

Special report

## ERDF support for SME competitiveness

Design weaknesses decrease effectiveness of funding



EUROPEAN  
COURT  
OF AUDITORS

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## Executive summary

I Small and medium-sized enterprises (SMEs) are a mainstay of the EU economy and EU policy aims to increase their competitiveness. The European Regional and Development Fund (ERDF) contributes to this objective. Improving SME competitiveness was the second biggest ERDF thematic objective for the 2014-2020 programme period, with a budget of around €40.3 billion.

II We examined whether the ERDF contributed to improving SME competitiveness for the 2014-2020 period, by assessing how SME needs' were addressed by ERDF programmes, programme calls and selection procedures ensuring that beneficiary SMEs increased their competitiveness. We selected ERDF programmes addressing thematic objective 3, "Improving SME competitiveness", in Germany, Italy, Poland and Portugal. In total, our sample comprised 24 projects.

III During the 2014-2020 period, Member States were not required to align the measures on SME competitiveness in the ERDF programmes with national/regional strategies.

IV By the end of 2019, the ERDF had planned to directly support 0.8 million SMEs out of the almost 25 million in total across the EU (3.3 %). Our audit showed that Member States took varying funding approaches through their national or regional ERDF programmes. Several Member States aimed at funding a large number of SMEs rather than targeting the key factors limiting SME competitiveness. This in turn often resulted in small-scale projects that lacked the critical funding mass required to make a real difference in SME competitiveness.

V Overall, for the four Member States covered by this audit, we conclude that the 2014-2020 ERDF support stimulated the SMEs' willingness to invest. However, its effectiveness in increasing their competitiveness was hampered by shortcomings in the funding approach taken by the Member States' managing authorities. In particular, we found that:

- o In most ERDF programmes, calls for project submission failed to tackle all relevant obstacles to competitiveness encountered by beneficiary SMEs. Instead, they simply co-financed specific productive investments such as the purchase of new machinery. As a consequence, in many cases, ERDF projects did not result in demonstrable improvements to SME competitive situation as regards their

operations and market position, their internationalisation, their financial situation or their capacity to innovate.

- ERDF project funding mostly took place through non-competitive calls and selection procedures, in which every application that met the minimum selection criteria received financing.
- ERDF financing took the form of grants rather than financial instruments, i.e. repayable forms of support such as loans, guarantees or equity. However, none of the audited SMEs cited difficulties in accessing financing as a key factor limiting competitiveness. The use of repayable forms of support would have enabled the fund to support more businesses.

**VI** While some beneficiary SMEs in our sample managed to improve their competitiveness due to the ERDF-funded project, most did not. Several would have made the same investment even without EU funding. In some cases, ERDF funding negatively affected the economic prospects of non-beneficiary SMEs competing in the same markets as the beneficiary SMEs. This reduced the overall effect of the EU support.

**VII** We set our findings in the context of the launch of the next generation of ERDF programmes for the 2021-2027 period, and we recommend that the Commission invites and supports Member States to:

- review the design of the ERDF calls;
- review ERDF selection procedures for grant awards; and
- prioritise the use of repayable aid for SME competitiveness.

This should help the Commission and Member States make better use of ERDF funding to increase SME competitiveness during the 2021-2027 programme period.

# Introduction

## Small and medium-sized enterprises in the EU

**01** In 2018, there were nearly 25 million enterprises in the EU-28 Member States. Almost all (99.8 %) were classified as SMEs (small and medium-sized enterprises) and 92.9 % had fewer than 10 employees. SMEs operate in nearly all economic sectors and in highly diverse local and national environments. They can be innovative start-up or traditional enterprises. They also can have diverse ownership structures (see [Box 1](#)).

### Box 1

#### What is an SME?

The Commission defines small and medium-sized enterprises (SMEs) as enterprises with fewer than 250 employees and either an annual turnover of no more than €50 million or an annual balance sheet of no more than €43 million. The definition also distinguishes between three different categories: micro-enterprises, small enterprises and medium-sized enterprises:

#### Definition of SMEs

| Category     | Employees | Turnover<br>(million euros) | or | Balance sheet total<br>(million euros) |
|--------------|-----------|-----------------------------|----|--|
| Micro        | < 10      | ≤ 2                         |    | ≤ 2                                    |
| Small        | < 50      | ≤ 10                        |    | ≤ 10                                   |
| Medium-sized | < 250     | ≤ 50                        |    | ≤ 43                                   |

*Source:* Commission Recommendation of 6 May 2003 concerning the definition of micro, small, and medium-sized enterprises (2003/361/EC).

**02** SMEs are an important source of jobs and economic growth, employing 63 % of the EU workforce and generating 52 % of added value in the EU (see [Table 1](#)). In 2018, numbers varied between Member States, with Italy having the largest number of SMEs (3.7 million) and Malta the smallest (31 700).

**Table 1 – Number of enterprises, employees and added value (2018, EU-28<sup>(1)</sup>)**

| Size              | Number of Enterprises |             | Added value <sup>(2)</sup> |             | Employees     |             |
|-------------------|-----------------------|-------------|----------------------------|-------------|---------------|-------------|
|                   | Million               | %           | Million euros              | %           | Million       | %           |
| Micro (< 10)      | 23.13                 | 92.9        | 1 484 106                  | 18.9        | 41.54         | 27.8        |
| Small (< 50)      | 1.49                  | 6.0         | 1 303 380                  | 16.6        | 29.54         | 19.7        |
| Medium (< 250)    | 0.23                  | 0.9         | 1 313 263                  | 16.7        | 23.80         | 15.9        |
| <b>Total SMEs</b> | <b>24.85</b>          | <b>99.8</b> | <b>4 100 750</b>           | <b>52.2</b> | <b>94.87</b>  | <b>63.4</b> |
| Large (> 250)     | 0.05                  | 0.2         | 3 753 154                  | 47.8        | 54.76         | 36.6        |
| <b>Total</b>      | <b>24.90</b>          | <b>100</b>  | <b>7 853 904</b>           | <b>100</b>  | <b>149.63</b> | <b>100</b>  |

*Note:* <sup>(1)</sup> EU 28 calculated as EU27 plus UK; <sup>(2)</sup> Value added is the gross income from operating activities after adjusting for operating subsidies and indirect taxes.

*Source:* ECA, based on Eurostat statistics classifying enterprises by size on number of employees.

## EU policy on SMEs focus on competitiveness

**03** In line with the principle of subsidiarity<sup>1</sup>, the Member States and the Commission share responsibility for support to SMEs. This EU policy is based on Article 173 of the TFEU<sup>2</sup>, aiming at enhancing SME competitiveness through initiatives to improve the business environment and increase the productivity of an industrial base with the potential to compete globally, while ensuring job creation and resource efficiency. Member States have primary responsibility for implementing SME-related policies. The Commission supports SMEs through regulatory initiatives, EU funding, awareness raising and the exchange of good practices.

<sup>1</sup> Article 5 of TEU.

<sup>2</sup> Article 173 of TFEU (“The Union and the Member States shall ensure that the conditions necessary for the competitiveness of the Union's industry exist”).

**04** The main strategic framework for the EU's policy in supporting SMEs for the 2014-2020 period is the Small Business Act for Europe (SBA)<sup>3</sup>, which aims to improve the business environment in which SMEs operate. The framework was extended via:

- o the start-up and scale-up initiative<sup>4</sup> in 2016; and
- o the SME strategy<sup>5</sup> in 2020 which increased the focus on helping SMEs with the green and digital transition.

**05** Finally, SMEs are also considered in more overarching policies such as the EU's industrial policy<sup>6</sup>, the Europe 2020 strategy<sup>7</sup> and, more recently, the European Green Deal<sup>8</sup>.

## SMEs are losing competitiveness compared to large enterprises

**06** The Commission describes competitiveness of an enterprise as the capacity to gain an advantage in the market by reducing its costs, increasing productivity, improving, differentiating and innovating in terms of products/services quality, and improving marketing and branding<sup>9</sup>.

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<sup>3</sup> "Think Small First", A "Small Business Act" for Europe, COM(2008) 394 final of 25.6.2008 and its revision COM(2011) 78 final of 23.2.2011.

<sup>4</sup> "Europe's next leaders: the Start-up and Scale-up Initiative", COM(2016) 733 final.

<sup>5</sup> "An SME Strategy for a sustainable and digital Europe", COM(2020) 103 final.

<sup>6</sup> "An Integrated Industrial Policy for the Globalisation Era, Putting Competitiveness and Sustainability at Centre Stage", COM(2010) 614 final of 28.10.2010, its updated version "A New Industrial Strategy for Europe", COM(2020) 102 final of 10.3.2020 and "Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery", COM(2021) 350 final of 5.5.2021.

<sup>7</sup> Europe 2020, A European strategy for smart, sustainable and inclusive growth, COM(2010) 2020 of 3.3.2010.

<sup>8</sup> The European Green Deal, COM(2019) 640 final of 11.12.2019.

<sup>9</sup> Commission, Draft thematic guidance fiche for desk officers on SME competitiveness, version 2 of 13.3.2014.

**07** The main indicator to capture a company's competitiveness is its productivity. In addition, there are other ways to assess competitiveness<sup>10</sup>:

- o past or current competitiveness can be measured through enterprise profitability, market share including export, survival and growth;
- o other indicators reflect the dynamic nature of the markets and capture the potential for future competitiveness, mainly related to the capacity of the enterprise in the area of research, development and innovation (RD&I).

**08** For the EU as a whole from 2011 to 2018, Eurostat statistics<sup>11</sup> show that competitiveness of SMEs (i.e. those with less than 250 employees) fell significantly compared to large enterprises. Three key indicators illustrate this trend:

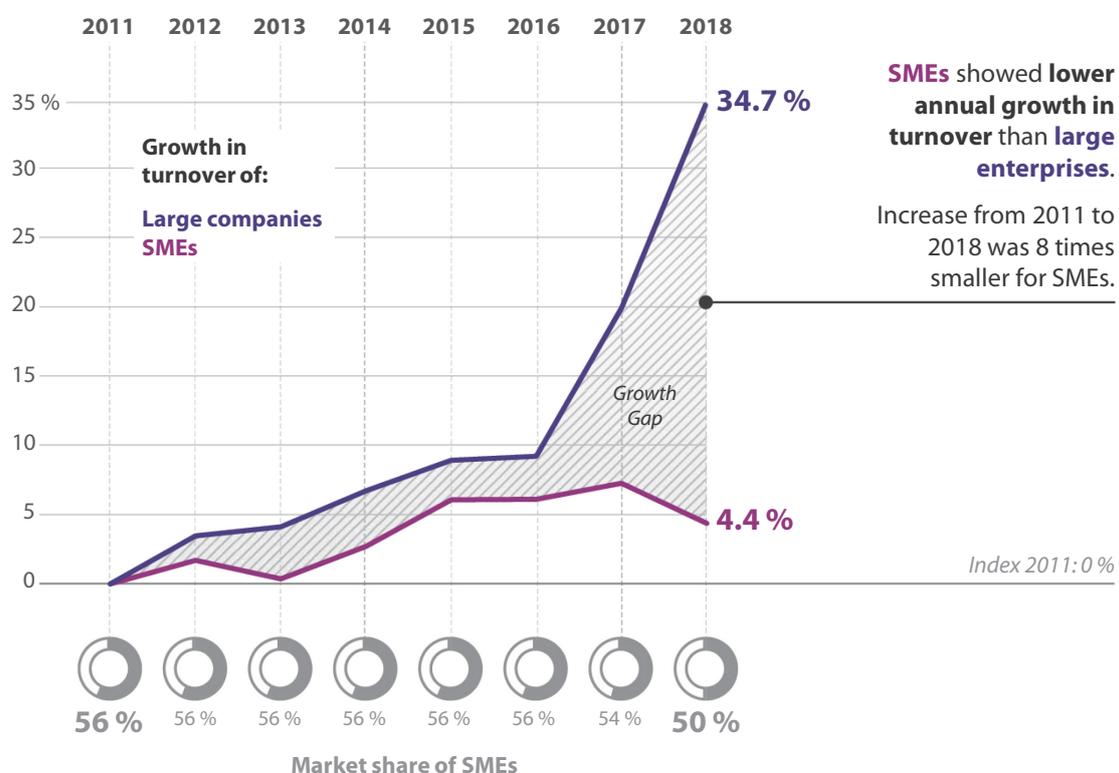
- o increase in turnover was eight times smaller for SMEs than for large enterprises, leading to a considerable loss in SMEs' market share (see *Figure 1*);

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<sup>10</sup> See, for example, the Commission's tasked report "[Background documents for the European Semester – Measuring Competitiveness](#)", Ref. Ares (2018)1159686, 1.3.2018.

<sup>11</sup> Eurostat statistics are only available for different sizes of enterprises based on the number of employees.

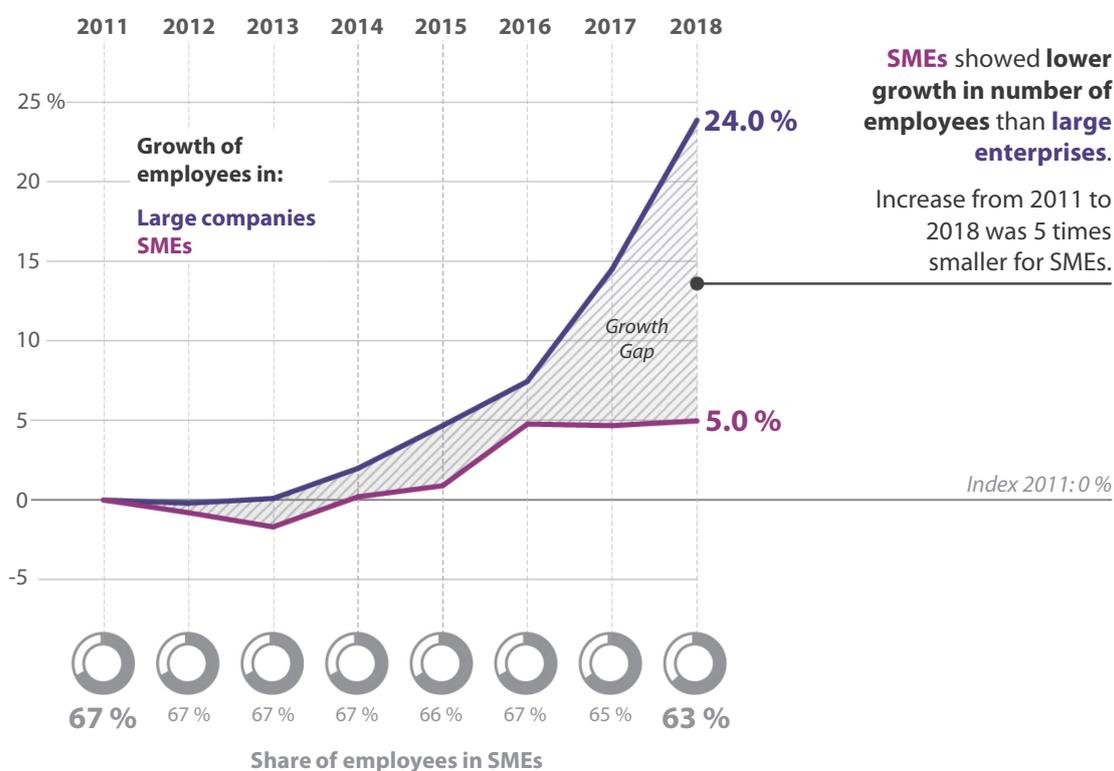
**Figure 1 – Growth in turnover for SMEs and large enterprises (2011-2018)**



Source: ECA based on Eurostat business statistics classifying enterprises by size on number of employees and total business economy, except financial and insurance activities.

- o almost all new jobs were created by large enterprises, so the SMEs' share of overall employment fell from 67 % to 63 % (see [Figure 2](#));

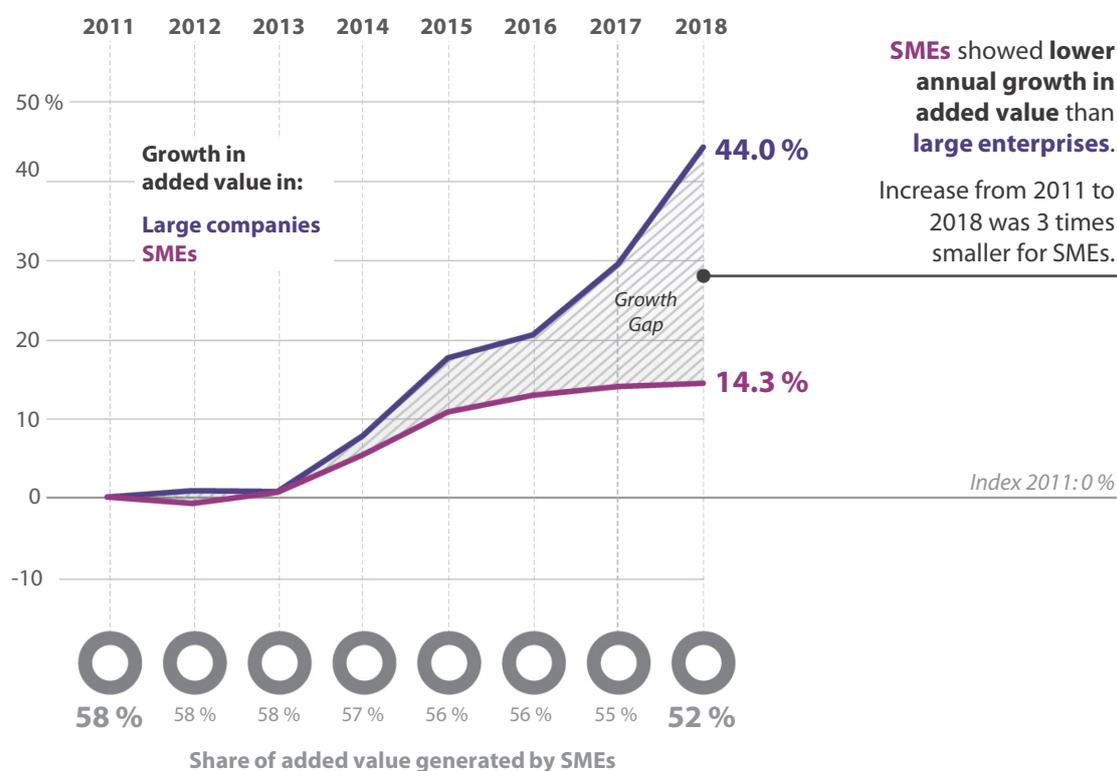
**Figure 2 – Growth in employees for SMEs and large enterprises (2011-2018)**



Source: ECA, based on Eurostat business statistics classifying enterprises by size on number of employees and total business economy, except financial and insurance activities.

- the value added, which reflects income from operations, rose by 11 % in large enterprises, but was stagnant for SMEs. As a result, SMEs accounted for 52 % of added value in 2018 as compared to 58 % in 2011 (see [Figure 3](#)).

**Figure 3 – Growth in added value for SMEs and large enterprises (2011-2018)**



Source: ECA, based on Eurostat business statistics classifying enterprises by size on number of employees and total business economy, except financial and insurance activities.

**09** Moreover, few European SMEs did business internationally in 2018, with 2.7 % exporting outside the EU and 4.9 % exporting to other Member States. In comparison, 59 % of large enterprises exported outside the EU and 58 % to other Member States<sup>12</sup>.

## EU funding for SMEs

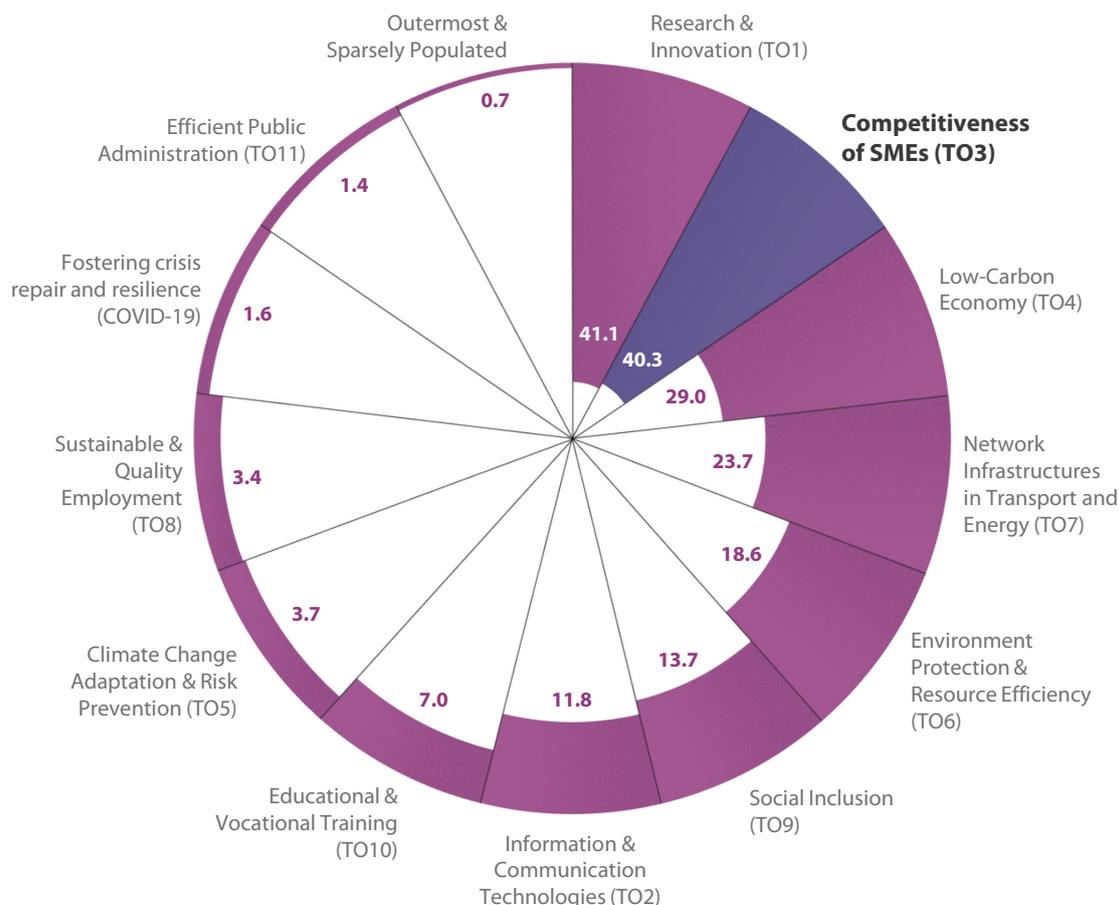
The ERDF is one of the largest EU funding sources for SMEs, with a specific thematic objective on competitiveness

**10** The European Structural and Investment Funds (ESIF), and in particular the European Regional and Development Fund (ERDF), are among the largest EU programmes providing financial support for SMEs. During the 2014-2020 period, the ERDF-funded programmes allocated €54.4 billion to SME-related measures, through specific priorities called “thematic objectives” (or TOs).

<sup>12</sup> Based on Eurostat data on trade activity classifying enterprises by size class.

**11** Most ERDF TOs for 2014-2020 may contribute directly or indirectly to increasing SME competitiveness. TO3, “Improving the competitiveness of SMEs”, is the second biggest TO in terms of ERDF funds allocated with €40.3 billion out of a total of €201.5 billion from the EU budget as at June 2021 (see [Figure 4](#)).

**Figure 4 – 2014-2020 period: ERDF planned funding by thematic objective (in billion euros)**



Source: ECA, adapted from the ESIF Open Data Portal.

**12** *Annex I* summarises the different types of SME funding measures under ERDF by intervention code, in relation to several thematic objectives. The TO3 primarily supports the development of the competitiveness potential of SME, by addressing the following investment priorities:

- promoting entrepreneurship;
- developing new business models, in particular with regard to internationalisation;
- supporting advanced capacities for product and service development; and

- o supporting SMEs' capacity to grow in regional, national and international markets and engage in innovation processes.

**13** Overall, three quarters of ERDF funding for SMEs (75 %) provides them with direct support.

**14** The EIB group and the following EU programmes also provided financing: COSME (SME competitiveness)<sup>13</sup>, Horizon 2020 (research and innovation)<sup>14</sup> and Creative Europe (culture)<sup>15</sup>.

### **Additional EU funds released for SMEs in response to the COVID-19 pandemic**

**15** In 2020, the EU adopted the CRII/CRII+ regulations<sup>16</sup> so that the remaining 2014-2020 funds could be used more flexibly to mitigate the economic impact of the COVID-19 pandemic. The initiatives also introduced flexible arrangements allowing Member States to spend EU funds more easily. The most relevant changes in this regard, by October 2021, were:

- o the increase in ERDF funds to generic productive investments with an additional €5.8 billion allocated, i.e. 38 % more than the planned amounts in 2019;
- o the transfer of €1.6 billion (roughly 5 %) from the ERDF funds to the more developed regions<sup>17</sup>; and

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<sup>13</sup> Regulation No 1287/2013 establishing a Programme for the Competitiveness of Enterprises and SMEs (OJ L 347, 20.12.2013, pp. 33-49).

<sup>14</sup> Regulation No 1291/2013 establishing Horizon 2020 – the Framework Programme for Research and Innovation (OJ L 347, 20.12.2013, pp. 104-173).

<sup>15</sup> Regulation No 1295/2013 establishing the Creative Europe Programme (OJ L 347, 20.12.2013, pp. 221-237).

<sup>16</sup> Regulation 2020/460 amending regulations 1301/2013 and 1303/2013, 30.3.2020 (Coronavirus Response Investment Initiative – CRII) and Regulation 2020/558 amending regulations 1301/2013 and 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the ESI funds in response to the COVID-19 outbreak, 23.4.2020 (Coronavirus Response Investment Initiative Plus – CRII+).

<sup>17</sup> Commission's "Coronavirus dashboard: EU cohesion Policy response to the crisis".

- o the focus on supporting working capital and helping SMEs that entered into difficulties.

**16** In December 2020, the Council and the European Parliament adopted the Commission’s proposal for the Next Generation EU (NGEU) initiative<sup>18</sup>, incorporating the REACT-EU facility. This facility aims to bridge a potential financing gap during 2021 and 2022 pending adoption of the 2021-2027 programmes. In October 2021, €6.6 billion of ERDF funds (or 19 % of the total REACT-EU budget<sup>19</sup>) were allocated for SME competitiveness and their business development. We are currently carrying out an audit of the Commission’s immediate response to the COVID-19 pandemic through the CRII, CRII+ and REACT-EU<sup>20</sup>.

**17** For the 2021-2027 programme period, the EU will continue to fund measures to strengthen SMEs’ competitiveness:

- o the ERDF<sup>21</sup> will support SME competitiveness within the same policy objective as RD&I, ICT and enhancement of skills;
- o the REACT-EU has allocated an additional €6.6 billion by October 2021 to the 2014-2020 ERDF funding for businesses at 2020 prices;
- o the Horizon Europe specifically earmarked €7.1 billion to SME innovation<sup>22</sup> and InvestEU will finance Business Investments for SMEs and mid-caps; and
- o the Recovery and Resilience Facility (RRF)<sup>23</sup> will also provide support to SMEs. This funding needs to be allocated until 2023 and spent by 2026.

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<sup>18</sup> Communication from the Commission, “Europe’s moment: Repair and Prepare for the Next Generation”, COM(2020) 456 final of 27.5.2020.

<sup>19</sup> Open Data Portal, REACT-EU dashboard.

<sup>20</sup> ECA; 2022+ work programme; December 2021.

<sup>21</sup> Regulation 2021/1058 of 24.6.2021 (OJ L 231, 30.6.2021, pp. 60-93).

<sup>22</sup> The Regulation 2021/695 establishing Horizon Europe, of 28 April 2021. 70 % of budget allocated to European Innovation Council.

<sup>23</sup> Regulation 2021/241 establishing the Recovery and Resilience Facility, 12 February 2021, (OJ L 57, 18.2.2021, pp. 17-75): “Smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well functioning internal market with strong SMEs”.

## Audit scope and approach

**18** Our audit examined the role of the ERDF in contributing to increasing SME competitiveness for the 2014-2020 programme period. In particular, we assessed whether:

- o Member State's managing authorities took similar approaches when designing the measures to increase SME competitiveness under their national and regional ERDF programmes in terms of targeting the TO3 funds and achieving the overall outreach target;
- o the ERDF support had helped to increase their competitiveness;
- o the ERDF programme's funding approach in the four Member States responded to needs of the SMEs; and
- o the ERDF programmes organised calls and selection procedures and disbursed funding such as to maximise the impact of the ERDF spending on SME competitiveness.

**19** Our audit focussed on the 2014-2020 period until the end of 2019:

- o We selected ERDF programmes addressing thematic objective 3 "Improving the competitiveness of SMEs", in Germany, Italy, Poland and Portugal. These were the four Member States with the largest absolute amount planned under TO3 (see [Figure 5](#)). In each Member State, we examined two 2014-2020 regional Operational Programmes (OPs). For these eight programmes, we assessed 16 calls and selection procedures corresponding to TO3. We also examined one national or thematic OP for each Member State to assess coordination and complementarity with the regional OPs, except for Germany, which has no national programme.
- o For each regional OP, we audited three projects, i.e. an overall sample of 24 projects (see [Annex II](#)). Of these, 22 directly supported SME investments and two supported entities providing assistance to SMEs.
- o Projects were selected with the aim of providing illustrative examples on the functioning of the call.

Our analysis excludes the emergency schemes set up in the wake of the COVID-19 pandemic (see paragraphs [15-16](#)) but includes a review of the amended programmes. We also excluded calls and beneficiaries in the areas of tourism, financial intermediaries and those measures where financial instruments were used as we already covered these topics in previous audits<sup>24</sup>.

**20** For the 22 projects where the ERDF had provided direct financial support to SMEs, we examined how the companies' overall competitiveness had evolved following the project completion. In particular, we assessed their operations and market position, internationalisation<sup>25</sup>, financial situation and capacity to innovate. Where possible, we also used databases to compare the performance of the beneficiary SMEs with similar enterprises (with a similar turnover and number of employees and competing in the same local and regional markets) (see paragraph [36](#)).

**21** We examined documents of the Commission's Directorate-General for Regional and Urban policy (DG REGIO) and Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW).

**22** We also examined relevant documents made available by the managing authorities, beneficiary SMEs and third parties in the four Member States, analysed reports, and assessed data related to the EU-funded projects.

**23** We interviewed and submitted questionnaires to the authorities in the selected Member States and to all 24 beneficiaries in our sample, and consulted relevant universities and SME research centres, business associations and other regional, national and EU level entities.

**24** Due to the health and sanitary restrictions in place, all interviews were virtual, including those held with the beneficiary SMEs, and it was not possible to carry out on-the-spot checks. We were therefore unable to fully assess the reality of the co-financed investments. Nor could we check the accuracy of the monitoring information reported to the Commission by national authorities implementing the ERDF programmes.

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<sup>24</sup> Special report 19/2016 "Implementing the EU budget through financial instruments" and SR 27/2021 "EU support to tourism: Need for a fresh strategic orientation and a better funding approach".

<sup>25</sup> See also [Special report 7/2022](#) "SME Internationalisation instruments".

**25** Given the economic relevance of SMEs for the EU economy and the amounts of ERDF support involved, our report has the potential to provide useful input to help the Commission and Member States make better use of ERDF funding to increase SME competitiveness for the 2021-2027 period.

## Observations

### Member States' use of the ERDF to improve SME competitiveness not sufficiently targeted

**26** We reviewed how Member States had designed their ERDF programmes and their funding approach to support measures aimed at increasing SME competitiveness. In particular, we examined whether Member States funding approaches targeted the areas with the biggest growth potential, the share of SMEs were planned to be reached during the 2014-2020 programme period and, on average, the funding each beneficiary SME could expect to receive.

#### As programmes were not required to target the areas with most growth potential, ERDF support risks to lack critical mass

**27** For the 2014-2020 programme period, the ERDF regulation did not require Member States to set out strategies on how to best support the competitiveness of their SMEs under TO3. In comparison, as regards the ERDF funding under the thematic objective “research and innovation” (TO1), Member States had to develop smart specialisation strategies (RIS3) as a basis to identify the areas with most potential of competitive advantage and to design their programmes accordingly.

**28** As regards TO3, the Commission only asked Member States to demonstrate that their ERDF measures were coherent with the strategic framework of the SBA<sup>26</sup> aiming to improve the SME's business environment. The Commission encouraged Member States to prioritise areas identified in their RIS3 when allocating funds for SME competitiveness. Nevertheless, as there was no legal requirement to align the ERDF measures with national/regional strategies on SME competitiveness, the Commission had only limited means to ensure that the ERDF funding targeted the areas with the highest growth potential.

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<sup>26</sup> *Ex ante* conditionality 3.1 “Specific actions have been carried out to underpin the promotion of entrepreneurship taking into account the Small Business Act”.

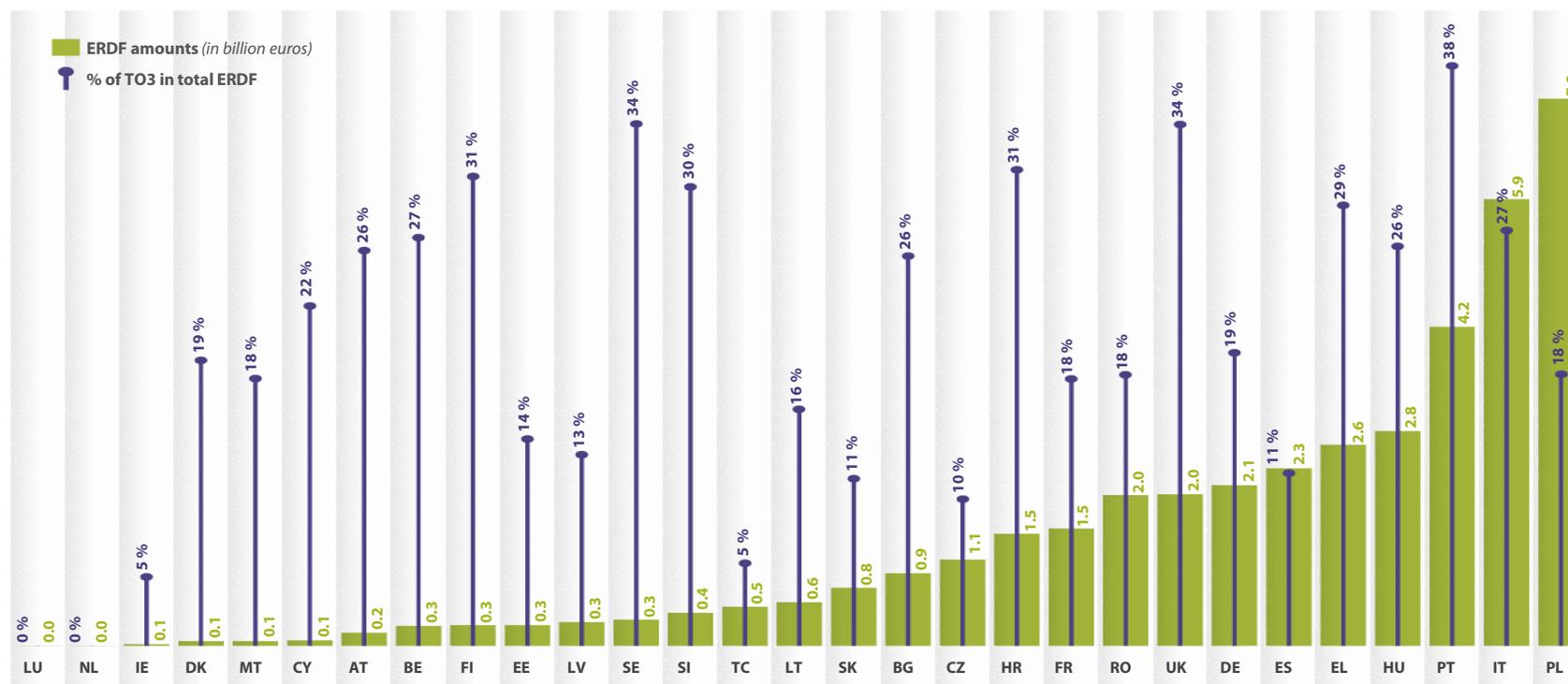
**29** For the 2021-2027 programme period, there are enabling conditions for SME funding under specific objectives 1.1 (RD&I) and 1.4 (skills development), but there is no enabling condition when ERDF programmes allocate funds to specific objective 1.3 (SME competitiveness<sup>27</sup>).

**30** For the 2014-2020 programme period, Member States took various approaches to allocating ERDF support to SME competitiveness under TO3. Luxembourg and the Netherlands did not allocate any ERDF resources to SME competitiveness, while others allocated a significant proportion of their ERDF funding. Poland, Italy and Portugal allocated the largest absolute amounts, while Portugal, the UK and Sweden allocated the highest proportion of ERDF funds (see [Figure 5](#)).

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<sup>27</sup> [Article 15 and related Annex IV on thematic enabling conditions of Regulation \(EU\) 2021/1060](#) laying down common provisions on the ERDF, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund (OJ L 231, 30.6.2021, pp. 159-706).

Figure 5 – 2014-2020: ERDF support under TO3 by Member State in 2020 (in billion euros – planned amounts up to 2023)



Note: TC = Territorial cooperation or Interreg OPs. A breakdown of ERDF support by Member State for the TC OPs is not available, hence a common denomination "TC".

Source: ECA, adapted from the ESIF Open Data Portal.

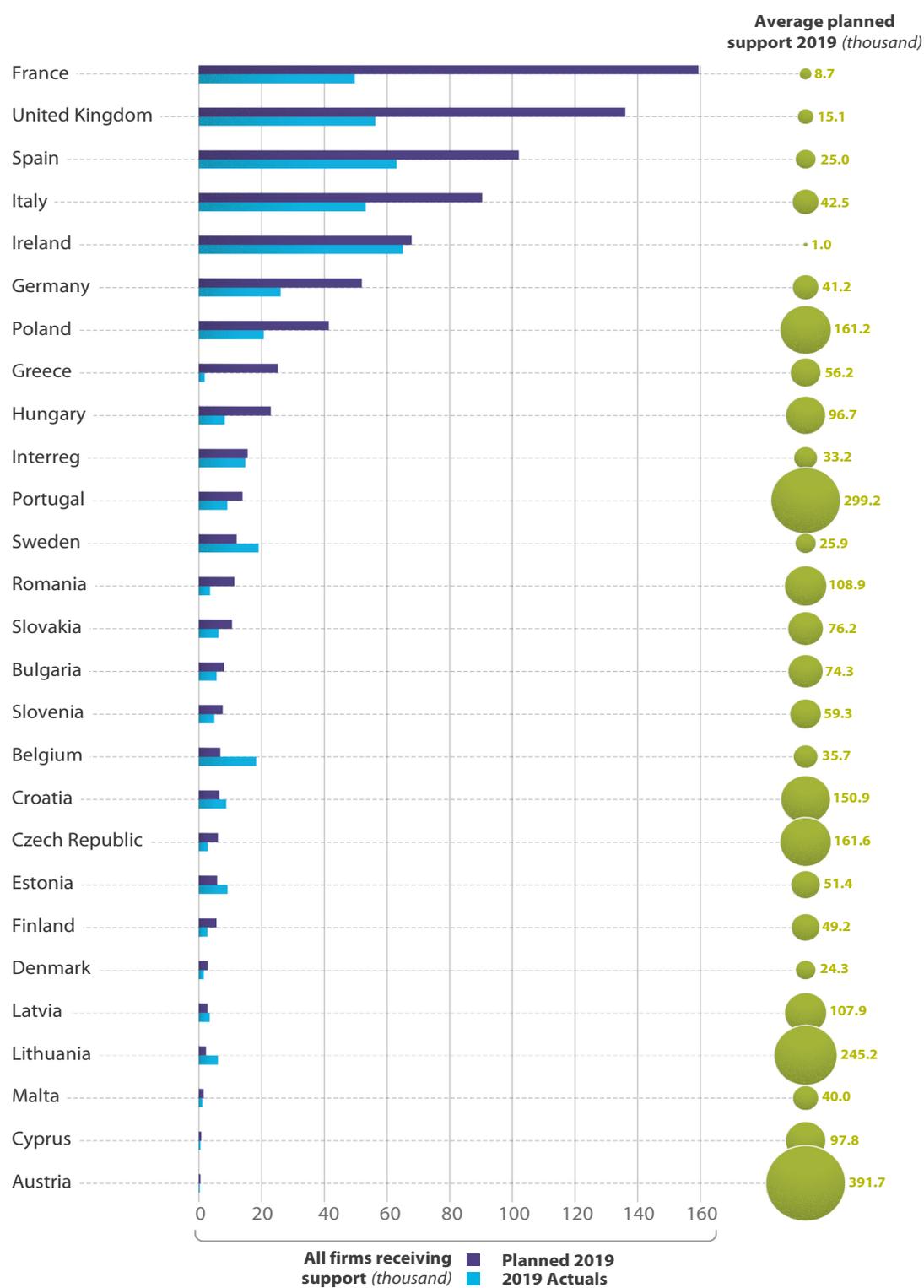
**31** The 2014-2020 ERDF support aimed to reach 3.3 % of all SMEs in the EU by 2023 and 6.1 % following the 2020 programme revision (see paragraph **33**). By the end of 2019, the ERDF had directly supported 0.5 million SMEs out of nearly 25 million in the EU (1.9 %).

**32** Member States' ERDF programmes also took different approaches to the number of SMEs funded under Thematic Objective 3 (see *Figure 6*). In Ireland for example more than 67 000 SMEs were expected to receive funding in 2019 (or more than 25 % of all SMEs). In absolute numbers, France had targeted most businesses (almost 160 000 SMEs). In comparison, other Member States intended to support only a few hundred companies, such as Austria (435 SMEs funded)<sup>28</sup>.

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<sup>28</sup> Common ERDF indicator “All firms receiving support” (CO01). Data from the ESIF Open Data Portal.

**Figure 6 – ERDF support for SME competitiveness (TO3) by Member State (2019 figures)**



*Note:* Luxembourg and the Netherlands did not allocate funds to TO3. For Interreg (territorial cooperation) OPs: a breakdown of ERDF support by Member State is not available, hence a common denomination “Interreg”.

*Source:* ECA, from the ESIF Open Data Portal.

**33** On average, the ERDF programmes provided circa €42 000 per beneficiary SMEs. However, our analysis illustrates that there were significant differences between Member States in terms of the actual amount of funding each beneficiary SME received, from around €392 000 per project in Austria to under €1 000 in Ireland. Overall, in 2019, six EU Member States allocated under €30 000 per project on average (Ireland, France, Denmark, Sweden, Spain and the UK). Projects with such a low amount of funding face the risk of failing to achieve the critical mass required to make a real difference to SME competitiveness.

**34** In 2019, the implementation of the ERDF programmes was well underway, with more than half the targeted SMEs already supported (see [Annex III](#)). The COVID-19 outbreak led to a revision of the programmes to support SMEs during the pandemic (see also paragraphs [15-16](#)). Therefore, targets were revised upwards and the SMEs targeted for support almost doubled (from around 800 000 SMEs in 2019 to 1.5 million SMEs in 2020). This was particularly influenced by Italy, that aimed at supporting six times more SMEs, representing an increase of more than half a million businesses to be supported. Five additional Member States also more than doubled their targets. At the time of the audit, we were not yet in a position to assess whether the revised targets are realistic and if those Member States will have the capacity of providing effective support to such an increased number of SMEs.

### **The ERDF support did not significantly improve the competitiveness of SMEs supported**

**35** We examined a sample of 22 projects involving direct ERDF financial support to SMEs to see how their current and potential competitiveness had evolved following the completion of the project. We assessed the SMEs’:

- operations and market position (sales growth, market share, costs, profitability, labour productivity);
- internationalisation (export intensity, export share, presence in new foreign markets);
- financial situation (financial autonomy, their current ratio); and
- capacity to innovate (product or service innovation, research and development activities).

We also assessed whether ERDF support targeted competitiveness factors in a comprehensive manner to make SMEs fit for the future.

**36** Where possible, we compared the beneficiary SMEs' economic and financial performance to industry benchmarks and against the performance of similar enterprises (in terms of turnover and employees) competing in the same regional or national market. For this analysis, we used European and national statistics and commercial databases (see [Annex IV](#) for more indicator detail).

### **Some of the examined SMEs profited from the ERDF support, but a majority did not**

**37** The ERDF support stimulated investments in the beneficiary SMEs of our sample: beneficiaries used it to expand their production capacity by purchasing new equipment (14 out of 22 projects) or scaling up production sites (6 out of 22).

**38** Most audited SMEs made small incremental changes in competitiveness, but not all competitiveness factors improved, such as export and R&D capacity. [Box 2](#) illustrates the contribution made by ERDF projects to the competitiveness of two beneficiary SMEs. Both projects enabled the SMEs to remain in the market through incremental improvements despite intense competition.

#### **Box 2**

##### **Limited contributions to SME competitiveness**

A knitwear SME in Portugal used ERDF funding to complement its 38 existing machines with new circular knitting machines. These were faster and offered different width options and lighter meshes. The investment brought only limited benefits as the beneficiary SME was unable to sustain its increased competitiveness. After an initial rise in profitability at project start (unlikely to be attributable to the project), the sales, gross added value, productivity, operational profit and profit margins all decreased prior to project completion.

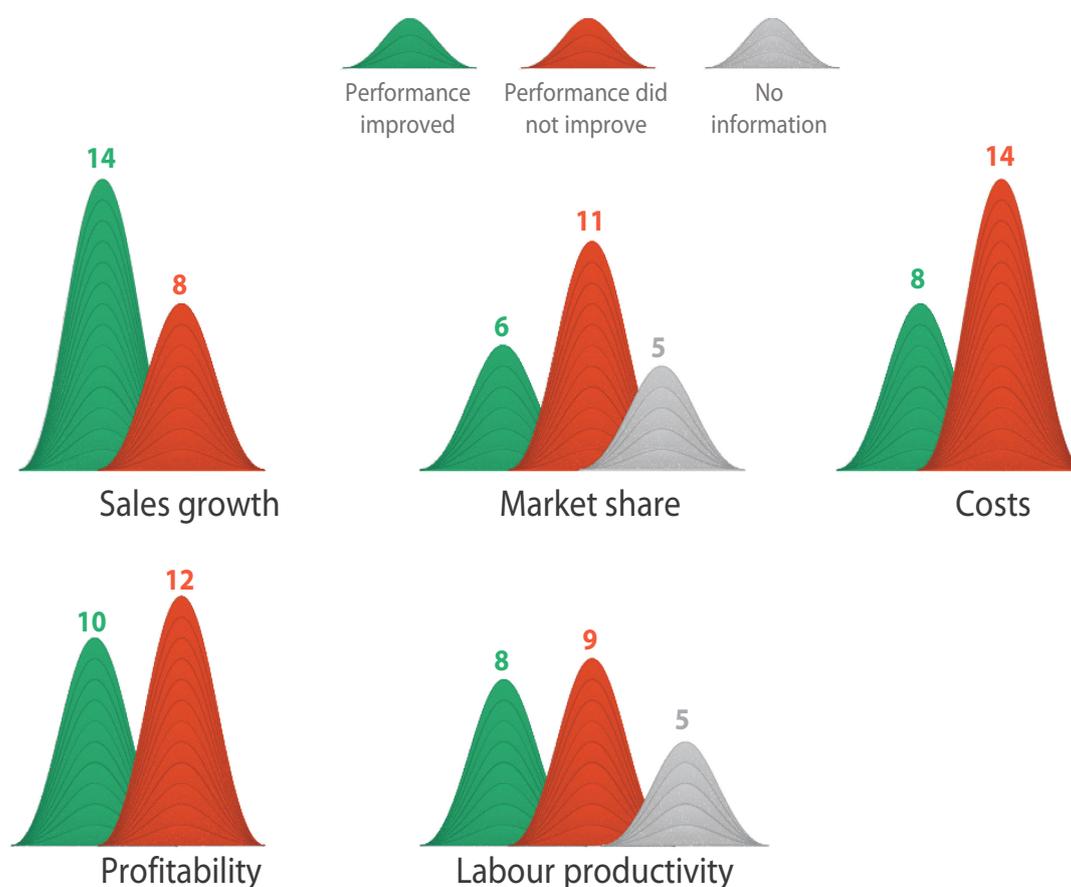
An SME in Italy producing pasta typical of the region used ERDF funding to purchase technologically advanced machinery. This improved product quality and reduced fixed production costs. Despite increased production, sales did not increase and the SME lost regional and national market share to its direct competitors.

**39** Our overall assessment is that most projects examined resulted at best in incremental improvements to specific products, services or processes within the beneficiary SME. While the ERDF support may have improved certain aspects, it did not make a noticeable difference to SMEs' overall competitiveness. This raises doubts over the benefits of ERDF support (see paragraphs [40-46](#)).

#### Profitability rose in almost half of beneficiary SMEs

**40** The ERDF funding helped increase sales in 14 of the 22 sampled SMEs, while 10 showed an increase in their profitability. The other three criteria we used to assess their operations and market position showed smaller improvements. A quarter improved their market share, while around a third reduced their costs and/or improved labour productivity (see [Figure 7](#)). Most of the beneficiary SMEs interviewed indicated that often the effects of external factors (new products and brands entering the market, changing market trends, internal reorganisations) generally outweighed the project impact.

**Figure 7 – Changes in operations and market position (number of SMEs)**



Source: ECA assessment comprising 22 ERDF projects.

### Slightly more than a third of the analysed SMEs increased their export activities

**41** Not all SMEs are export oriented. Before the ERDF project started, 17 of the 22 sampled SMEs sold their products mainly on the local, regional or national market. Half were exporting less than 10 % of their sales or not exporting at all.

**42** Our analysis showed that nine of the 22 beneficiary SMEs increased their international exposure following the ERDF support. Of these, seven SMEs succeeded in increasing their export intensity, five increased their share of international sales and four succeeded in entering new foreign markets (see [Figure 8](#)).

**43** When enterprises sought expansion or diversification through specific initiatives to reach new international markets, this did not always increase exports. These initiatives consisted mostly of projects involving SME participation in trade fairs. However, they were not complemented by an internationalisation or export market penetration strategy, an in-depth analysis of targeted markets or staff training in international commerce.

**Figure 8 – Changes in internationalisation (number of SMEs)**

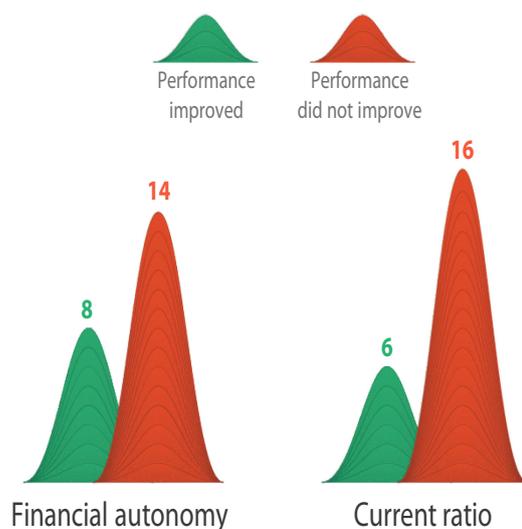


Source: ECA assessment of sample comprising 22 ERDF projects.

### Less than a third of beneficiary SMEs improved their financial situation

**44** Our analysis also showed that eight of the 22 SMEs in our sample improved their financial indicators. They improved their ability to meet long-term commitments (financial autonomy), of which six also improved their ability to pay short-term debts (current ratio). The financial situation of the other SMEs either showed no significant change or worsened after the project (see [Figure 9](#)).

**Figure 9 – Changes in financial situation (number of SMEs)**



Source: ECA assessment of sample comprising 22 ERDF projects.

#### **Nearly all projects sought product/service innovation, yet few fully utilised RD&I**

**45** Of the 22 projects, 21 invested in innovation, mainly in their products or services, but also in their processes. Most projects developed incremental innovation through the acquisition of new equipment that enabled the SME to develop the specific technical characteristics of the SME's current products. In nine cases, we considered that the ERDF project has the potential to increase the SMEs competitiveness (see [Figure 10](#)). In six of the nine cases, the SMEs developed products that did not yet exist on the market in which they operated (one of which with a registered patent to protect their intellectual property).

**46** Three ERDF projects also had a positive impact on the beneficiary SME's long-term R&D capacity (see [Figure 10](#)). The remaining 19 projects did not address this key factor, thus limiting the competitiveness of SMEs. We also noted that the vast majority of SMEs in our sample did not cooperate with other entities when it comes to research, development and innovation (see paragraph [62](#)).

**Figure 10 – Changes in innovative capacity (number of SMEs)**



Source: ECA assessment of sample of 22 ERDF projects.

### The ERDF support has resulted in “displacement effects” in a number of cases

**47** The EU’s state aid rules aim to limit distortions in competition and any negative effects of public intervention<sup>29</sup>. ERDF support to enhance SME competitiveness constitutes an advantage for a selected set of enterprises granted by the public authorities using state resources. However, ERDF aid may be exempt from state aid rules if the competent authorities consider that it does not distort competition<sup>30</sup>.

**48** We identified five cases in which the ERDF support may have adversely affected the economic prospects of non-beneficiary SMEs competing in the same markets, and consequently overall SME competitiveness, for two particular cases (see [Box 3](#)). This is known as “displacement effect”, and the risk is particularly high when support targets SMEs operating mainly in local and/or regional markets.

<sup>29</sup> Chapter 1 of Title VII of the TFEU and [Council Regulation No 994/98](#) on the Block Exemption Regulations for State aid of 7 May 1998.

<sup>30</sup> See the “de minimis aid” rules ([Commission Regulation No 1407/2013](#) of 18 December 2013 on de minimis aid – OJ L 352, 24.12.2013, p. 1) and the General Block Exemption Regulation ([Commission Regulation No 651/2014](#) of 17 June 2014 declaring certain categories of aid compatible with the internal market – OJ L 187, 26.6.2014, p. 1).

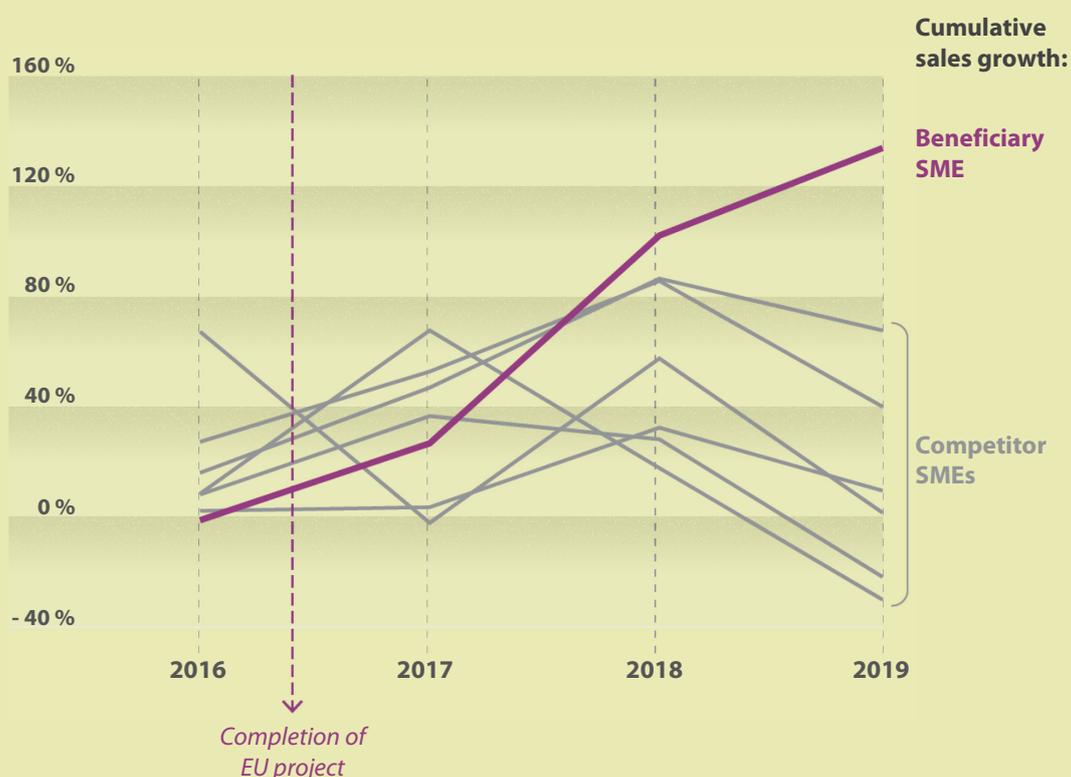
### Box 3

#### Displacement effects generated by ERDF projects

In Poland, one SME specialising in road works received an ERDF grant to develop a more eco-friendly asphalt. This improved its construction processes and enabled it to submit lower bids for local and regional public contracts. With price being the deciding factor, the SME gained market share from its local competitors.

In Italy, an SME, in the metal mechanics sector received an ERDF grant to purchase a numerical control machine. This company considerably increased its market individual share, resulting in a lower growth (or even a decrease) in sales for its direct competitors.

#### Sales: beneficiary SMEs vs local competitors



Source: ECA, based on financial information from a commercial database.

## Supporting stand-alone projects limits the potential impact of the ERDF

**49** We assessed whether the funding approach of the ERDF programmes in the four Member States audited met the SMEs' needs and whether it had helped to increase their competitiveness.

### Majority of ERDF support allocated to stand-alone projects, without addressing the key factors limiting SME competitiveness

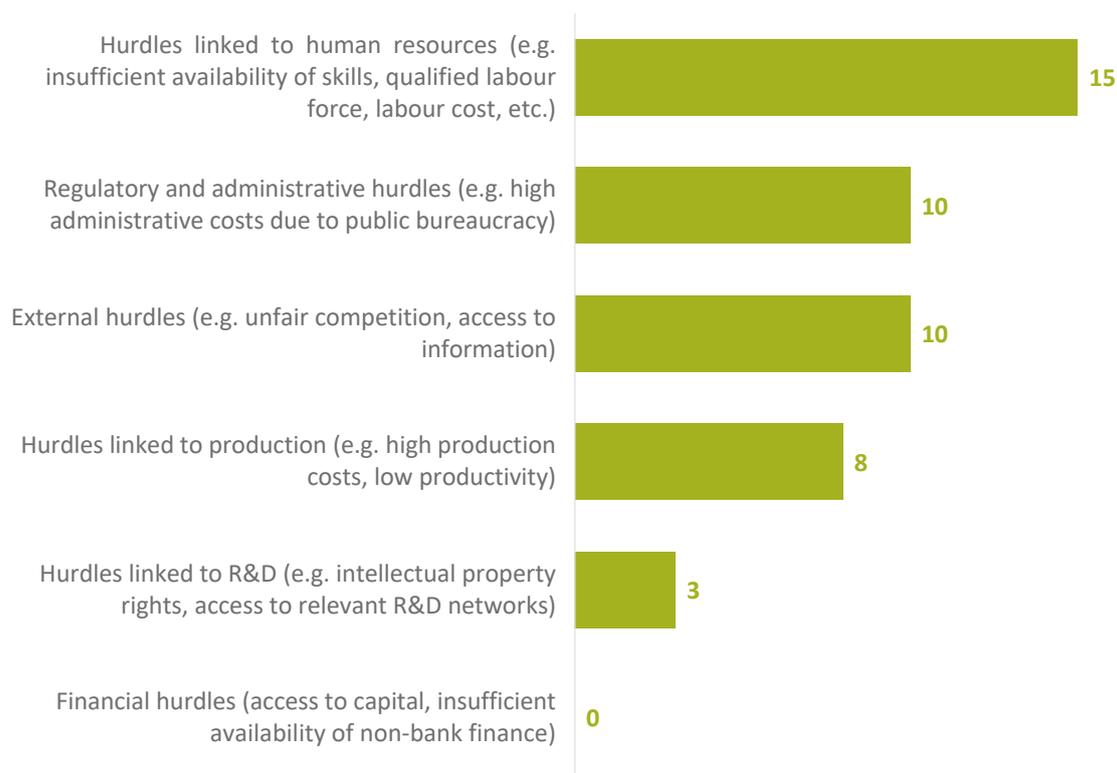
**50** Overall, for the 2014-2020 programme period and several thematic objectives combined, €40.6 billion (75 % of total ERDF funding) were earmarked for support for SMEs through stand-alone projects targeting individual SMEs (see [Annex I](#)). Our analysis of a sample of 11 ERDF programmes, 24 projects supported by the ERDF under TO3 and the 16 related calls (see also paragraph [63](#)) shows that these projects generated only limited spill over effects. This means that the benefits of the ERDF support to individual SMEs examined did not extend to those not receiving any direct financial support.

**51** We also asked the SMEs in our sample to identify the main factors preventing them from increasing their competitiveness (see [Figure 11](#)). Most of the SMEs in our sample responded that there were several hurdles. Those most frequently cited were the difficulties in finding skilled labour, regulatory obstacles and administrative burden. These results mirror the findings of other recent studies by the Commission, the ECB and the EIB<sup>31</sup>.

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<sup>31</sup> European Commission, Flash Eurobarometer 486, "SMEs, start-ups, scale-ups and entrepreneurship", September 2020; European Central Bank, [Survey on the access to finance of enterprises \(SAFE\)](#), June 2021; European Investment Bank, [Regional Cohesion in Europe 2020-2021 – Insights from the EIB Investment Survey](#), September 2021.

**Figure 11 – Main hurdles to SME’s competitiveness (number of SMEs)**



Source: ECA, based on the responses to our questionnaires of the 22 SMEs in the sample.

**52** However, for all eight regional ERDF programmes examined, we found that the projects usually addressed a specific competitiveness factor without tackling enterprises’ needs in a broader sense. This risks hampering the effectiveness of the ERDF support.

**53** Most of the projects in our sample focused on acquiring new production machinery or more technologically advanced equipment. This enabled beneficiaries to increase production capacity and manufacture products of higher quality and with more advanced features. However, not all projects sufficiently addressed crucial needs to ensure project effectiveness and in some cases SMEs ended up investing significant resources without improving their overall competitiveness (see example in [Box 4](#)).

**Box 4****A missed opportunity**

An SME in Italy, manufacturing high-quality clothing products, received ERDF support to create a new own brand line and access new markets. Although the company developed the product line, it failed to bring the product to the market. The project lacked the fundamental complementary activities needed to sell the new product line and market the new brand. Company sales fell following project implementation, performing below the national and regional market and direct competitors.

**54** Our analysis also showed that none of the audited projects addressed the issue of access to skilled labour (which, according to the SMEs in our sample, was the main factor limiting their competitiveness). For instance, no projects combined support for investment with upscaling of available skills in the company. Although the latter activities are generally supported by the ESF, we noted that only two calls provided the possibility of combining ERDF and ESF support in one project.

**55** We also examined whether managing authorities were proactive in identifying how best to identify and address SME needs to increase their competitiveness. Our analysis suggests that most examined calls had the potential for a more comprehensive approach, which in combination could have addressed several of the hurdles to SME competitiveness. For example, most calls required SMEs to include in their project application a business plan identifying their specific needs and challenges.

**56** However, we found that most managing authorities did not use these business plans to propose a package of financial and non-financial support. Instead, they mainly used the plans to assess the relevance of the proposed investment.

**57** Most calls did not make it possible to submit project proposals addressing various components of SME competitiveness (e.g. RD&I, productive innovation, qualification and internationalisation) simultaneously. Only three of the 14 calls examined aimed to tackle various factors (see example in [Box 5](#)). This meant that SMEs had to apply to various separate calls if they wanted to tackle a range of factors limiting their competitiveness.

**Box 5****Call addressing different SME needs in a comprehensive manner**

The Apulia region in Italy launched two calls aiming to tackle different SME needs and create synergies between various types of SME investments. While the region mainly financed tangible assets, investments had to go hand in hand with RD&I investments. SMEs could also fund complementary investments such as service acquisition or internationalisation costs.

**58** Nor did managing authorities seek to design calls combining financial and non-financial support, with one sole exception (see [Box 6](#)).

**Box 6****Combining advisory services for SMEs with financial support**

In Germany, public banks act as intermediaries in managing ERDF programmes. They also offer SMEs advice and information on combinations of measures tailored to their business needs, through EU, national and regional support programmes and guarantees. This helps to reduce SMEs' administrative and information costs.

**Limited focus on the SME's innovation and research capacity****Unambitious targets for ERDF funding for new-to-the-company or new-to-the-market products**

**59** By 2020, the ERDF target was to support 23 153 enterprises in introducing new-to-the-company's products<sup>32</sup> and 8 209 in introducing new-to-the-market products<sup>33</sup> by 2023. This means that only around 2 % of beneficiary SMEs are due to receive ERDF funding during the 2014-2020 period.

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<sup>32</sup> Target set in 2020 for 2023 regarding common output indicator CO29 "Research, Innovation: Number of enterprises supported to introduce new to the firm products" related to TO3.

<sup>33</sup> Target set in 2020 for 2023 regarding common output indicator CO28 "Research, Innovation: Number of enterprises supported to introduce new to the market products" related to TO3.

**60** Most of the calls we examined helped SMEs to develop products, services or processes that were innovative for the enterprise (see paragraph 45). However, they did not effectively incentivise SMEs to introduce products that were new to the market, develop R&D or collaborate with entities from the non-business environment. **Box 7** illustrates one of the few examples in our sample with a strong RD&I focus.

### **Box 7**

#### **Call with a strong RD&I focus**

The Polish Łódzkie region launched a call for highly innovative regional projects by SMEs. Selection criteria included alignment with regional smart specialisation strategies, innovation and implementation of R&D results. The latter attracted the highest weighting, particularly where beneficiaries carried out their own research.

#### **A third of the examined beneficiary SMEs cooperated with research institutions**

**61** Cooperation with research institutions has the potential to address one of the key weaknesses affecting SME competitiveness, insufficient transfer of RD&I output to business products or services. We found that six of the 22 SMEs in our sample said that they had so far already cooperated with research institutions or participated in collective RD&I projects (see example in **Box 8**).

### **Box 8**

#### **Collective project aiming at technology transfer in an industry sector**

The ERDF funded a collective knowledge-sharing project developed in the Portuguese footwear sector. The action involved sharing methods and results from different R&D projects, some also financed under the ERDF. This led to the use of laser technology for cutting and engraving, speeding up shoe production, increasing precision and reducing labour costs. The action also promoted the testing and demonstration of technological advances, the development of prototypes targeting consumer needs, the use of new materials, and the development of Industry 4.0 tools such as an interactive cybershop.

## Projects supporting multiple SMEs are the exception, although many SMEs benefit from advisory services

**62** Collective projects, addressing the common needs and opportunities of multiple SMEs, have the potential to allow SMEs to share risks, decrease their risk aversion, share costs and achieve their objectives more quickly. However, our analysis showed that only a few projects in our sample were implemented by groups of enterprises or other entities (e.g. business associations, technology centres, etc.). **Box 9** gives the example of such a collective project, with positive spill over effects to a large number of other SMEs.

### Box 9

#### Collective project to promote a regional brand

The region of Wielkopolska in Poland decided to promote its regional brand abroad to increase its economic potential. The project included a publicity campaign and external promotional activities. The involvement of a governmental body boosted the credibility of regional enterprises and facilitated contacts with foreign investors. This regional marketing approach has the potential to benefit numerous SMEs.

**63** The SMEs we interviewed highlighted the need for collective actions to promote or protect local production, but they perceived little added value in business networks. None considered access to such networks a competitive advantage.

**64** Compared with large enterprises, SMEs' internal management structures are less comprehensive and less well-developed. Therefore, one key SME need is access to high-quality advice, coaching and networking opportunities<sup>34</sup> (see example in **Box 10**).

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<sup>34</sup> Commission Ex-post evaluation of Cohesion Policy programmes 2007-2013, [Support to SMEs – Increasing Research and Innovation in SMEs and SME Development](#), February 2016.

**Box 10****Advisory services for multiple SMEs through business associations**

In Germany, it is estimated that 150 000 companies with around 2.4 million employees are due to experience generational changes. The ERDF funds projects where business associations provide a qualified advisory service to SMEs at this stage. In particular, they help find successors when senior management retire, to avoid disruption to activities and prevent SMEs from having to cease operations. This collective action benefits multiple SMEs.

**65** In 2019, the ERDF provided non-financial support (advice, guidance and consultancy services) to 44 % of supported enterprises (382 000 out of 861 600 enterprises). In 2020, due to reprogramming and the resulting increase in the number of SMEs supported by the ERDF, this share fell to 27 % (around 400 000 out of 1.5 million SMEs)<sup>35</sup>.

### **ERDF selection procedures are not sufficiently competitive and most support is provided through grants rather than repayable aid**

**66** The managing authorities implementing ERDF programmes in the Member States are responsible for selecting operations<sup>36</sup>. In doing so, they should ensure that operations contribute to the achievement of the specific objectives and results of the relevant priority. The type of call (competitive or non-competitive) should be chosen in relation to the specific objective and expected results of the support. In particular, the 2021-2027 Common Provision Regulation requires that the selection criteria applied maximise the added value of the contribution of ESI Funds.

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<sup>35</sup> ESIF Open Data Portal. Target set in 2020 for 2023 regarding common output indicator “CO04: Firms receiving non-financial support (advice)” related to TO3.

<sup>36</sup> Article 125 of Regulation No 1303/2013 laying down common provisions on the ERDF, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund (OJ L 347, 20.12.2013, pp. 320-469).

**67** We examined the way in which ERDF programmes had organised their selection procedures and considered whether they provided EU funding only to the most deserving project proposals. We also looked at the extent to which programmes made use of different forms of funding ERDF projects for SME competitiveness, including financial instruments (i.e. repayable aid such as loans, guarantees or equity) and grants, and whether they considered what type of financing the beneficiary SMEs needed.

### **The selection procedures of most ERDF programmes are not designed to award funding to the most competitive project proposals**

**68** Our analysis showed that most audited calls did not ensure competition between applicants, as the vast majority of applications only had to meet minimum selection requirements (see [Box 11](#)). Most calls selected all projects when they achieved the minimum number of points regardless of other projects' score. We already highlighted the lack of competition between project applications during selection procedures in a previous report<sup>37</sup>.

#### **Box 11**

##### **An unambitious selection procedure**

In ERDF-eligible German regions, SMEs can benefit from individual investment support to set up new businesses, expand an existing business or diversify. Support is generally granted on the condition that beneficiaries create jobs. In Lower Saxony, where the scheme also finances takeovers of existing SMEs, a scoring system ranks all eligible projects. However, it does not distinguish sufficiently between projects beyond basic eligibility.

First, the conditions for applicant SMEs to achieve the required minimum score are unambitious. Companies must simply be small enterprises bound by a collective agreement and create at least one job with the investment.

Second, by end 2021, there was no competition between applications, with every proposal that achieved the minimum score receiving funding. Factors such as sustainable increase in competitiveness or market expansion were ignored, while innovation (new products/ technologies) had only a minor impact on decisions.

<sup>37</sup> [Special report 21/2018](#) concerning the “Selection and monitoring for ERDF and ESF projects in the 2014-2020 period are still mainly outputs-oriented”.

**69** The timing of calls is another factor that may prevent the selection of the most promising projects:

- Closed calls (i.e. time-limited procedures) incentivise enterprises to apply when funds are available, rather than when funds are needed. This is particularly important when it comes to supporting innovation, as closed calls may be unsuited to addressing businesses' need for regular innovation and synchronisation with market trends<sup>38</sup>. Most of the audited calls were closed calls.
- Open calls, which run continuously, with ongoing project selection and funding, do not ensure competition between applications. All projects that achieve the minimum selection score receive funding as long as funds are available, making timing a stronger consideration than merit.

Open calls with interim deadlines have the potential to overcome these disadvantages, while ensuring competition between applications and funding the highest-scoring projects.

### **ERDF mostly supports SME competitiveness with grants, when financial instruments and repayable grants could be more effective**

**70** For many years, the Commission has advised Member State managing authorities against providing grants alone to SMEs as there are indications that EU support is as effective (or nearly as effective) when the grant is reduced or replaced by financial instruments (i.e. reimbursable aid such as loans or guarantees)<sup>39</sup>.

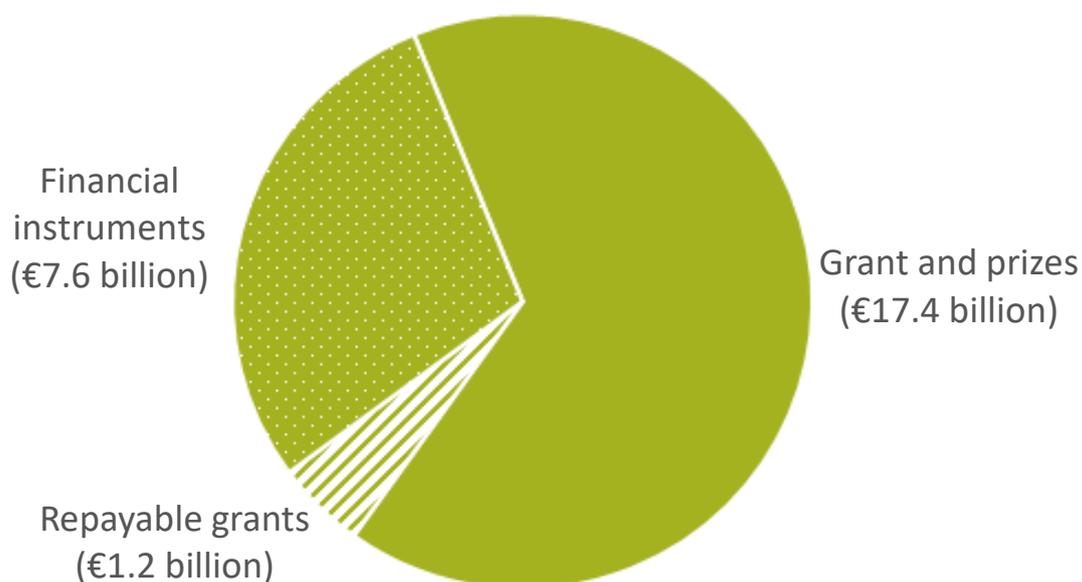
**71** Nevertheless, for the 2014-2020 programme period, grants remained by far the most widely used form of direct financial support for SME competitiveness. Overall, they accounted for 66 % of the total ERDF funding allocated to SME competitiveness (see [Figure 12](#)).

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<sup>38</sup> European Commission, “Regional policy for smart growth of SMEs, Guide for Managing Authorities and bodies in charge of the development and implementation of Research and Innovation Strategies for Smart Specialisation”, 2013.

<sup>39</sup> European Commission, “What are counterfactual impact evaluations teaching us about enterprise and innovation support”, 2012, DG REGIO.

**Figure 12 – ERDF planned amounts allocated to SME competitiveness (TO3) as of end 2019**



*Notes:* <sup>(1)</sup> We chose to use 2019 as the base year to avoid skewing the analysis with changes linked to the COVID-19 pandemic. <sup>(2)</sup> The total is not equivalent to the ERDF amount for TO3 as it is not possible to distinguish the type of financial support for each thematic objective.

*Source:* ECA, based on the ESIF Open Data Portal.

**72** Our analysis showed that 18 of the 22 beneficiary SMEs in our sample benefited exclusively from grants. In this context, we identified an innovative approach in Portugal combining grants and reimbursable aid to incentivise beneficiary SMEs to exceed the project targets, provided that these are sufficiently ambitious (see [Box 12](#)).

## Box 12

### Grants combined with reimbursable aid

Until 2018, the Portuguese authorities supported productive innovation projects through a hybrid financial scheme. Beneficiary SMEs received reimbursable aid, which they could partially convert into non-reimbursable aid at the end of the project if they exceeded targets.

The aim of the reimbursable aid was to leverage the use of EU funding to benefit more enterprises. Non-reimbursable aid has the potential to incentivise SMEs to use EU funding to perform their best.

**73** When asked, none of the SMEs stated that access to capital constituted a potential barrier to competitiveness (see [Figure 11](#)). Nevertheless, they received grants to buy new, potentially cost reducing machines, even though zero- or low-interest loans could have covered all or at least part of the investment. This would have made it possible to leverage the available ERDF funds and to support significantly more SMEs.

### **Most beneficiary SMEs would have made similar investments without ERDF or any other public funding**

**74** Our analysis also showed that 19 of the 22 SMEs would have made the same or similar investments even without ERDF or any other public funding (see paragraph [50](#)). Two SMEs said they would have invested in exactly the same way, while 17 said that they would have invested later or reduced the extent of the investment.

**75** Only three of the beneficiary SMEs said that they would not have made the investment without public aid. This confirms the risk of deadweight in this type of ERDF support schemes, already identified in previous reports<sup>40</sup>. Deadweight can only be prevented if funding targets projects that the private entity would not otherwise implement, as the costs would exceed the financial benefits.

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<sup>40</sup> [Special report 4/2011](#) concerning “the audit of the SME Guarantee facility”; Annual Report on the implementation of the budget concerning the financial year of 2013, (OJ C 398, 12.11.2014, pp. 1-288); and [Special report 8/2018](#) concerning the “EU support for productive investments in businesses – greater focus on durability needed”.

## Conclusions and recommendations

**76** For the 2014-2020 programme period, the ERDF regulation did not require Member States to align the measures on SME competitiveness in the ERDF programmes with national/regional strategies. As a result, the Commission had only limited means to ensure that the ERDF funding targeted the areas with most growth potential (see paragraphs [26-29](#)).

**77** By the end of 2019, the last year before the outbreak of the COVID-19 pandemic, the ERDF aimed to provide direct support 0.8 million SMEs out of almost 25 million in total across the EU (3.3 %). We found that Member States' approaches varied with some targeting ERDF support to a few hundred companies while others distributed funding more widely. In Ireland, for example, the ERDF was expected to provide funding to more than 67 000 SMEs (or more than 25 % of all SMEs in the country), while the Austrian ERDF programme supported just 435 companies. Consequently, the amount of funding per SME varies greatly between Member States. When ERDF programmes spread the available funding over too many SMEs, there is potentially a high risk that ERDF support lacks the critical mass needed to make a real difference to SME's competitiveness (see paragraphs [30-33](#)).

**78** In 2020, as a response to the COVID-19 pandemic, many Member States re-programmed their ERDF programmes, in the context of the CRII/CRII+ and REACT-EU initiatives. This reprogramming led to additional funding for SMEs as well to a significant increase in the number of SMEs targeted. This is particularly the case in Italy where the ERDF support is now targeting more than 630 000 SMEs (i.e. more than half a million additional businesses) (see paragraph [34](#)).

**79** In the four Member States audited, the 2014-2020 ERDF support for SME competitiveness stimulated the SMEs' willingness to invest. However, its effectiveness in increasing their competitiveness was hampered by the following shortcomings in the funding approach taken by the managing authorities in the Member States (see paragraphs [35-48](#)):

- Most calls for project submission did not tackle all relevant obstacles to competitiveness encountered by beneficiary SMEs, simply co-financing specific productive investments (such as the purchase of new machinery). In many cases examined, ERDF projects did not result in demonstrable improvements to the SME's competitive situation as regards their operations and market position, internationalisation, financial situation or capacity to innovate.

- Calls rarely financed investments in other value-adding processes to increase the long-term SME competitiveness (e.g. increasing the SMEs' RD&I capabilities or their penetration of new markets). Few projects offered SMEs tailored advisory services to overcome specific hurdles to competitiveness.
- Projects mainly supported individual SMEs rather than a group of enterprises, thus limiting the ERDF outreach to SMEs.
- Project funding mostly took place through non-competitive calls and selection procedures in which every application that met the minimum selection criteria received financing.
- Financing took the form of grants rather than repayable forms of support (such as loans or guarantees). However, none of the audited SMEs cited difficulties in accessing financing as a key hurdle to increasing competitiveness. The use of repayable forms of support would have enabled the fund to support more businesses.

**80** We also found that several beneficiary SMEs would have made the same investments even without EU funding. In some cases, ERDF support negatively affected the economic prospects of non-beneficiary SMEs competing in the same regional or national markets as beneficiary SMEs. This reduced the net overall effect of the EU support (see paragraphs [49-75](#)).

## Recommendation 1 – Review the design of ERDF calls

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The Commission should invite and support Member States to design calls which encourage the submission of proposals that are more likely to be effective in increasing SME competitiveness. In practice, this would mean organising calls aimed at:

- (a) Addressing several factors that limit the competitiveness inside a project. These could be, for example, combining research and innovation with investments, support to training and capacity building, design of an export market strategy etc.
- (b) Strengthening the cooperation between SMEs and other bodies (e.g. other SMEs, businesses associations, universities/research organisations).
- (c) Supporting the participation of SMEs in advisory services and networks (such as for example the Enterprise Europe Network, Cluster organisations, Business Innovation Centres, European Business and Innovation Centre Network, etc.).

**Timeframe: by the end of 2023.**

## Recommendation 2 – Review ERDF selection procedures for grant awards

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The Commission should invite and support the Member States to review ERDF selection procedures, in particular for grant financing, with the aim of selecting projects:

- (a) through a non-competitive process only when duly justified; and
- (b) on the basis of ambitious selection criteria and thresholds in order to achieve the best relationship between the amount of support, the activities undertaken and the achievement of objectives.

**Timeframe: by the end of 2023.**

### **Recommendation 3 – Prioritise the use of repayable aid for SME competitiveness**

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The Commission should invite and support the Member States so that:

- (a) Financial instruments, i.e. repayable aid such as loans or guarantees or equity, are prioritised for the funding of SME competitiveness.
- (b) Grants are only used in cases of clear need (such as addressing market failures) or where required to achieve specific policy objectives (for example better standards for a circular, green and more just economy). Whenever possible grants should be provided in conjunction with financial instruments.

**Timeframe: by the end of 2023.**

This Report was adopted by Chamber II, headed by Ms Iliana Ivanova, Member of the Court of Auditors, in Luxembourg on 6 April 2022.

*For the Court of Auditors*

Klaus-Heiner Lehne  
*President*

# Annexes

## Annex I – 2014-2020 period: ERDF funding for SMEs by intervention code (in million euros)

| Support type                                     | Intervention code  | Spent by the end of 2019 | Planned until 2023 (n+3) | % of planned |
|--|--|--------------------------|--------------------------|--------------|
| Individual support to SMEs                       | 001. Generic productive investment SMEs  | 15 649                   | 19 154                   | 35           |
|  | 056. Investment in infrastructure, capacities and equipment in SMEs directly linked to RD&I                                      | 3 175                    | 4 518                    | 9            |
|  | 064. Research and innovation processes in SMEs   | 4 306                    | 7 710                    | 14           |
|  | 067. SME business development, support to entrepreneurship and incubation  | 5 757                    | 9 271                    | 17           |
| <b>Total support through individual projects</b> |  | <b>28 887</b>            | <b>40 652</b>            | <b>75</b>    |
| Networking and Cooperation                       | 062. Technology transfer and university-enterprise cooperation primarily benefiting SMEs   | 2 272                    | 5 095                    | 9            |
|  | 063. Cluster support and business networks primarily benefiting SMEs   | 667                      | 2 338                    | 4            |
|  | 004. Productive investment linked to the cooperation between large enterprises and SMEs for developing ICT products and services | 48                       | 209                      | 1            |
| Advisory services                                | 066. Advanced support services for SMEs and groups of SMEs   | 2 200                    | 3 822                    | 7            |
| Infrastructure                                   | 072. Business infrastructure for SMEs  | 905                      | 2 289                    | 4            |
| <b>Total support through collective projects</b> |  | <b>6 012</b>             | <b>13 753</b>            | <b>25</b>    |
| <b>Total support to SMEs</b>                     |  | <b>34 899</b>            | <b>54 405</b>            | <b>100</b>   |

Note: Amounts refer to several thematic objectives.

Source: ECA, adapted from ESIF Open Data Portal.

## Annex II – List of selected projects

| Project description  | Total eligible project amount (in euros) | SME size at application | Project description  | Total eligible project amount (in euros) | SME size at application |
|--|--|-------------------------|--|--|-------------------------|
| <b>Lower Saxony region</b>   |  |                         | <b>Wielkopolskie region</b>  |  |                         |
| Acquisition of a CNC turning and milling machine                                     | 38 750                                   | Small                   | Introducing an innovative product  | 604 507                                  | Small                   |
| Expansion of the business premises (office and production facilities)                | 435 200                                  | Medium                  | Implementation of innovative product   | 2 096 766                                | Small                   |
| Construction of a new production facility and purchase of the necessary equipment    | 1 224 475                                | Small                   | Comprehensive economic and investment promotion of the region and brand building | 4 420 746                                | N/A                     |
| <b>Saxony-Anhalt region</b>  |  |                         | <b>Lódzkie region</b>  |  |                         |
| Procurement of a production machine  | 100 000                                  | Medium                  | Introduction of technology for new product and purchase of machines              | 630 586                                  | Small                   |
| Support to a start-up to develop an innovative product                               | 220 346                                  | N/A                     | Starting the production of new product   | 842 536                                  | Small                   |
| Investments in system technology   | 310 000                                  | Medium                  | Purchase of equipment for new product  | 1 315 213                                | Medium                  |
| <b>Centre region</b>   |  |                         | <b>Puglia region</b>   |  |                         |
| Recognition and notoriety of the brand to increase presence in international markets | 218 926                                  | Small                   | Expansion of the productive unit   | 145 000                                  | Small                   |
| Increase of production capacity and innovation of production processes               | 664 518                                  | Small                   | Expansion of the productive unit   | 245 000                                  | Small                   |
| Production capacity and innovation of the production processes                       | 855 456                                  | Small                   | New product line   | 541 378                                  | Medium                  |
| <b>North region</b>  |  |                         | <b>Marche region</b>   |  |                         |
| Internationalisation of the brand  | 203 743                                  | Small                   | Creation of a new innovative product line  | 199 619                                  | Small                   |
| Increase of production capacity and innovation of production processes               | 478 394                                  | Small                   | Creation of an innovative product  | 199 750                                  | Small                   |
| Production diversification   | 497 794                                  | Medium                  | Creation of an innovative product  | 300 000                                  | Medium                  |

Source: ECA.

### Annex III – ERDF funding for TO3 and planned/actual number of SMEs to be reached until 2023 per Member State (as of end 2019); changes made in 2020 in response to the COVID-19 pandemic

| Member State | ERDF Funding for TO3            |                                 |                      |        |                         |                         | All firms receiving support (Common indicator CO01) |              |                |              |                  |               |
|--------------|---------------------------------|---------------------------------|----------------------|--------|-------------------------|-------------------------|---|--------------|----------------|--------------|------------------|---------------|
|              | Planned 2019 (in million euros) | Planned 2020 (in million euros) | Δ (in million euros) | Δ (%)  | per SME 2019 (in euros) | per SME 2020 (in euros) | Actuals 2019  | Planned 2019 | % SMEs reached | Planned 2020 | Δ (planned SMEs) | Δ (planned %) |
| Belgium      | 242.7                           | 255.8                           | 13.0                 | 5 %    | 35 701                  | 11 677                  | 18 245  | 6 799        | 268 %          | 21 902       | 15 103           | 222 %         |
| Bulgaria     | 592.9                           | 946.3                           | 353.5                | 60 %   | 74 341                  | 33 558                  | 5 620   | 7 975        | 70 %           | 28 200       | 20 225           | 254 %         |
| Czechia      | 969.5                           | 1 127.7                         | 158.2                | 16 %   | 161 618                 | 156 974                 | 2 825   | 5 999        | 47 %           | 7 184        | 1 185            | 20 %          |
| Denmark      | 68.0                            | 61.9                            | - 6.1                | - 9 %  | 24 286                  | 24 300                  | 1 570   | 2 800        | 56 %           | 2 546        | - 254            | - 9 %         |
| Germany      | 2 142.9                         | 2 112.2                         | - 30.7               | - 1 %  | 41 241                  | 27 859                  | 26 035  | 51 960       | 50 %           | 75 816       | 23 856           | 46 %          |
| Estonia      | 296.9                           | 274.7                           | - 22.2               | - 7 %  | 51 367                  | 24 529                  | 9 102   | 5 780        | 157 %          | 11 200       | 5 420            | 94 %          |
| Ireland      | 65.2                            | 21.2                            | - 43.9               | - 67 % | 961                     | 994                     | 65 057  | 67 838       | 96 %           | 21 370       | - 46 468         | - 68 %        |
| Greece       | 1 410.3                         | 2 635.2                         | 1 224.8              | 87 %   | 56 196                  | 31 056                  | 1 797   | 25 097       | 7 %            | 84 853       | 59 756           | 238 %         |
| Spain        | 2 554.0                         | 2 328.4                         | - 225.6              | - 9 %  | 25 030                  | 30 389                  | 63 057  | 102 039      | 62 %           | 76 620       | - 25 419         | - 25 %        |
| France       | 1 392.5                         | 1 543.9                         | 151.4                | 11 %   | 8 735                   | 9 161                   | 49 717  | 159 412      | 31 %           | 168 534      | 9 122            | 6 %           |
| Croatia      | 970.0                           | 1 470.8                         | 500.8                | 52 %   | 150 855                 | 80 004                  | 8 651   | 6 430        | 135 %          | 18 384       | 11 954           | 186 %         |
| Italy        | 3 837.8                         | 5 873.7                         | 2 035.9              | 53 %   | 42 462                  | 9 313                   | 53 191  | 90 381       | 59 %           | 630 709      | 540 328          | 598 %         |

| Member State | ERDF Funding for TO3               |                                    |                         |       |                            |                            | All firms receiving support (Common indicator CO01) |              |                |              |                     |                  |
|--------------|------------------------------------|------------------------------------|-------------------------|-------|----------------------------|----------------------------|---|--------------|----------------|--------------|---------------------|------------------|
|              | Planned 2019<br>(in million euros) | Planned 2020<br>(in million euros) | Δ<br>(in million euros) | Δ (%) | per SME 2019<br>(in euros) | per SME 2020<br>(in euros) | Actuals 2019  | Planned 2019 | % SMEs reached | Planned 2020 | Δ<br>(planned SMEs) | Δ<br>(planned %) |
| Cyprus       | 70.0                               | 67.0                               | - 3.0                   | - 4 % | 97 765                     | 76 136                     | 442   | 716          | 62 %           | 880          | 164                 | 23 %             |
| Latvia       | 296.2                              | 310.0                              | 13.8                    | 5 %   | 107 902                    | 72 940                     | 3 413   | 2 745        | 124 %          | 4 250        | 1 505               | 55 %             |
| Lithuania    | 546.7                              | 566.7                              | 20.0                    | 4 %   | 245 158                    | 254 127                    | 6 038   | 2 230        | 271 %          | 2 230        | 0                   | 0 %              |
| Hungary      | 2 215.3                            | 2 820.3                            | 605.0                   | 27 %  | 96 736                     | 163 119                    | 8 194   | 22 901       | 36 %           | 17 290       | - 5 611             | - 25 %           |
| Malta        | 57.7                               | 64.7                               | 7.0                     | 12 %  | 40 037                     | 39 065                     | 1 044   | 1 440        | 73 %           | 1 655        | 215                 | 15 %             |
| Austria      | 170.4                              | 171.5                              | 1.1                     | 1 %   | 391 686                    | 394 223                    | 186   | 435          | 43 %           | 435          | 0                   | 0 %              |
| Poland       | 6 674.2                            | 7 193.9                            | 519.8                   | 8 %   | 161 161                    | 129 916                    | 20 611  | 41 413       | 50 %           | 55 374       | 13 961              | 34 %             |
| Portugal     | 4 139.6                            | 4 191.3                            | 51.6                    | 1 %   | 299 193                    | 283 538                    | 9 041   | 13 836       | 65 %           | 14 782       | 946                 | 7 %              |
| Romania      | 1 229.7                            | 1 982.8                            | 753.1                   | 61 %  | 108 850                    | 27 795                     | 3 539   | 11 297       | 31 %           | 71 338       | 60 041              | 531 %            |
| Slovenia     | 445.1                              | 427.4                              | - 17.7                  | - 4 % | 59 345                     | 56 985                     | 4 836   | 7 500        | 64 %           | 7 500        | 0                   | 0 %              |
| Slovakia     | 802.1                              | 761.6                              | - 40.5                  | - 5 % | 76 172                     | 62 860                     | 6 232   | 10 530       | 59 %           | 12 116       | 1 586               | 15 %             |
| Finland      | 272.4                              | 273.2                              | 0.8                     | 0 %   | 49 173                     | 75 880                     | 2 673   | 5 540        | 48 %           | 3 600        | - 1 940             | - 35 %           |
| Sweden       | 311.5                              | 340.3                              | 28.8                    | 9 %   | 25 868                     | 27 046                     | 19 009  | 12 042       | 158 %          | 12 581       | 539                 | 4 %              |

| Member State | ERDF Funding for TO3               |                                    |                         |       |                            |                            | All firms receiving support (Common indicator CO01) |              |                |              |                     |                  |
|--------------|------------------------------------|------------------------------------|-------------------------|-------|----------------------------|----------------------------|---|--------------|----------------|--------------|---------------------|------------------|
|              | Planned 2019<br>(in million euros) | Planned 2020<br>(in million euros) | Δ<br>(in million euros) | Δ (%) | per SME 2019<br>(in euros) | per SME 2020<br>(in euros) | Actuals 2019  | Planned 2019 | % SMEs reached | Planned 2020 | Δ<br>(planned SMEs) | Δ<br>(planned %) |
| UK           | 2 058.2                            | 1 991.7                            | - 66.5                  | - 3 % | 15 134                     | 15 065                     | 56 267  | 135 997      | 41 %           | 132 204      | - 3 793             | - 3 %            |
| Interreg     | 515.9                              | 510.9                              | - 5.0                   | - 1 % | 33 233                     | 22 697                     | 14 720  | 15 523       | 95 %           | 22 510       | 6 987               | 45 %             |
| EU           | 34 347.7                           | 40 325.0                           | 5 977.3                 | 17 %  | 42 059                     | 26 775                     | 461 112   | 816 655      | 56 %           | 1 506 063    | 689 408             | 84 %             |

Source: ECA, adapted from ESIF Open Data Portal.

## Annex IV – Indicators used to assess a change in the SME’s competitiveness

| <b>Operations and market position</b> |   |
|---------------------------------------|---|
| Sales growth                          | Growth in sales   |
| Market share                          | Enterprise sales as proportion of industry or competitor sales  |
| Costs                                 | <ul style="list-style-type: none"> <li>▪ Unit labour costs (labour costs/gross added value)</li> <li>▪ Direct costs [(turnover - gross added value)/turnover]</li> </ul>  |
| Profitability                         | <ul style="list-style-type: none"> <li>▪ Gross profit/labour costs</li> <li>▪ Return on sales (gross added value or income/sales)</li> <li>▪ Return on investments (net income/assets)</li> <li>▪ Return on equity (net income/equity)</li> </ul> |
| Labour productivity                   | <ul style="list-style-type: none"> <li>▪ Sales/number of employees</li> <li>▪ Operational profit/number of employees</li> <li>▪ Gross added value/number of employees</li> </ul>  |
| <b>Internationalisation</b>           |   |
| Exports                               | Export intensity (enterprise exports/sales)   |
| Exports share                         | Enterprise exports/industry exports   |
| New countries                         | Whether or not beneficiary exported to new countries  |
| <b>Financial situation</b>            |   |
| Financial autonomy                    | Equity/assets   |
| Current ratio                         | Current assets/current liabilities  |
| <b>Capacity to innovate</b>           |   |
| Products or services innovation       | Whether or not beneficiary developed innovative products or services  |
| R&D activities                        | Whether or not beneficiary fostered its R&D activities  |

Source: ECA.

# Acronyms and abbreviations

**ERDF:** European Regional Development fund

**ESF:** European Social Fund

**ESIFs:** European Structural and Investment Funds

**NGEU:** Next Generation EU

**OP:** Operational Programme

**R&D:** Research and development

**RD&I:** Research, development and innovation

**RIS3:** Smart specialisation strategy

**RRF:** Recovery and Resilience Facility

**SBA:** Small Business Act

**SME:** Small and medium-sized enterprises

**TO:** Thematic Objective

**TO1:** Strengthening research, technological development and innovation

**TO3:** Enhancing the competitiveness of SMEs

# Glossary

**Competitiveness:** With reference to an enterprise, an advantage gained through lower costs, increased productivity, improvement, differentiation and innovation in products and services, and better marketing and branding.

**Deadweight:** A situation where an EU-funded activity would have gone ahead even without receiving public aid.

**Displacement effect:** Improvement in an SME's performance resulting from public support at the expense of its competitors.

**Enabling condition:** A prerequisite condition for the effective and efficient implementation of the specific objectives.

**Enterprise:** An entity engaged in an economic activity.

**European Regional Development Fund:** An EU fund that strengthens economic and social cohesion in the EU by financing investments that reduce imbalances between regions.

**European Structural and Investment Funds:** The five main EU funds which together support economic development across the EU: the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development, and the European Maritime and Fisheries Fund.

**Managing authority:** The national, regional or local authority (public or private) designated by a Member State to manage an EU-funded programme.

**Multiannual financial framework:** The EU's spending plan setting priorities (based on policy objectives) and ceilings, under six main headings, generally for seven years. It provides the structure within which annual EU budgets are set, limiting spending for each category of expenditure. The current MFF covers the 2021- 2027 period, the previous one 2014-2020.

**Operational programme:** The basic framework for implementing EU-funded cohesion projects in a set period, reflecting the priorities and objectives laid down in partnership agreements between the Commission and individual Member States.

**Programme period:** The period within which an EU spending programme is planned and implemented.

**Recovery and Resilience Facility:** The EU's financial support mechanism to mitigate the economic and social impact of the COVID-19 pandemic and stimulate recovery, while promoting green and digital transformation.

**Smart specialisation strategy:** National or regional strategy setting priorities for building competitive advantage by developing and matching research and innovation strengths to business needs and bringing convergence in innovation performance.

**Thematic objective:** The intended overall result of an investment priority, broken down into specific objectives for implementation purposes.

## Replies of the Commission

<https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=61108>

## Timeline

<https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=61108>

## Audit team

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This performance audit was carried out by Audit Chamber II Investment for cohesion, growth and inclusion spending areas, headed by ECA Member Iliana Ivanova. The audit was led by ECA Member Pietro Russo, supported by Chiara Cipriani, Head of Private Office and Benjamin Jakob, Private Office Attaché; Niels-Erik Brokopp, Principal Manager; Enrico Grassi, Head of Task; Angela Ramallo Ros, Angelika Zych, and Sara Pimentel, Auditors.



*From left to right: Sara Pimentel, Enrico Grassi, Pietro Russo, Angela Ramallo Ros, Benjamin Jakob, Niels-Erik Brokopp.*

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We assessed whether the European Regional Development Fund helped improve the competitiveness of small and medium-sized enterprises (SMEs) in the period 2014-2020. We found that Member States aimed at funding a large number of SMEs rather than targeting the key factors that limit SME competitiveness.

Most calls funded specific productive investments with no lasting impact on competitiveness. Projects were mostly awarded through non-competitive selection procedures and grants.

The support stimulated SMEs' willingness to invest, though several would have made the same investments without public funding. In some cases, the support negatively affected the economic prospects of other SMEs competing in the same markets. We recommend improving the design of SME calls, reviewing ERDF selection procedures for grant awards, and prioritising the use of repayable aid.

ECA special report pursuant to Article 287(4), second subparagraph, TFEU.



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