and best practices when it comes to promotion of eco-innovation /social innovation within the sector, as well as stimulating and supporting innovations coming to the market.

Apart from the interest in SMEs and Innovation, the NWE programme equally underlines the importance of an innovative transnational approach to secure energy distribution. Especially the subject of transport (more specifically durable, innovative mobility concepts) is given an important role.

The common thread throughout the new NWE programme is innovation, more specifically the way the NWE region is able to strengthen its innovative punch whilst simultaneously diminishing the sub-regional variations when it comes to innovation. As a result, the NWE region should transform into a fertile breeding ground for the development and production of new products, services and processes. In order to achieve this, a pooling of strengths is required, for example, by creating transnational clusters and innovation networks to promote open innovation processes.

It is of the essence that SMEs, the main protagonists in the field of innovation, no longer bide their time on the sideline. These organisations should be valued, active and directly involved partners in bolstering the innovative strength of the transnational NWE region.

3.2.2 SMES ROLE WITHIN NSR

Various objectives have been formulated on environmental, transport and innovation themes in the NSR's operational programme. With regards to the environment, special attention is given to the reduction of CO₂ emissions, developing new ways to effectively safeguard the North Sea eco systems in the long-run and developing new products, services and processes that contribute to a greener North Sea economy.

Regarding the first objective (reducing CO₂ emissions), the significance of local and regional initiatives is underlined in the operational programme, by making use of (existing) technology, capacity, knowledge and realising innovations through collaboration between corporations, government and knowledge centres. A prime example in this context is the generation of electricity, for which on a local level initiatives are being deployed (wind turbines, solar panels). In this context the importance of collaboration between SMEs is noted, these organisations in close partnership are able to fulfil a valuable role in energy conservation schemes (for example the creation of energy friendly buildings). Interregional variations in cost and payback periods here mean that regional initiatives have a decisive role to play.

Another key aspect that can be derived from the operational programmes is the focus on international knowledge partnerships, as well as local and regional partnerships, where SMEs are being actively

involved to jointly undertake innovative projects. Given the focus on SME organisations in the operational programme it only seems a small leap to actively incorporate this group into plans and projects in these fields.

Given the fact that INTERREG B operational programmes already emphasise SME involvement, the next section focuses on the development of SMEs in The Netherlands, the upsurge in 'new' organisation forms and the role they play in innovation.

3.3 ROLES AND DEVELOPMENT OF SMEs IN THE NETHERLANDS

Some 98% of the European entrepreneurial landscape consists of SMEs. 92% out of this 98% can be labelled as a so-called micro-enterprise (see section 3.4). SMEs in The Netherlands even represent 99.6% of the total 864.000 companies⁴. These figures support the magnitude that these organisations bear on the Dutch economy.

The role of this sector when it comes to ETC subsidy applications remains limited when offset against the vast proportion it represents in the Dutch market. In the 2007 – 2013 programme period SMEs were only responsible for 4,4% of all application requests for ETC subsidy programmes. A number of other countries share the Dutch desire to boost the role of SMEs in the 2014 – 2020 programme period⁵.

The Netherlands shows a growth in numbers of SMEs working in fields relating to INTERREG B relevant themes. This development is plotted in Figure 1. This chart shows the development of the number of businesses per legal entity in the sectors: Energy, Water and Waste management, Transportation & Warehousing and Information & Communications.

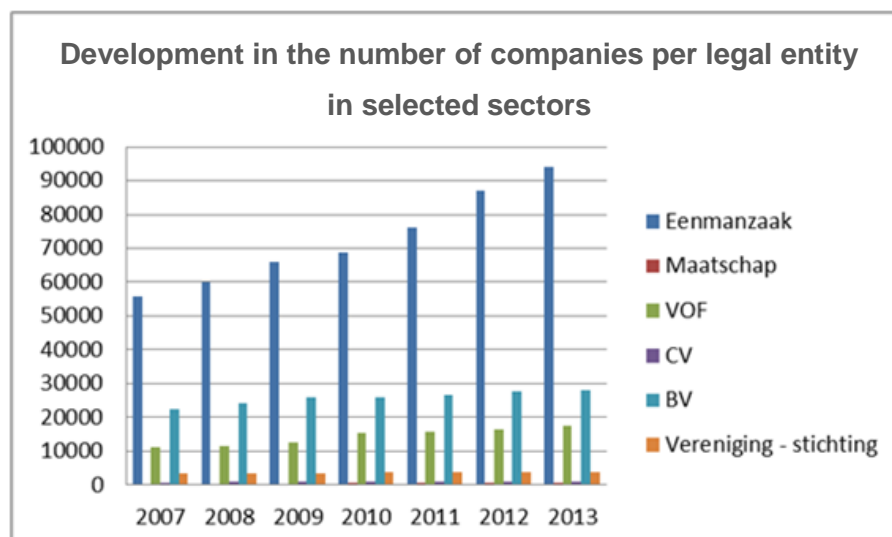


Figure 1 – Development in the number of companies per legal entity in selected sectors

⁴ Source: Het mkb in Nederland maakt het verschil', Deutsche Bank Research, 2011

⁵ Source: Rapport Interact – Involvement of SME's in ETC programmes, september 2013

In the 2007 – 2013 period there is a 54% increase in companies working in sectors relevant to INTERREG programmes and their current themes⁶. Despite this graphic showing the total number of organisations, including those > 250 employees, a realistic picture still emerges when one takes into consideration that the vast majority of organisations in The Netherlands realistically can be considered a small or medium sized business.

Apart from visualising the development in absolute numbers, figure 2, equally shows the percentage rise per legal entity. A sharp growth in legal entities such as sole trader (eenmanszaak) or partnerships (VOF or Maatschap) is noticeable despite only a modest increase in other legal entities as Ltd's or Plc's and foundations (CV, BV and Stichting/Vereniging). The role of these 'small' enterprises, their development and the emerging of new organisation forms is described in more detail in section 3.4.

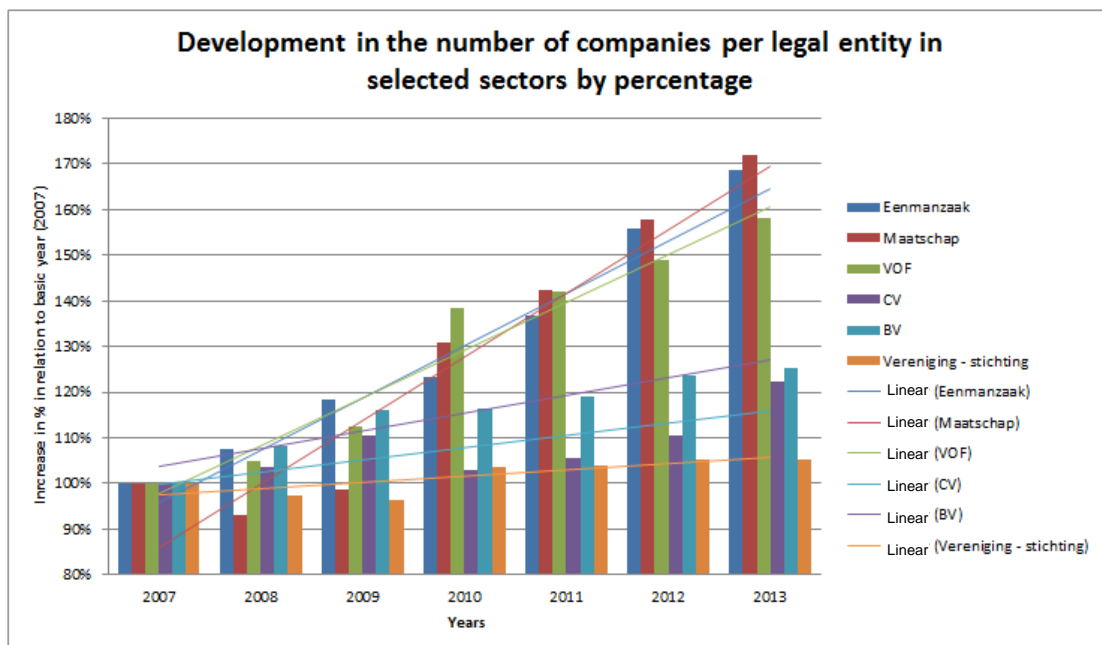


Figure 2: Development in the number of organisations per legal entity in The Netherlands in the relevant sectors over the 2007-2013 period expressed as a percentage.

Apart from the impact that the SME sector has on Dutch economy in terms of growth, these companies equally are paramount in contributing to the generating of jobs and adding value to the economy⁷. An important aspect is that 38% of these organisations is active in foreign markets. (For example through international collaborations or direct foreign investment).

⁶ Sectoren: (1) Energie, (2) Waterbedrijven & afvalbeheer, (3) Vervoer en opslag en (4) Informatie & Communicatie.

⁷ Source: Het mkb in Nederland maakt het verschil', Deutsche Bank Research, 2011

3.4 THE ROLE AND DEVELOPMENT OF SMALL ORGANISATIONS IN THE NETHERLANDS

The importance of the SME sector becomes clear from the previous section, which also indicates the growth in the number of businesses in this sector. This section hones in on a subsection of that sector, namely, small organisation forms up to 10 employees (micro-enterprises).

It is especially these types of organisations that show an increasing tendency to establish themselves in new collaborative structures. For example direct contractors united in foundations, associations and societies, (flex) limited companies and cooperatives. Especially the last entity plays a role of significance in the Dutch economy (also see sector 3.4.2).

Statistics Netherlands (CBS) figures indicate a substantial annual growth of these types of organisations (<10 employees) from 2007 onwards. The total growth for the sectors Energy, Water & Waste management, Transport & Warehousing and Information & Communications sums up to 46% when compared to base year 2007⁸.

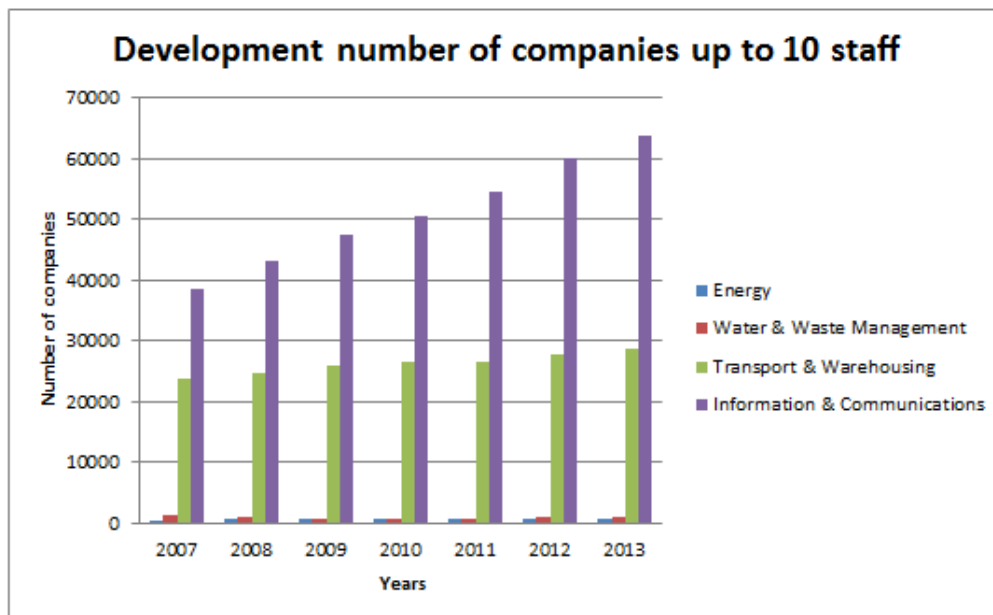


Figure 3: Development of organisations with up to 10 employees in The Netherlands

Besides the absolute numbers found in figure 3, figure 4 provides us with the percentage change in companies (<10 employees). Trend lines display a noticeable growth in Energy, Transport & Warehousing and Information & Communications sectors.

⁸ Source: statline.cbs.nl

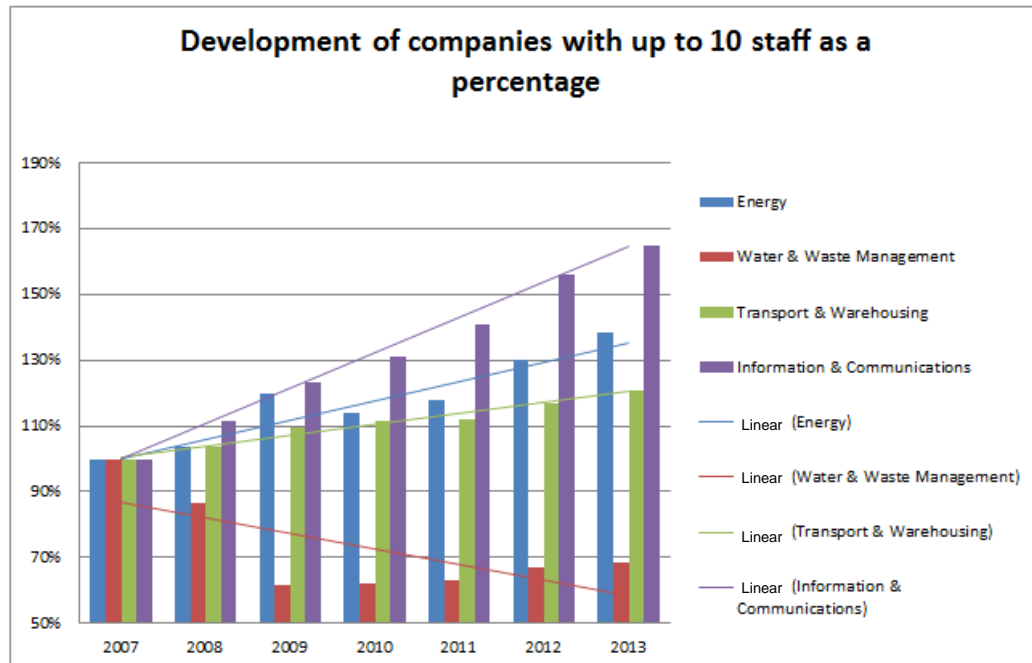


Figure 4: Development of companies with up to 10 employees in The Netherlands as a percentage

The rise in numbers of Dutch micro-enterprises in the for INTERREG B Programmes relevant sectors, underlines the importance of these organisations to The Netherlands, apart from these developments, specific trends emerge within the development of specific organisation forms which will be discussed in more detail in sections 3.4.1 and 3.4.2.

3.4.1 THE ROLE OF SELF CONTRACTORS

An organisation form that radically differs from more 'commonplace' organisations is the increasingly popular independent-contractor. This group has increased over the last ten years by some 200.000 tot a total of 728.000 in 2011⁹ (this surge can partly be attributed to the economic crisis). The number of self-employed with staff, some 350.000, has remained stable over the same period (see figure 5).

⁹ Source: <http://www.cbs.nl/nl-NL/menu/themas/arbeid-sociale-zekerheid/publicaties/artikelen/archief/2012/2012-3611-wm.htm>

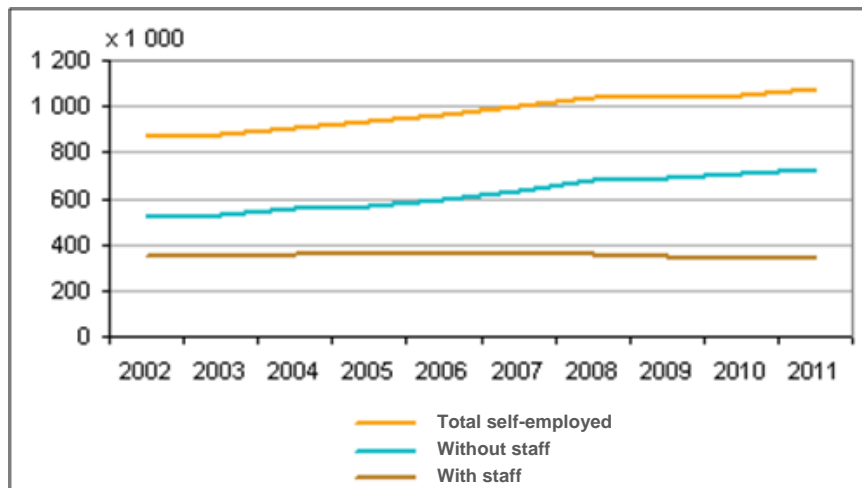


Figure 5 – People in self-employed positions compared to the total workforce, 15 – 65 years

This analysis again underlines the paramount role of the ‘small’ entrepreneur’ within the Dutch economy. Research into the Dutch job market shows a declining number of employees in 2013 (and further decline is expected in 2014). The number of people that are self-employed positions however has been steadily on the rise for the past years, with an (anticipated growth) in 2013 and 2014 of some 0,50%¹⁰ (see figure 6).

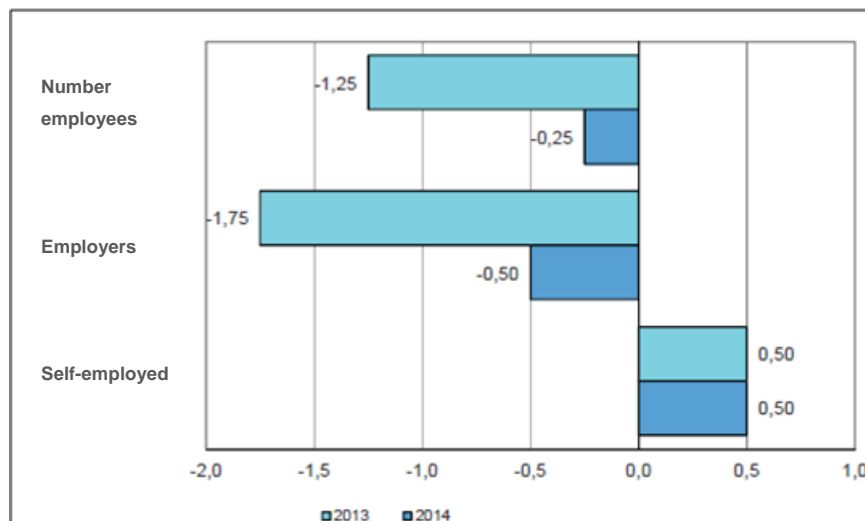


Figure 6 – SME sector employment mutations devised by employees and employers 2013-2104 compared to the previous year as a percentage.

The important position that SMEs have in The Netherlands (especially that of micro-enterprises/self-contractors) becomes clear from the before mentioned figures. However that the importance of this

¹⁰ Source: ‘Algemeen beeld van het MKB in de marktsector in 2013 en 2014, Panteia, juni 2013.

sector is equally underlined on a European level can be deduced from the Interact¹¹ research, this research reveals the sense of innovation, flexibility and dynamism this sector brings to the economy. It shows the sector as one that is triggered to capture the market in their innovative stride. Sector 3.8 takes a closer look at developments in Belgium and the United Kingdom where similar trends to the Dutch developments are being noticed.

3.4.2 THE ROLE OF THE CORPORATION

The vital role that cooperatives play continues to be underestimated from both an economic as well as a social point of view¹². The Netherlands counts 2.600 active cooperatives in 2011, mainly operational in the agricultural and financial sector. The economic importance of cooperatives is not to be misjudged with a combined turnover of 111 billion euro's¹² in The Netherlands alone. Nearly half of the 100 largest cooperatives operate in the agricultural sector. It is often farmers that in these cooperatives bundle their strengths to deploy shared innovative initiatives and by doing so create more value from their crops¹³. Sprung from this concept is for example the bio-based economy that we will review in more detail in section 3.7.

Another significant development is the way associations, in the professional service industry have increasingly transformed over the last decade into (employee) cooperatives. An important model here is the entrepreneurial cooperative¹⁴: A collaborative of entrepreneurs with the purpose of supplementing another's efforts in achieving goals that otherwise would be harder if not impossible to achieve. Research by De Ondernemerscoöperatie¹⁴ has shown that 50% of all cooperatives consist of 6 or less members, whilst 90% of the cooperatives do not exceed 25 members. The (social) positions of people in society are given an increasingly relevant role in society under cooperatives. Initiatives traditionally in the domain of social or building associations¹⁵ are now more and more deployed by (local) initiatives. Examples of this development can be found by turning towards the social domain of innovation and the health care cooperatives, the exploitation of 'wijkondernemingen', or the so-called neighbourhood-energy-cooperatives that have been born out of these initiatives. Members of these types of cooperation's jointly procure communal gas and electricity or generate their supply by creating wind and solar farms in their direct environment¹⁶ with the future objective of no longer being dependent on fossil fuels when it comes to their energy and gas supply.

3.5 SMEs, INNOVATION AND TOP SECTORS

Over the past year 56% of SMEs have been investing in developing new products, services or

¹¹ Source: 'A survey on 'SME involvement in ETC Programmes operative in North-East Europe, during the period of 2007-2013'.

¹² Source: 'De economische betekenis van de coöperatie', Nationale Coöperatieve Raad voor land- en tuinbouw, mei 2012.

¹³ Source: <http://www.biobased-society.eu/nl/2013/10/cooperaties-van-groot-belang-voor-de-biobased-economy/>

¹⁴ Source: <http://www.ondernemerscooperatie.nl/samenwerking-in-cijfers>

¹⁵ Source: 'De doe-democratie' – Kabinetsnota ter stimulering van een vitale samenleving, juni 2013.

¹⁶ Source: <http://www.energieoverheid.nl/2012/12/24/meer-dan-300-lokale-energie-cooperaties-actief/>

improving their production processes. Out of this 56% nearly half of them (47%) have been also committing resources to innovation¹⁷. It is striking that as organisations grow in size so does their investments towards improvements (in both time and resources).

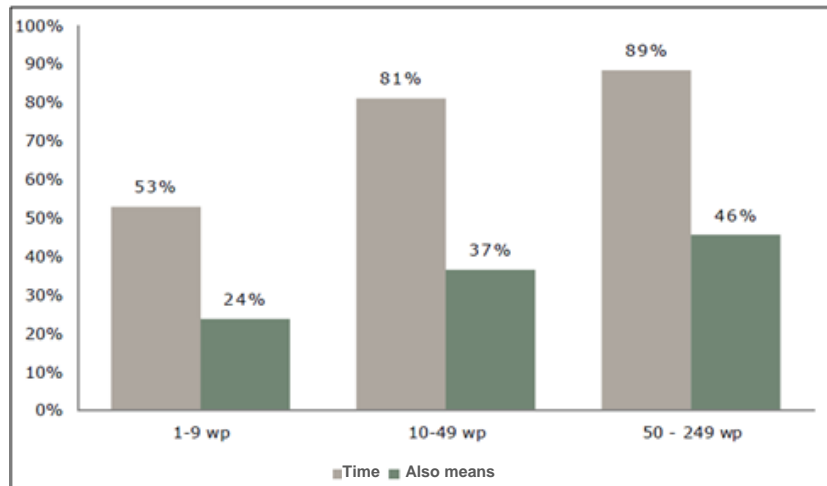


Figure 7: Innovation spent in time and means, spring 2013.

When we take the labour input into consideration, it shows that organisations that have up to 9 people working commit a relatively high percentage of their labour input on activities that impact their innovation, especially compared to organisations with between 50 – 249 employees where less than 10% of labour input is spent on innovation activities in 83% of the cases¹⁸. From this we can conclude that micro-enterprises potentially are more aware of the power of innovation and in turn, relatively speaking, commit more of their time on these activities.

3.6 TOPSECTORS

Apart from SMEs dominating the Dutch business domain, SMEs equally dominate the so-called Top Sectors¹⁹. Figure 8 illustrates the represented share of these organisations within the wider Dutch economy. From this perspective we can see that the top sector Creative Industry with 8% holds the biggest share of companies compared to the other Top Sectors.

¹⁷ Source: De innovativiteit van het MKB in 2013', Panteia/EIM, september 2013.

¹⁸ Source: De innovativiteit van het MKB in 2013', Panteia/EIM, september 2013.

¹⁹ Source: Monitor Topsectoren, Centraal Bureau voor de Statistiek, 2012. Topsectoren: sectoren die (1) kennisintensief zijn, (2) export-georiënteerd, met (3) veel specifieke wet- en regelgeving die (4) een belangrijke bijdrage (kunnen) leveren aan het oplossen van maatschappelijke vraagstukken.

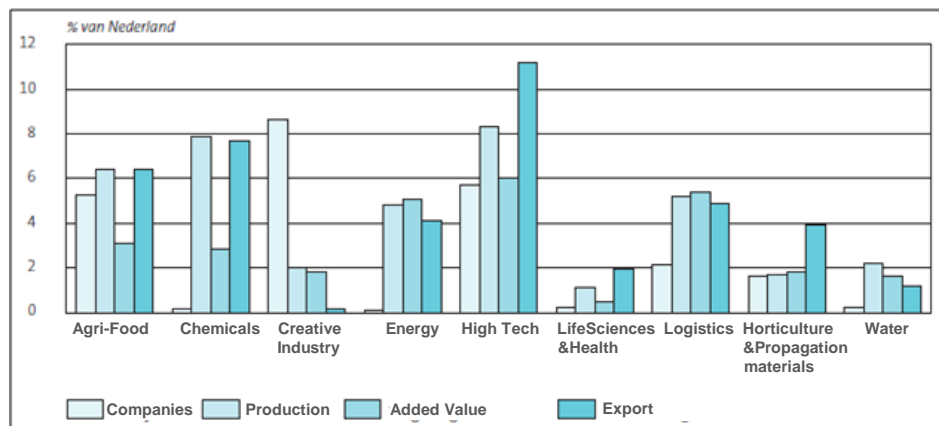


Figure 8: Share of companies, production, added value and export per top sector, 2010²⁰

Central Government recognises the importance of innovation by SME organisations in these Top Sectors. The government uses its SME Innovation Stimulation Top sectors (MKB-innovatiestimulerende Topsectoren) tool in order to solicit active participation of these organisations in innovation projects within the Top Sectors¹⁹

That innovation plays an important role within these Top Sectors can be deduced from the innovation spent: where the Dutch industry spends an annual of 13 billion euro's in total, these Top Sectors are responsible for little over 8.5 billion euro (2010)²⁰ of that spent. The relevant sectors Chemicals, Energy, High-tech systems & materials and Water with their spending on innovation as a percentage of the added value rises above the average spent of other Dutch companies as can be deduced from figure 9.

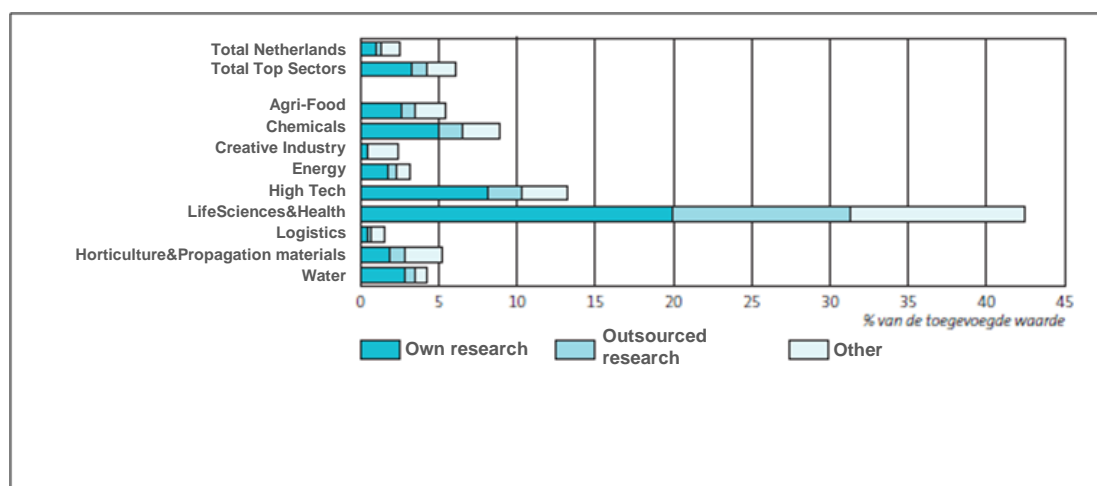


Figure 9 – Total innovation expenditure as a share of the added value, 2010.

This again attests to the value of the of the Top Sectors to the Dutch economy, the relevance of their relationship with innovation and the role that Dutch SMEs play in these matters.

²⁰ Bron: <http://www.agentschapnl.nl/subsidies-regelingen/mit-regeling?gclid=CJ238cew37oCFU633godnDIAOQ>

²⁰ Bron: Monitor Topsectoren, Centraal Bureau voor de Statistiek, 2012

3.7 SME_s IN THE REGION

The relationship between SMEs in The Netherlands, the quantitative growth of organisations (micro-enterprises) and innovation as described in the previous pages also comes to the fore when looking at so-called 'Valley's' in The Netherlands. The three examples below illustrate the importance of the SME sector and its relationship to innovation.

3.7.1 BRAINPORT

The Brainport in the Southeast region The Netherlands is of unrivalled importance to the Dutch economy with 35% of all export attributed to corporations in this region²¹. On top of this, 26% of companies in Southeast The Netherlands can be labelled as being innovative, with an above average share of SMEs participating (44%)²¹ in innovation schemes.

3.7.2 ENERGY VALLEY NOORD-NEDERLAND

The 'Energy Valley' situated in the north of The Netherlands functions as an economic propeller for the north-Netherlands region. The northern energy sector is some 4,000 companies big and offers 32,500 full time jobs. Over half of companies and jobs in the northern energy sector, some 60%, are working in the production and installation of energy technology²². Noteworthy is that relatively speaking North-Holland North and Friesland are home to the majority share of SMEs associated with the energy sector.

3.7.3 FOOD VALLEY

The before mentioned bio-based economy (or in other words the transition from a fossil fuel based economy to an economy that runs on biomass as its primary fuel²³) forms a primary ingredient for the so-called 'Food Valleys' in The Netherlands, especially when taking into account the willingness of these Valley's to invest in a more sustainable community. The city of Wageningen lies at the heart of this so-called Food Valley The Netherlands and acts as a place where entrepreneurship and knowledge meet in order to push for further innovations²⁴.

²¹ Source:

http://www.brainport2020.nl/over_brainport_2020/over_brainport_2020/pijler_van_de_nederlandse_economie

²² Source: Energiemonitor Noord-Nederland 2013

²³ Source: www.biobasedeconomy.nl

²⁴ Source: <http://www.foodvalley.nl/default.aspx>

3.8 DEVELOPMENTS IN SURROUNDING COUNTRIES

Europe shows a similar trend to The Netherlands with the number of self-employed people being on the rise. From 2004 onwards the number of self-employed people in the European job market has grown from well over 6 million to 8.9 million, a growth of more than 45%. The lion's share of this growth is realised in Northwest European countries, including the United Kingdom (63%), Belgium (53%) and France (85%). When looked at from a percentage point of view of the total job market, in the 2000 – 2012 period, the percentages are as followed: 2.1% (United Kingdom), 1.5% (Belgium) and 1.2% (France)²⁵, these numbers acknowledge that the trends perceived in the Dutch economy are equally present in a wider European context.

3.8.1 UNITED KINGDOM

The overall growth of companies in the United Kingdom shows a consistent growth from 3.5 million in 2000 to 4.9 million in 2013 (41%; see figure 10). This growth can be predominantly attributed to the growth of smaller organisations without staff. The number of these types of organisations has grown by 127.000 at the start of 2013 compared to the start of 2012²⁶. SMEs total 99,9% of all private sector organisations in the UK, a figure comparable to Dutch and European figures. Out of these organisations up to 250 employees, 99.2% employ less than 50 people²⁶**Fout! Bladwijzer niet gedefinieerd..**

The majority of private sector organisations are sole-traders (62.6%) with an even larger share of these companies (not counting owners) having no employees at all, this goes for 3.6 million out of 4.9 million SMEs (75,3%)²⁶ in the United Kingdom. These numbers also take into account the afore mentioned sole-traders (not all) and manager/owner partnerships.

Another development is the rise of 'Social Enterprises'. The operations of these enterprises focus on tackling social problems and/or improving the living conditions of people or the society in which they operate. Profits deriving from their products or services are largely to be re-invested in the organisation or the local community. Social Enterprises, can be either large or small in size, are present in all sorts of sectors but most often start as small, local initiatives. These organisations appear in a variety of legal entities: Limited Company (comparable to the Dutch B.V.) but equally as a cooperative, Charitable Incorporated Organisation (CIO, a legal entity reserved for charitable organisations), Industrial Provident Society (IPS, non for profit association), sole-trader or partnership²⁷. Many of these organisation forms will just like new organisation forms in The Netherlands experience difficulties with INTERREG administrative processes when taking part.

²⁵ Source: Rapport 'Future working: the rise of Europe's independent professionals', European Forum of Independent Professionals, November 2013

²⁶ Source: 'Business population estimates for the UK and regions 2013', Department for Business Innovation and Skills, oktober 2013.

²⁷ Source: <http://www.socialenterprise.org.uk/>; <http://www.socialenterprisemark.org.uk/>; <https://www.gov.uk/set-up-a-social-enterprise>

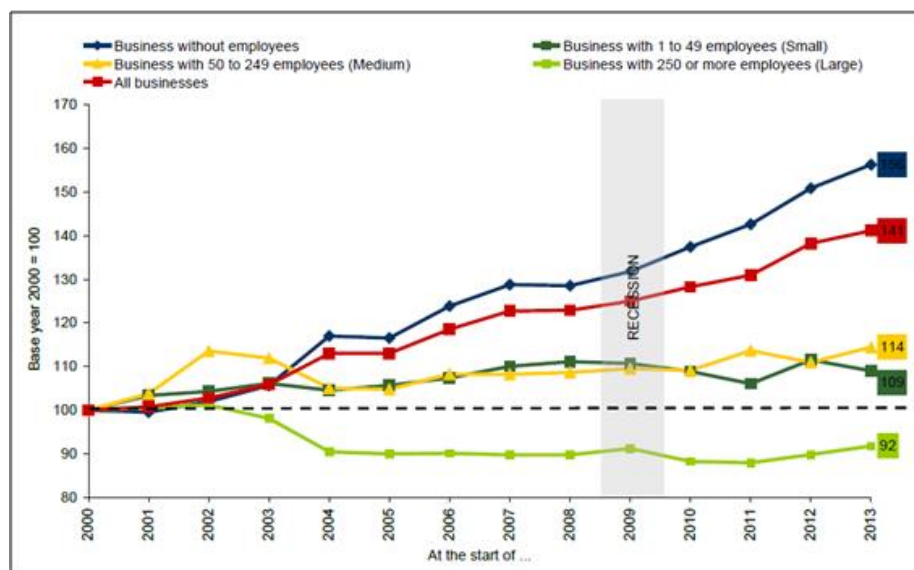


Figure 10: Development in the number of organisations in the UK as a percentage

3.8.2 FLANDERS

Flanders follows suit in reporting a growing number of organisations: its 469.635 VAT registered enterprises reflect a 16% increase in companies compared to 2005 figures. The percentage of the total workforce in the process of setting up an enterprise or has done so in the last three years according to 2011 figures comes to 4.6%, a slight increase from previous years²⁸.

Flanders 2012 KMO report²⁹ shows that between 2002 and 2011 the number of KMO's (SMEs with up to 50 employees) has grown steadily by 17%, In Brussels even by 20% over the same period. The most common legal entity is sole-tradership although its weight as a percentage of the overall SME sector has dropped slightly from 57% in 2002 to 49% in 2011. Other small, and typically Flemish organisation forms as the VOF and Commanditaire & Coöperatieve Vennootschap have however reported sharp increases over this period. Between 2002 and 2012 VOF constructions rose from 3.035 to 10.608 with Commanditaire & Coöperatieve Vennootschap numbers rising from 12.252 to 22.783 in 2012. A remarkable 85% of SME companies (corporations or sole traders) in Flanders have no employees at all. From the above we may conclude that in Flanders exponential growth is experienced in the SME sector.

These developments in neighbouring countries confirm the trends we signal in our own country. When looking at INTERREG B programmes it is therefore imperative to chart the obstacles faced by these micro-enterprises and the hurdles that keep them from successfully participating in these programmes. This report provides insight into these problems but moreover seeks to provide answers that lie within

²⁸ Source: Beleidsbrief Economie Beleidsprioriteiten 2012 -2013, Vlaams Parlement, oktober 2012.

²⁹ Source: http://www.unizo.be/images/res381886_10.pdf

the scope of current legislation by making use of the administrative, financial and judicial flexibility present in the operational NSR and NWE programmes of the transnational INTERREG B programme.

3.9 SMEs AS A PARTNER IN INTERREG B PROGRAMMES

Recalling, 'Relevance', the title of this chapter, it is safe to state that there is indeed a prominent and relevant role to be played by SMEs in the INTERREG B programme. Within the framework of the NWE programme SMEs are typified as innovative organisations with a real ability respond to changing market demands. In this context for the transnational programme, it is important to research the collaboration amongst SMEs themselves and their collaboration with research institutes. .

The valuable role that SMEs have to play can equally be addressed from an NSR strategic policy point of view, think for example about the focus on (international) knowledge partnerships but equally partnerships on a local and regional level in which SMEs are actively involved to collaboratively bundle their forces to initiate innovative projects.

The valuable role that SMEs already play in the operational programmes shows in daily practice. Figures with regards to SME development in The Netherlands show positive signs, especially in INTERREG B relevant sectors. An (increasingly important) role can be attributed here to 'new' micro organisation forms (independent-contractors, cooperatives). A clear link has also been established between SMEs and their innovative abilities.

By taking the operational programme's focus on SMEs into consideration, noticing their relationship with innovation and daily practices supporting these relationships, it only seems a small step here to state that there is room for SMEs to partner in initiating and executing projects in the before mentioned

Perception of micro-enterprise involvement in ETC:

Given the aims and objectives in the OP's, is there level playing field?

Micro enterprises have to fulfil additional requirements, e.g. provide **bank guarantees** effecting their liquidity

Micro enterprises cannot fulfil **administrative requirements**, e.g. Staff costs calculation

Relieve barriers specific to micro-enterprises, thus **creating a level playing field.**

Relieve and support: Guide micro-enterprises in State Aid rules, block exemptions

Stimulate the participation of micro-enterprises by **administrative simplification**, e.g. standard unit costs for staff involvement, and the provision of **pre-financing.**



UNDESIRE

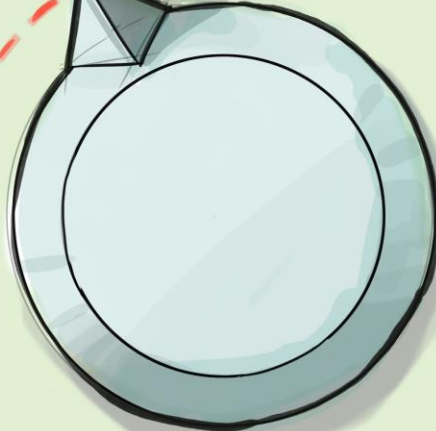
EQUAL

DESIRED

EXCLUDED



REQUIRED



4 CURRENT AND DESIRED POSITION

Whilst mapping the bottlenecks the conclusion was drawn that a real sense of clarity is derived from reviewing both the current way in which SMEs are able to participate as well as thinking about the way we envision desired participation in the future. It is this basic stance that for this report determines how far measures may reach to abolish existing obstacles. The diagram below (figure 11) reflects the way programmes and member states can look upon SME participation, ranging anywhere from 'Required' to 'Excluded' via various stages.

Programmes like COSME, with its specific emphasis on SMEs, can be placed in the '**Required**' category, as participation requires SME partnership. In '**Desired**' we find programmes where SME participation is promoted by offering facilities to encourage participation, for example by offering a higher subsidy percentage as with the FP7/HORIZON2020 programme. In the '**Equal**' category we have placed programmes in which the prerequisites are so that SMEs and other alternative parties experience a similar level of burden whereby an equilibrium is struck between subsidy and burden.. Under the '**Undesired**' umbrella we have placed programmes that place additional demands on SME participation (compared to public bodies) or where the stipulations insufficiently take into account the way the SME sector is structured. Despite the fact that current operational programmes in the NSR and NWE programmes emphasise the SME sector as being beneficiaries, SMEs themselves refute such labelling by placing themselves outside of this category³⁰. Finally there are programmes where SME participation is **excluded**; this is the case for 45% of all ETC programmes.

When determining realistic solutions it may be of great benefit to not only take into account the actual stance towards the SME sector but equally to incorporate the advocated stance as formulated in the programmes. This comparison between actual and advocated attitude may influence the manner in which is to be operated from the current position (INTERREG IV) to the future position (INTERREG V). When taking into account the interviews and documents associated with the NWE and NSR programmes, a contradictory picture emerges, on the one hand a positive stance towards SME sector participation is being advocated and as such is labelled **Equal** partner, whilst on the other hand programme conditions are such that SME participation is rendered '**Undesired**'.

The description of the task of this study and discussions with the workgroup have led to the conclusion that '**Equal**' partnership should be the aim of the new programmes. This entails that with communication being what it is at this point, that both the actual and the advocated stance should be put in balance. At the moment present programme conditions still seem to deter SMEs from participating, leaving sufficient room for proposals that encourage a more equal participation for the sector.

³⁰Source: NTRACT - Involvement of SMEs in ETC programmes

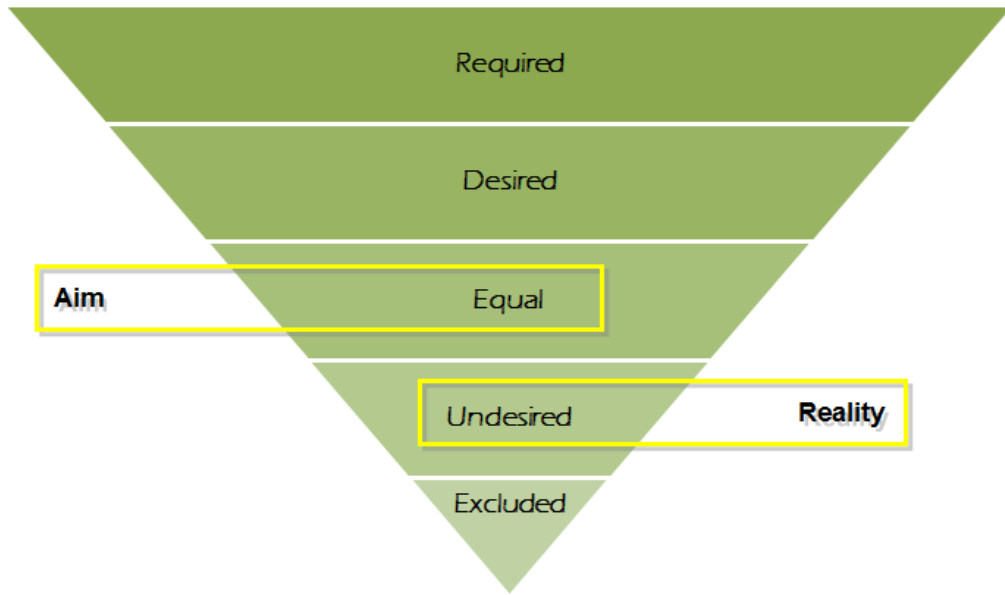


Figure 11: Perception of the position within INTERREG programmes by micro-entrepreneurs vs. the perceived and desired position by the programme's

5 INVENTORY

In the current INTERREG B programme's micro-enterprise participation is limited. This chapter charts the obstacles that micro-entrepreneurs face when they apply for subsidies and when instigating subsidy projects in these programmes.

These bottlenecks are divided into four categories: 'Staff', 'Market', 'Administration' and 'Process'. The bottlenecks in each category are either connected by the source of the problem or the way a solution is found. This section provides an inventory of the various bottlenecks. Chapter 6 takes a closer look at the individual bottlenecks and solutions. This chapter, Factsheets, also proposes solutions for the defined bottlenecks and maps associated risks.

5.1 SELECTION CRITERIA

The sources reveal that a variety of negative experiences exist. We feel, in consultation with the member states, that it is essential to focus on a selection of bottlenecks and solutions. We have come to a selection by taking the following criteria into consideration:

1. **The effect of the bottleneck** – what consequences does the bottleneck have on micro-enterprise participation?
2. **Frequency** – Does the bottleneck reoccur in the sources on a frequent basis?
3. **Quick win** - Is there a simple solution available?
4. **Suitability of solution**– Do we feel a solution lies within political and judicial possibilities?
Once a bottleneck is determined its solution will always have to fit within the judicial framework.

5.2 JUDICIAL FRAMEWORK

National and European legislation and associated documents were used in taking stock of the bottlenecks and subsequently in selecting solutions. The basis of the judicial framework consists of three European regulations for Structural Funds. The diagram pictured (figure 12) below pictures the main thrust of the hierarchy present in the judicial framework.

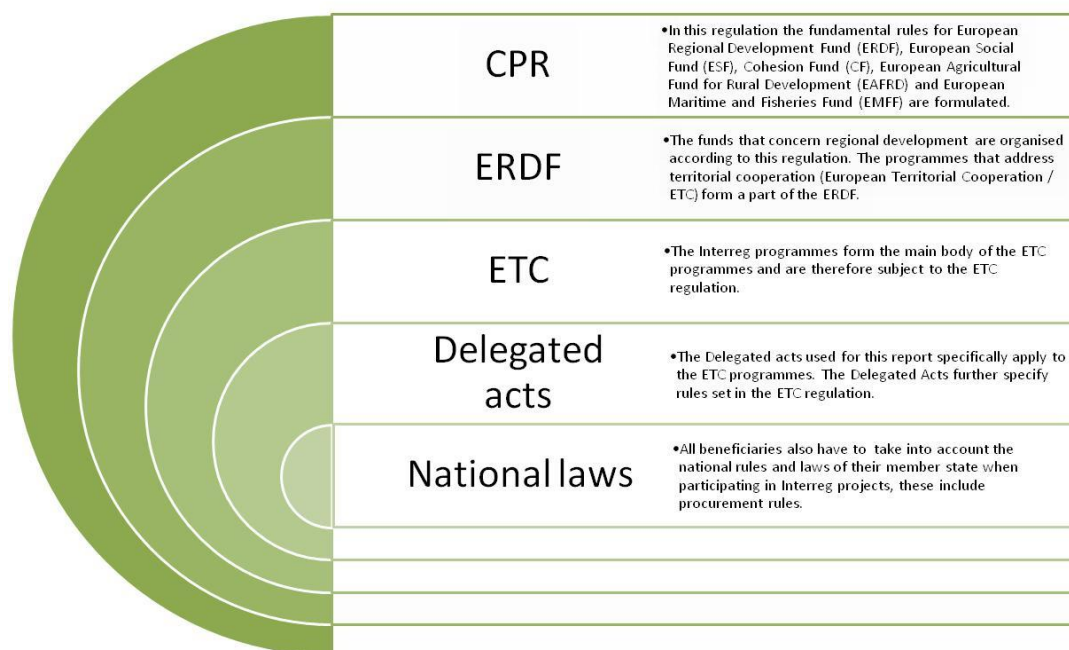


Figure 12: Hierarchy of the judicial framework in INTERREG programmes

On top of these regulations connected to subsidy programmes, the directive on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts (2004/18/EC) proves relevant for public procurement. For regulations regarding state aid the framework is predominantly shaped by the **'Treaty on the functioning of the European Union, General block exemptions** (Regulation (EC) nr. 994/98) and the decree for **de-minimis support** ((EC) Nr. 1998/2006).

5.3 BOTTLENECKS

5.3.1 STAFF

The staff category deals with bottlenecks directly related to the accounting of costs for project staff that are employed by the organisation, administrators or owners that are formally part of the organisation as well as those self-employed with no employees but do make up a durable component of the organisation.

- 1. No pay rendered** - The most frequently referenced bottleneck in this category. It describes the situation in which, during the application or implementation phase, it is impossible or extremely hard to reach consensus on how employment costs can be claimed between recipient, member state or programme secretariat. The before mentioned groups are withheld salary.
- 2. Unrecognised organisation form** – the second associated bottleneck is created by the fact that not all organisation forms regime of programme rules. The way Dutch organisation forms such as 'coöperaties', 'stichtingen' and 'maatschappen' tie their personnel to their

organisations doesn't always comply with programme rules. The organisations have a durable working relationship with the people in the project team or the beneficiary but are not necessarily employed by that beneficiary. For example a director employed by a holding company, who also contributes to the transnational INTERREG in a subsidiary controlled by the holding.

3. **Independent-contractors as staff** – This bottleneck has been isolated from other special forms of collaboration like those mentioned under the first two headers. The reason being that independent-contractors often do not have a formal working relationship with the micro-enterprise and are fully working in the market. This places the principle of transparency and the fair working of the market much more in the foreground. When an independent-contractor has however entered into a formal relationship that cannot be labelled as an 'overeenkomst tot opdracht' (an agreement for assignment) it might be that the situation falls in the 'No pay rendered' category.
4. **Signing off on hours** – Smaller organisations sometimes face difficulties in complying with the requirement to sign off on hours (or authorise in a different capacity) by a senior member of staff. This may be the case when only a single person makes up the organisation or in flat organisation forms.
5. **Computing wages** – We notice that micro-enterprises as well as other beneficiaries experience difficulty when attempting to accurately compute wage costs. These rules are highly detailed in nature making it hard to apply these rules to a specific situation of an organisation.

5.3.2 MARKET

Bottlenecks associated with demands on market mechanisms when working in the NWE or NSR programme are placed in this category.

1. **State aid** – Micro-enterprises that receive subsidies from current programmes are obliged fit within the rules for state aid. The micro-enterprise in question should already in the application phase look for a suitable exemption or start state aid notification procedures. This situation leads to greater uncertainty and added costs prior to the start of the project.
2. **Post project income** – Income generated from products or services related to the project will even after the project is concluded affect the subsidy awarded. Micro-enterprises however precisely look to recuperate their project costs once the project is concluded. Reporting post project income however may lower the amount of subsidy awarded and creates insecurity on how the project may be financed.
3. **Procurement** – The micro-enterprise is expect to act in accordance with the rules and regulations regarding public procurement. The rules for public procurement may be new to micro-enterprises as well as that longstanding contracts and contacts may already be in place prior to the start of the project
4. **Intellectual property** – current programmes do not allow for a beneficiary to consider knowledge gained from the project as intellectual property. This may harm micro-enterprise participation in the programme. These organisations may want to recuperate investment in the project on the basis of knowledge advancement or in terms of intellectual property rights.

5.3.3 ADMINISTRATION

Bottlenecks in the category 'Administration' relate to the accounting for eligible costs. The administration of wages is kept separately in the 'Personnel' section.

1. **Extra demands on SME applications** – Additional solvability requirements apply for private parties that apply for subsidy funding. This may mean signing additional statements, supplying additional information or even issuing a bank guarantee.
2. **Documents of proof costs** – the programmes have certain requirements to the documents that need to be incorporated in the project accounts. The balance between additional security regarding the accuracy of the costs and the additional administrative burden experienced when collating, gathering or drafting these documents causes may in some cases be distorted. An example is having wage payment slips in the project administration. Wages are not paid only in exceptional cases. On top of that the workforce would be likely to resign when not being paid. Therefore the question arises if these wage payment slips are an essential standard component in the project administration.
3. **Expense types and budgetary regulations** – Each expense type is subject to specific rules when reporting costs or drafting budgets. These regulations add complexity to structuring and managing projects for micro-enterprises. Additional regulations applying to the project administration may widen the gap between the project -and regular administration of the organisation.
4. **Calculating overhead** – Computing and proving overhead costs compliant with the rules and regulations of the programme requires great knowledge and dedication. Even then it happens on a regular basis that errors are being detected, having a frustrating effect to micro-enterprises.

5.3.4 PROCESS

1. **Cumbersome reporting** – During the implementation phase progress reports are being submitted by micro-enterprises. These progress reports may require information of which the added value to the programme is not always clear for the projects. These reports consist of various separate templates. Working with separate pre-formatted documents however creates certain information being asked for more than once whilst it equally creates situations in which certain components are more likely to be forgotten.
2. **Pre-financing** – 18 months easily pass between drafting first project plans and initial payment. Smaller organisations don't always have the means to pre-finance costs over such an elongated period. This becomes increasingly a problem when payment is still insecure.
3. **Insecurity rules & processes** – Programme rules are subject to change and interpretation during the programme period. Both the capacity and means of a micro-enterprise are limited which makes these organisations insufficiently capable to deal with the insecurity that these changing rules pose. Besides that micro-enterprises are insufficiently knowledgeable about what to expect in the various processes of the programme.
4. **Control regime** – Biannual financial and substance reports may prove a heavy burden on micro-enterprises. These reports are to be reviewed by a First Level Controller adding substantial costs to the project.

6 FACT SHEETS

6.1 NO WAGES PAID

BOTTLENECK



In a variety of cases no wages are paid to people that perform tasks for a partner in an INTERREG project. This occurs when the partner in question does not formally employ the people in question, however a direct link between those involved, or the partner organisation can be established. This could be the case for example with volunteers, members of an association or with a cooperative but also with members of the board, founders of a foundation in the case of shareholders, or the director/major shareholder in public or limited companies. (Also consult paragraph 6.2, Unfamiliar form).

In each of these cases there is no formal employment relationship and therefore tasks performed towards the implementation of a project by the people in question will not register as eligible staff cost with regards to the grant, other than potentially a contribution in kind. This also applies when compensation for the activities is paid by the partner, with this compensation not being recognised as a salary but for example: dividends, a share in the profits, or in the case of a director/major shareholder who performs tasks in a holding/subsidiary company a management fee.

SOLUTION



CPR Article 67(1) offers the possibility to approve the labour examples as described above and accredit (this input) to the project. This can be achieved by earmarking these specific efforts as contributions in kind (Art 67.1) and by using Standard scales of unit costs (Art. 67.1.b.). Article 67(5) offers various options to calculate the appropriate Cost per Unit:

- (a) a fair, equitable and verifiable calculation method based on:
- (i) statistical data or other objective information;
 - (ii) the verified historical data of individual beneficiaries; or
 - (iii) the application of the usual cost accounting practices of individual beneficiaries;
- (b) in accordance with the rules for application of corresponding scales of unit costs, lump sums and flat rates applicable in Union policies for a similar type of operation and beneficiary;
- (c) in accordance with the rules for application of corresponding scales of unit costs, lump sums and flat rates applied under schemes for grants funded entirely by the Member State for a similar type of operation and beneficiary;

To avoid each party developing their own methodology and thereby creating an administrative environment that lacks the necessary clarity, we propose to work with tariff lists that incorporate various types of position. This methodology is already current practice in the Common Fisheries Policies (CFP) (which identifies three types of position) and FP7/Horizon 2020 (position on the basis of an academic title) see:

http://ec.europa.eu/research/participants/data/ref/fp7/89582/CORDIS_SME_owners_rates.xls). The segregation of functions, as it is already done in the Common Fisheries Fund, could be devised as follows: Managing, Operational and Administrative. The corresponding tariffs should be determined on

a statistical basis per member state and should be index-linked on an annual basis. Another possible solution would be using correct coefficients of Eurostat figures for tariffs in member states. Hourly rates would then have to be justified in one member state only.

It will continue to be necessary to produce timesheets to justify efforts attributed to the project (see 6.4 Signing off on hours).

The choice to use a unit cost calculation as described above should be reached on partner level.

RISK



For projects that lack the ability to contribute sufficient co-financing it may be attractive to increase their staffing costs by claiming higher tariffs. When using a fixed tariff, corresponding to a type of position, it may be tempting to place staff in a category above that which would be acceptable for the position. Consequently the possibility of inflated job titles arises. The subsequent risk to the programme is a miss match between the experience, knowledge or responsibility of a project employee and the tariff that a beneficiary is seeking to use. There are various ways to minimise this risk. First of all, it will be important to create measurable job specifications. Furthermore, an org chart and description of the organisation should be requested. At the start of the project the programme staff evaluates the job specifications. The beneficiary has the responsibility to re-check with the evaluated profile in the project administration when a change in staff occurs. For the sake of transparency it is important to communicate this situation to a partner in all clarity so they can make a well-balanced decision if they are willing to work with set tariffs. Finally we recommend that job specifications are linked to expertise, experience and responsibility associated with the position prior to the start of the project. This prevents staff being placed in a higher position in order to maximise the subsidy granted.

6.2 UNFAMILIAR ORGANISATION FORM

BOTTLENECK



Organisation forms (legal entities) common to The Netherlands and acknowledged as such by law and tax authorities, are not necessarily recognised as so or accepted in INTERREG projects, resulting in undesirable situations for project partners. For example Flex Ltd's (flex B.V), in the form of a holding / subsidiary construction where the director and major shareholder is employed by the holding company, whose subsidiary is partnering in an INTERREG project.

Despite the evident nature of the relationship between both legal entities here, in this case the holding and subsidiary companies, INTERREG would not allow this construction and as a consequence the director/major shareholders' contribution could not be claimed as project activity on the basis of actual cost (management fee).

SOLUTION



Where deemed necessary, each member state describes and defines the relevant form of organisation to the programme guidelines. Only types of organisation that are legally/fiscally recognised by the member state, that can be considered as inextricably linked and are based on a supervisory relationship can be considered to be put on this list.

6.3 INDEPENDENT-CONTRACTOR AS STAFF

BOTTLENECK



One of the problems a number of partners have experienced during the implementation of projects in the INTERREG IV programme period was the inability for independent-contractors (often called self-employed workers) working in partnerships to be recognised as employees. This occurs when these independent-contractors work in partnership for example as limited companies, associations or cooperatives. This means that compensation paid to these independent-contractors cannot be allocated as staff costs. To reclaim these compensations and earmark them as eligible costs, one has to comply with regulations regarding procurement. These costs can subsequently be allocated as third party/external costs belonging to the project.

Independent-contractor partnerships proved valuable and relevant partners to the project partnerships. Independent-contractors cannot participate in the INTERREG project as a legal entity but may however do so in a personal capacity. Cooperation in the form of an association, cooperative or limited company can therefore offer a way out. The problem at hand is however how to determine the appropriate expense type and the applicable tariff.

Bearing responsibility for project staff is a consideration that plays a role in the choice to claim independent-contractor contributions as either personal or external expense. From our perspective, this is not a real issue, as claiming under a special expense type in a programme does not influence the actual judicial relationship between the self-contractor and the organisation. The self-contractor works on the basis of a 'contract (overeenkomst tot opdracht) irrespective of the way the costs are claimed.

SOLUTION



Independent contractors are not employed by the legal entity through whom they participate in a specific INTERREG programme. This limits their options under which header to place their costs and at what tariff to make their costs eligible for consideration. As the independent-contractor works on the basis of a contract (overeenkomst tot opdracht) it would be consistent to place these costs in either the expense type 'external' or 'supplier'. This should be possible without a public procurement procedure as long as the private party is not (or only in a very limited capacity) subject to the rules and regulations regarding public procurement (aanbestedingsplichtig). The Cost per Unit (CPR article 67, subsection 1 and 4, also look at section 6.1) could equally serve as a basis to work from in cases where the independent-contractor's efforts are in kind and no payment is rendered, or when a part of these efforts are used as co-financing. This solution is subject to a positive response from the *procurement case (paragraph 6.8) by the legal unit of the Ministry for Infrastructure and the Environment.*

RISK



The solution to this bottleneck is born out of the solution for public procurement (see paragraph 6.8) that shares a comparable risk pattern. When the independent-contractor is able to declare his costs by means of invoicing, without conditions being placed on procurement procedures, there is a slight risk that the independent-contractor is allowed by the beneficiary to raise his tariff. This is however only a moderate risk as the co-financing structure offers the entrepreneur an incentive to also use his own means efficiently.

6.4 SIGNING HOURS

BOTTLENECK



An employee spends a proportion of his or her available hours in the majority of cases on the European Project. When declaring wage costs the programmes require timesheets that are counter signed by both the employee as well as his/her superior. An already available alternative today is the automatic hour registration system that registers both the input by the employee and approval by his or her superior.

Smaller enterprises do not always have a management structure in place that allows for a superior to sign off on hours of a subordinate. Hence, there is no superior. The smaller organisation now has to look for constructions that offer plenty of security to the programme with regards to the hours spent working on the project. Examples here are a corporate accountant (for submitting with the FLC) or a partner that approves the hours.

SOLUTION



The Delegated Acts (Fiche no11, section 3.4.b) prescribe that a time registration system should be in place but do not impose specific demands on such a system. No real accuracy is added to the project in all reality by having timesheets that are counter-signed by both employee and his superior. We therefore propose that the main focus on workable hours should be addressed in the application phase. This is where the programme determines if the budgeted hours are fair and feasible. During the programme the employee registers the activities on which he or she has spent their time. The timesheets would not have to be counter-signed by a superior.

Signing timesheets is an administrative burden for many beneficiaries; therefore this solution could benefit to a wide spectrum of beneficiaries.

RISK



The registration of hours is automated, defined on the basis of a set division (of tasks) or is not entered by the employee. The risk is strongly reduced as the giving of a description of the activities proves that the employee him/herself drafts the hour registration.

6.5 COMPUTING WAGES

BOTTLENECK



Calculating the wage cost of personnel employed by a partner in an INTERREG project is viewed by many as a complex and time consuming administrative procedure. The employee's gross salary, social security costs based on this salary and the employer's contribution to social security costs and pensions should all be taken into consideration in order to calculate the actual costs incurred so that they accurately reflect the hourly wages. Changes in law or legislation and/or employment conditions may affect the before mentioned conditions that should be taken into consideration in order for the hourly wages to reflect the actual incurred costs. Strictly speaking only the annual report (retrospectively) will provide a complete overview of the costs. In most cases it is assumed that monthly payments fall in the report period. In some cases a correction, either positive or negative, may be made retrospectively on the basis of the annual report.

Apart from determining the salary that can be used, the current NSR programme also seeks to determine the number of hours of this annual figure, in order for an hourly rate to be calculated. Here each organisation is required to determine and substantiate the workable hours per year, which leads to discussions. Salary costs in the current NWE programme that may be attributed to a specific project are being determined on the basis of a percentage of the total contract hours that an employee has spent on a project over a certain period of time.

SOLUTION



Whilst CPR article 68(2) allows the continued use of the NSR programme methodology as described above, the new programme period however demands that the latest gross annual salary is taken as a basis to work from. The Delegated Act, fiche 11, section 3.2.c however does not have such a clause and would thus allow for the current methodology to be used. The number of hours to compute the hourly rate has however been fixed at 1720 hours annually.

When looking at the options in the Delegated Act, fiche 11, section 3.4 it seems no longer possible to use the current NWE procedure, as only a fixed percentage can be used over the running time of a project which is also contractually laid down.

Remark: When determining an hourly wage on the basis of a monthly salary as opposed to an annual salary CPR art and Delegated Act Fiche 11, section 3.4 prescribe a number of 168 hours. When one transfers this (monthly) figure to a per annum figure (x12) it would result in 2016 hours. This makes working from an annual perspective important, as working from monthly figures proves less beneficial than calculating with the aforementioned 1720 hours.

There are however simpler models available on the basis of the intended simplifications in Delegated Act, section 3.3.ii and on the basis of CPR article 67.4.i and ii, some options are:

- Taking January's gross monthly salary for each year and multiplying it by a fixed percentage in order to attribute the employers' costs, this figure is added to the computed wages (January's salary x 12 months). This percentage should be determined per member state on a programme level based on statistical data. This methodology is already used in the current IVA Flanders-Netherlands programme. From an administrative point of view this would be the most practical solution.
- Determining hourly rates for a set bandwidth of gross salaries plus employers' contributions on the basis of historic salary data. This would result in an average hourly rate for the determined bandwidths. Tariff lists could apply to all member states of a programme as employers' contributions are taken into consideration in this calculation. Indexation or re-calculations would have to take place during the programme period.

A final option would be to opt for a Standard Cost per Unit as discussed in 6.1.

RISK



Transparency would be harder to establish when each project or each partner is free to choose a system from a list of various options when determining the staff cost rate. It would also result in an elongated administrative processes for programme secretariats and makes first level control more complex. To minimise this risk it would therefore be desirable to limit the number of options to two. It would however be preferable to make this choice on a partner level so that the entire partnership would not have to adhere to the same system, as this would limit the level of flexibility and may deter potential partners from participating.

6.6 STATE AID

BOTTLENECK



To many entrepreneurs, but equally to programme authorities as well, state aid poses a great obstacle to private party participation (as a partner) in INTERREG projects. State aid is a subject that many entrepreneurs are not very experienced with. They are often unfamiliar with exemption possibilities, or the process for individual approval of state support. Despite the possibility of micro-enterprises being eligible to receive state support under certain circumstances (as the de-minimis regulation), the subject has a deterrent effect on these organisations. Obtaining clarity as to whether state aid is permitted can delay or may even block the application phase. The amount of research and the long lead-time for state aid notifications may result in deadlines not being met.

SOLUTION



The draft regulation on General Block Exemptions (GBER) contains, amongst others, an exemption for projects in ETC programmes. For this ETC exemption it is however important to know that the current concept regulation states that this exemption is limited to a maximum subsidy percentage of 50% (article 15 of the draft regulation): certain categories shall be declared compatible with the internal market and exempted from notification as referred to in articles 107 and 108 of the Treaty of the European Union.

A two million Euro notification threshold (Article 4.e.) is in place, and that only takes into consideration costs that are directly linked to the implementation (Article 18.2). This means that if and when the programmes decide on a higher maximum subsidy percentage then this should be taken into consideration in the negotiations on the ETC exemption paragraph.

Another solution is encapsulated in the de-minimis regulation that allows organisations to receive subsidies of up to 200,000 Euros once every three years. The European Commission – Directorate-General Competition states that the de-minimis regulation has to be interpreted and applied on the basis of the member state issuing the aid. The location of the Management Authority is the leading factor here, meaning that if a Dutch SME receives NSR programme support it is in fact receiving Danish de-minimis support and French de-minimis support in the case of a NWE project. This still has to be put in writing by Directorate-General Competition.

An exemption can be found for many private parties wanting to participate in projects in INTERREG VB programmes. Offering sound information therefore has an important role to play when it comes to resolving this bottleneck. Sound information could help to overcome a lot of worries and concerns regarding state aid and prevents organisations from not upholding state aid notification duties. A service desk option would offer SMEs a clear point of contact and would also bundle available knowledge. This would however require proper coordination between all involved parties: NL Enterprise Agency, Ministry of Infrastructure & Environment and the Auditdienst Rijk. Programme documents could make a special mention that support in finding exemptions or assisting with

notifications regarding aid are being offered by NL Enterprise Agency or Ministry of Infrastructure & Environment It is important to start notification procedures as soon as initial indications of project approval are clear because of the lengthy lead times of state aid notification.

6.7 POST PROJECT PERIOD INCOME

BOTTLENECK



Most private parties look to generate turnover or profits from their operations. This is incompatible with the lowering of eligible costs associated with post-project income. Following up on project income, when the project period has already finished, is very demanding on the beneficiary as well as the programme secretariat with equal regards to both time and administration.

Due to the nature of the projects in the INTERREG programmes it is easily explained that project income during the project lowers the amount of eligible cost. The development phase of an idea, or the phase where an idea or technique is demonstrated is not necessarily profitable. Project income during these phases is likely to be very low. It is only after these phases that profitability comes into play. The objective of these programmes is to encourage the development of the region's economy which, shows that profitability is actually desired in the post-project period.

SOLUTION



The possibilities within the new decrees offer some leeway in finding solutions. The most useful solution that fits within the judicial framework is that the parties either

1. Receive de-minimis support, or;
2. SMEs receive support up to a set limited amount or maximum percentage, or
3. Individually registered and approved parties receive support and are exempt from having to report post-project income after the conclusion of the project.

This means that SMEs whose state aid is approved on the basis of the group exemption regulation (amongst which ETC exemptions) do not have to report post-project income once the project period has finished.

A relatively limited solution would be that project income would not have to be deducted for projects with up to 1.000.000 Euros of eligible costs. This would seem possible within the CPR article 61.

The concrete action here is that within the situation as described above, limitations are set to on lowering the eligible costs in the case of post-project income.

The definition of concrete action has not yet been crystallised, this could be interpreted as a partner's action through which the possible exemption becomes feasible. The definition of 'concrete actions' reads: *project, contract, action or group of projects selected by the managing authorities....* The interpretation that an operation could be a sub-project on partner level is still possible when looking at the definition of beneficiary: *'means a public or private body responsible for initiating or initiating and implementing operations.'*³¹ In the existing definition of 'operations' it is clear that this definition refers to projects (article 2 No 1083/2006).

³¹ CPR, Artikel 2, (9-10)

The solution seems to be restricted to projects of up to 1,000,000 Euros. When eligible costs exceed this amount the programme could explore whether they choose to apply flat-rates per sector for project income (CPR article 61, subsection 3)

RISK



There is a risk that organisations may receive subsidies for activities where no extra support is needed. For instance when profitability would already be substantial in the short term. The programme secretariat may conclude from the application that the activities are potentially profitable in the short term and as such would not require subsidy support.

6.8 PROCUREMENT

BOTTLENECK



Current INTERREG B programmes state that all parties be it private or public are subject to regulations regarding public procurement (aanbestedingsplichtig) in INTERREG financed projects and are subject to the conditions set by the EU and VWEU regarding transparency and equality. The idea here is that all assignments for works, services and supplies, serve a cross-border purpose as intended in art. 49 and 56 of the Treaty on the Functioning of the European Union..

This approach obliges organisations, which are not normally bound to public procurement procedures regarding procurement or obligations taken on in projects that are publically funded, to conform to the procurement guidelines and procedures. On the one hand this results in long-term collaborations that cannot be used in order to benefit the project without being publically procured first, on the other hand this means that in many cases private parties are obliged follow slow and complex public procurement procedures.

SOLUTION



When sanctioning private parties to follow the public procurement guidelines, one forgoes the fact that article 8 of the van de public procurement directive 2004/18/EG (concerning the coordination of procedures when offering public procurements of works, deliveries and services) states that::

This Directive shall apply to the awarding of:

(a) contracts which are subsidised directly by contracting authorities by more than 50 % and the estimated value of

which, net of VAT, is equal to or greater than EUR 6 242 000

- where those contracts involve civil engineering activities within the meaning of Annex I,

- where those contracts involve building work for hospitals, facilities intended for sports, recreation and leisure,

school and university buildings and buildings used for administrative purposes;

(b) service contracts which are subsidised directly by contracting authorities by more than 50 % and the estimated value

of which, net of VAT, is equal to or greater than EUR 249 000 and which are connected with a works contract within the meaning of point (a).

The principles for government assignments are referenced in 2004/18/EG under article 2. Whilst article 8 is referenced when the entire directive, including article 2 does not apply.

The content of this article has been incorporated in the concept text for the new procurement directive of 12 July 2013 (article 12) of which the amounts have been amended. This starting premise also comes to the fore in article 2.8 of the Dutch procurement law.

This argumentation is currently being tested by the legal unit of the Ministry for Infrastructure and the Environment.

A risk posed by this interpretation is that when not following public procurement procedures by private parties that principles such as Value for Money or finding the most economically sound supplier/solution are not upheld when sealing contracts. This risk is however only a moderate one as co-financing ensures the entrepreneur benefits from using their own means as efficiently as possible.

Other European funded programmes such as LIFE+ already distinguish between public and private parties. The LIFE+ programme requires private parties to invite multiple quotes if the amount exceeds €125,000 in order to uphold the before mentioned principles.

6.9 INTELLECTUAL PROPERTY

BOTTLENECK



The principle that all results of INTERREG projects should be publically and freely available and actively have to be distributed and communicated about, even after a project has finished prevents many public parties from participating in these projects, or at least makes them more reluctant to participate when it comes to industrial or intellectual concept, product or process developments.

The before mentioned principle is derived from the Financial Regulation (966/2012, article 125, sub 1), which explains transparent and equal treatment of applicable subsidies. This stems from subsection 4 of the same article that states that subsidies may not be used for activities that generate profits.

in the current NSR programme it is impossible to obtain the rights on products resulting from financed projects (NSR Subsidy contract C5) , whilst the NWE programme only offers the possibility to register these types of rights as a partnership. Many entrepreneurs as well as other parties are deterred by these principles.

SOLUTION



A distinction should be made between publishing and making project results available and the ownership thereof. The property rights of concepts, products and processes developed in INTERREG projects may be registered on the level of individual partners as well as on a partnership level.

When this concerns a profitable activity one should receive a state aid exemption, potentially on the basis of the de-minimis regulation or the General Group Exemption.

Agreements as to what level of property rights can be registered (be it individual partner or partnership) should be addressed in the partnership agreement of the project in question. That same agreement should include agreements regarding the intellectual property rights as well as other rights that were already in possession of a participating partner or that has/have been brought in during the project.

In the case of the INTERREG IVB Central Europe programme and in line with the principles applied in the 7^e Framework Programme, it is possible to claim rights on an individual partner or partnership level depending on whether it entails knowledge development by a partner or by multiple partners in the partnership.

6.10 EXTRA DEMANDS ON SME PARTICIPATION

BOTTLENECK



Additional solvency requirements apply for private parties when participating in a subsidy application. This may be contradictory to the desire to create a level playing field for SME participation.

The NWE programme expects private parties to demonstrate their solvency during the negotiation stage when the project has received approval. The programme has the discretion to decide as to when a bank guarantee would be appropriate. Moreover the programme states that demonstrating solvency by bank guarantee is preferred.

The NSR programme already places demands on solvency during the application. The programme does possess the discretion to determine whether a bank guarantee is required.

SOLUTION



SMEs will have to demonstrate their solvency in either the application, or approval stage, so that the programme is not exposed to the risk of being unable to reclaim unfairly obtained subsidies. We propose to hold onto the requirement to demonstrate solvability at least until a situation arises where the following has happened:

- The project has been approved;
- An advance is available and has been applied for.

The freedom for programmes to ask for proof of solvency should also be restricted. Proof of solvency should only be allowed to be requested in cases when criteria are met which evaluate that the risk posed to the programme, or member state and exceeds than the costs asked of the party. When the demands are transparent then no bank guarantee should be required to prove solvency. For example criteria effecting this decision could be:

- The amount of the advance issued;
- A solvency figure justified by the organisation

RISK



There is a chance that a subsidy is granted that cannot be repaid due to bankruptcy of the beneficiary. When funds already received subsequently prove ineligible repayment is mandatory. This risk only becomes significant when amounts have been paid to the beneficiary without there being eligible activities and costs, in the case of advances for example. When subsidies are being paid on the basis of actual costs the eligibility is already evaluated. Even in the case of bankruptcy the subsidy payments are still justified. The only risk remaining is that when advances have been paid and no eligible costs have been incurred at the moment of bankruptcy. Demonstration of solvency may still be requested to further reduce the risk but then on the basis of transparent demands and on the basis of only using

bank guarantees as an ultimate measure.

6.11 COST DOCUMENTATION

BOTTLENECK



The micro-enterprise runs its administration in line with a standard accepted by an accountant. In addition to this administration specific European regulations apply for running project administration. From the perspective of the micro-enterprise, it is important that the project administration is as close as possible to the SME's regular administration and business processes in order to limit the administrative burden. In the current programme micro-enterprises are obliged, just like public beneficiaries, to incorporate wage payment slips in their project administration. Controllers often also request that labour agreements are incorporated in the project administration. Beneficiaries are obliged, by the NWE programme, to forward copies of all invoices, time registration sheets and payment slips to the main partner.

The increased security offered by the aforementioned in terms of eligibility is rather restricted and does not balance out with the administrative burden it presents to an organisation. Apart from that, the forwarding of invoices and so forth is in conflict with the First Level Control system.

SOLUTION



De Delegated Acts (Fiche 11, section 2.4) offer freedom in determining the obligations regarding reporting:

'Expenditure reimbursed on real costs shall be based on legally binding contracts and supported by written agreements, receipted invoices, bills, requests for reimbursement or other accounting documents of equivalent probative value, meaning any document submitted by the body responsible for implementation of the operation to prove that the book entry gives a true and fair view of the transactions actually made, in accordance with standard accounting practice.'

The obligation to document each individual salary payment slip in the project administration would be abolished for both public and private parties. The payment of salaries is assumed when payment slips can be provided and the First Level Controller has approved the payment procedure. Proof of payment on the basis of a batch payment would suffice if payment is in doubt. A further reaching solution would be that wage payment overviews that have been approved could serve as documents of proof. Organisations would then no longer have to provide monthly payslips for each individual employee. The First Level Controller would account for the accuracy of the actual costs reflected in these wage cost overviews once and would subsequently trust the validity of them throughout the project.

The obligation to provide the main partner with copies would be abolished.

The programmes would incorporate in their control instructions that labour agreements do not have to be provided as long as the payslip includes the required information that attests to the employment.

RISK

There is only a marginal risk that due to fraud or error salary costs are claimed that have not yet been paid at the time of the claim.

6.12 EXPENSE TYPES & BUDGETORY REGULATIONS

BOTTLENECK



Beneficiaries are expected to arrange their budgets and claims in such a way that they correlate with an expansive set of expense types. Each expense type has its own specific rules for eligibility. This expansive set of expense types and different sets of rules makes it more demanding on the financial administration and is therefore more prone to mistakes as well as being a more time-consuming affair.

Some of the expense types have rules that do not lead to an improved selection, better monitoring of projects or a more efficient spend of public means. Examples include:

- NSR – only in exceptional cases can a project consist of more than 50% out of staff costs.
- NSR – an employee of a beneficiary cannot be hired at a later stage as an external expert.
- NWE - external experts (apart from first line controllers) can only be hired for more than € 800 a day after being approved by the programme secretariat.

SOLUTION



The five expense types from the Delegated Acts fiche, section 1.1 (and CPR) are being adopted without further specifications.

No additional budgetary rules are being set.

RISK



The programme staff have fewer clear rules to determine the efficient use of public funds. Limiting the budgetary regulations therefore places greater demand on the knowledge and sensitivity of the programme staff.

6.13 OVERHEAD CALCULATIONS

BOTTLENECK



Calculating overheads can only be done in compliance with an expansive set of rules. This makes calculating overheads both time consuming as well as prone to mistakes. When mistakes are uncovered it could lead to subsidy cuts, in turn leading to frustrations with the programme. Insecurities with regards to the eligibility of overhead costs equally leads to micro-enterprises deciding not to declare overheads or deciding not to participate in the programme at all.

SOLUTION



The new directives allow for a fixed 15% of staff costs as an overhead (CPR, article 68(1)). The Delegated Act Fiche 25 has adopted this percentage of up to 15%. This overhead does not have to be administratively supported by figures. We propose the maximum percentage of 15% should be used for the NWE and NSR programmes. This fixed percentage is equally beneficial for public beneficiaries and simultaneously eases the burden on the programme staff.

DISADVANTAGE



Some beneficiaries prefer to claim on the basis of their actual overhead costs. If one decides to use the fixed percentage in the programme it could lead to organisations that have disproportionately large overheads not being interested in participating in the programme.

Another disadvantage could be if the percentage is related to the total project cost and the overhead costs do not necessarily increase exponentially with the overall project cost.

6.14 CUMBERSOME REPORTING

BOTTLENECK



After successfully completing the application phase the micro-enterprise will have to start to report on the progress of the project. This starts from the implementation phase onwards. A set of reporting sections are to be used by the beneficiary, these require large amounts of information to be submitted.

The drafting and checking of these reports requires a serious amount of time of the partner, head partner controllers and programme staff. As these sections are used individually side by side there is an increased risk of components being omitted. It is also not always clear to whom, or in what way, the requested information adds value. The many indicators in the NSR programme or the financial prognoses in the NWE programmes are good examples of this. It does happen that report templates request the same basic information such as the project period, contact details or the project code.

SOLUTION



We start from the point of view that there should only be one report and that information may only be requested once and that this information be essential for the eligibility of costs or management of the project by the programme.

1. By merging reporting templates we minimise the risk of the same information being asked for more than once. Furthermore, digital reporting will also result in pre-filled templates. We would only separate the report into sections if and when this would benefit the way of reporting. This would result in the following report sections:
 - a. Substance report, including indicators
 - b. Financial report, including control check list and control certificate
 - c. A list with individual cost types, for this list no format exists just an enumeration of elementary information components.

2. We also assume that partners are capable of independently managing their own project. The programme would therefore only request financial information to determine the eligibility of costs. Sub-partner expenditure would not be monitored on a programme level but would be the responsibility of the partner. We would strike the following components from the NSR:
 - a. Sub-partner specifications
 - b. Questions regarding the nature of the report and if this is possibly a payment request, this is either being assumed or filled out.
 - c. Project changes; these are part of the substance report.

We remove the 6-month prognosis on costs from the NWE financial report. Both programmes will limit the number of indicators to the minimum as set by the Commission. Projects will only fill out indicators that are relevant to their specific project. The reduced set of indicators will be chosen in a way that they provide a detailed insight as to the progress of a project.

Sufficient attention can be given to filling out the indicator reports by only reporting on the key performance indicators resulting in a realistic overview.

RISK



It may seem that projects achieve less as the organisations now only report on fewer indicators. Stakeholders will have to accept that reporting fewer results does not necessarily mean that fewer results have been achieved. It is therefore important to incorporate the right indicators in the project application.

Removing sub-partner specifications in the NSR is only possible when one simultaneously decides that the programme no longer monitors the budgets on a sub-partner level.

6.15 PRE-FINANCING

BOTTLENECK



It is a problem to a sizable number of private parties that EFRO subsidies are only provided on the basis of actual costs and retrospectively subsidised. This means effectively that a long period, roughly six months up to a year passes from the moment the money was spent to the moment it is reimbursed based on bi-annual reporting. Easily a year and a half passes between drafting a project proposal and receiving initial payment.

This system results in cash-flow and solvency issues for the participating parties and causes difficult and sometimes insurmountable problems financially. These reasons lead to some private parties being deterred from participating in the INTERREG projects whilst others might have to resign mid-project.

SOLUTION



Programmes could issue bi-annual advances to micro-enterprises participating as a partner in approved projects. These advances could be a fixed percentage of the anticipated costs over the period in question, limited to a certain amount. The parties receiving these advances could, when they submit their (interim) reports, re-apply for an advance upon acceptance of their accounting for the previous advance.

There are already programmes in the current programme period that work with advances. An example of this system is found in the INTERREG IVA Euregio Meuse-Rhine programme. The Dutch ESF programme for the 2014-2020 programme period also offers the possibility of receiving advances.

The advances could be issued by the relevant Management Authority for the INTERREG B programme from pre-financing ERDF resources given to the Management Authority by the European Commission (CPR article 134).

It is possible on the basis of CPR article 131.4 that advances paid to beneficiaries are already included in the annual subsidy application that the Management Authority is obliged to supply with the European Commission. Subsection a of the same article states that a guarantee must be provided by the member state in which the partner who receives the pre-financing is based. This member state already bears responsibility for all INTERREG payments to partners residing in this member state. Subsection b. limits the maximum advance given to a partner to 40% of the total subsidy awarded.

RISK



The main risk associated with this solution is that advances are not accounted for and subsequently cannot be reimbursed, for example in the case when a beneficiary goes bankrupt. In these cases under extreme circumstances a member state can be held accountable on the basis of ETC decree article 25 subsection 2, and this happens already when current ERDF payments (i.e. on the basis of real costs) must be corrected.

6.16 INSECURITY REGARDING PROCESSES & REGULATIONS

BOTTLENECK



Entrepreneurs just like every other party have to put effort into receiving financing. Frustration often arises when there is uncertainty with regards to the processes and the application of rules. Uncertainty regarding the payment due date, or the eligibility of costs may even threaten the existence of smaller organisation.

SOLUTION



Interpretation of regulations and processes is always required when special situations or developments occur in a programme. Complete security and insight can never be offered beforehand. However, programmes are able to assist micro-enterprises by communicating clearly with regards to application, changes and reporting processes, for instance on the website amongst other communication tools and by doing so offer added security. In their communication programme secretariats would equally incorporate their own processing times, for example, the programme secretariat will seek to respond to your report within two weeks. The programme secretariat would commit to that and when rules change it will attempt to limit these changes and keep retrospective effects to a minimum. Should changes occur that have retroactive effects then the programme will assist projects to incorporate that specific change on an individual level.

RISK



The micro-enterprise is more aware of its situation by making processes transparent and adopting lead times. However, when the programme does not meet these lead times, or the deviations from the process take place without proper justification, it may lead to the beneficiaries adopting a critical view of the programme.. If the processes are incorrectly formulated it is possible that these processes are considered factual when they were merely intended to be a guideline.

In the case of changes with severe retrospective effects a great deal of support may be required of the programme.

6.17 CONTROL REGIME

BOTTLENECK



The strong emphasis on control and the associated time, administrative burden and costs that are part of first level controls are seen by many private parties as a problem and may in some cases even be a reason for not participating in INTERREG projects.

This is particularly relevant with regards to the bi-annual substance and financial reports which form the basis from which the awarded ERDF subsidy can be claimed. Presently, each claim requires an audit by a first level controller.

SOLUTION



Changing the reporting regime so that first level controller audits occur annually rather than bi-annually would substantially lower both the costs and the administrative burden on the organisation. It would have to be possible to be granted provisional EFRO funds on a bi-annual basis without validated and verified reports by a first line controller. The eligibility of these costs would then be evaluated, and possibly be amended or approved by the first level controller in the annual claim.

RISK



The biggest threat to the aforementioned solution is that ineligible costs are claimed in the as yet not audited reports and funds are made available to the beneficiary on the basis of this claim which are subsequently deemed ineligible by the FLC and consequently repayment is required. In some instances, these costs cannot be corrected in the claim that the first level controller checks only six months later. A reasons could be possible bankruptcy, which in the most extreme cases may lead, to the member state being held accountable on the basis of ETC decree 25 subsection 2 just like it is now with corrections on ERDF payments

This threat is closely connected to that of issuing advancements on the basis of achieved cost levels in documentation. As these costs are not independently audited, higher costs might be claimed than actually incurred in order to receive further advances. When this is the case it could be determined in the annual audit by the first line controller.

7 CONCLUSION

In this report we have shown that concrete solutions are readily available for most of the bottlenecks. Removing these obstacles would create a level playing field for SMEs to participate in INTERREG B projects. Another positive effect is that these solutions for micro-enterprises may have a wider effect and simplify participation for other types of beneficiaries. The final result is that these programmes can incorporate projects that because of their composition are able to contribute in the best possible way to the objectives of the programme. At the same time, by reducing administrative burden, a more efficient use of European means would be achieved.

ACKNOWLEDGMENT

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Respondents

- | | |
|----------------------|--|
| ▪ Alison Partridge | Aurora European Services (UK) |
| ▪ Arend Roos | Economic Impuls Zeeland (NL) |
| ▪ Arjen Bastiaanse | Province of Zeeland (NL) |
| ▪ Christel Rijnen | Ministry of Education, Culture & Science (NL) |
| ▪ Dan Veen | TNO (NL) |
| ▪ Detlef Golletz | Institute for Sustainability (UK) |
| ▪ Edwin Koning | Ministry of Infrastructure and Environment (NL) |
| ▪ Frank Everaarts | Ministry of Infrastructure and Environment (NL) |
| ▪ Hans Flipsen | EM Consult (NL) |
| ▪ H  l  ne Marlot | Region Basse-Normandie (F) |
| ▪ Herma Harmelink | Royal Haskoning DHV (NL) |
| ▪ Karolina Bachman | INTERACT (DK) |
| ▪ Leo Adriaanse | Rijkswaterstaat (NL) |
| ▪ Letty Huijbers | Central Government Audit Service (NL) |
| ▪ Lieve Hoflack | Bio Based Europe Pilot Plant (B) |
| ▪ Martijn den Burger | Central Government Audit Service (NL) |
| ▪ Nelie Houtekamer | Houtekamer & van Kleef (NL) |
| ▪ Sanders Donders | Stimulus Programme management (objective 2 programme) (NL) |