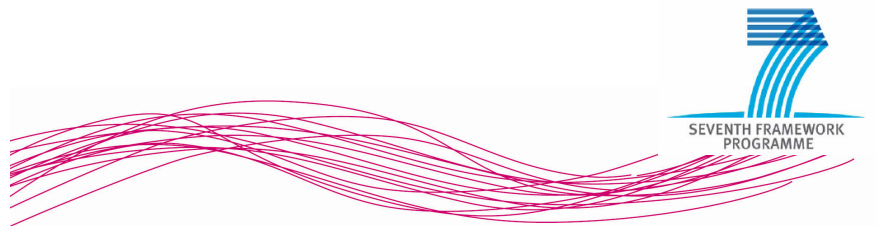




# Research for SMEs at a glance



## Objectives

**Research for SMEs** supports small groups of innovative SMEs in solving technological problems and acquiring technological know-how. Projects must fit into the overall business and innovation needs of the SMEs, which are given the opportunity to subcontract research to RTD performers in order to acquire the necessary technological knowledge. Projects must render clear exploitation potential and economic benefits for the SMEs involved.

## Principle – the overall approach

The SME participants are the direct beneficiaries of the project: they invest in the RTD project and outsource (subcontract) most of the research and demonstration activities to RTD performers and receive in return the technological know-how they need to develop new or improve existing products, systems, processes or services.

The relationship between the SMEs and the RTD performers under this programme is therefore a “customer-seller” relationship. The idea is to allow SMEs to further develop their activities by buying knowledge from RTD performers, who sell their expertise and work. Research and development activities undertaken by the SMEs themselves with their own resources are essentially focussed on initial specifications and, later, on validation and testing of the acquired knowledge. In this context, the real investment or cost incurred by the SMEs includes the price they pay for the know-how they wish to acquire: the intellectual property rights and knowledge developed during the project.

From an SMEs perspective, but also for a positive evaluation of the proposal, it is important that it is well verified and justified how the proposed research investment fits into the overall business strategy of the SMEs involved. Even if the level of public funding provided is substantial, it will never cover all the costs, shortfalls will have to be covered by the participating companies themselves. **Research for SMEs** is not a suitable instrument to solve short-term technological problems, but can assist companies in acquiring technological know-how and accessing international networks for their medium to long-term business development.

It is important to note that **Research for SMEs** is a bottom-up scheme: the projects may address any research topic across the entire field of science and technology.



## Activities in the project

A project will typically require a mix of different activities to achieve its objectives:

- § **Research and technological development activities (RTD)** form the core of the project with a major contribution from the RTD performers. SMEs focus on specifications, testing and validation of project results and the preparatory stages for further use.
- § **Demonstration activities (DEMO)** are designed to prove the viability of new technologies that offer a potential economic advantage but which cannot be commercialised directly (e.g. testing of product-like prototypes). This is the last development stage before products or processes enter production.
- § **Other activities (OTHER)** facilitate the take-up of results by the SMEs, in particular training and dissemination.
- § **Management activities (MANAG)** are a regular part of the project and provide an appropriate framework that brings together all project components and maintains regular communications with the Commission.

## Minimum requirements for the consortium

**Research for SMEs** projects require participants from the following categories:

- § SME participants: At least three independent SMEs, established in three different Member States or associated countries.
- § RTD performers: At least two RTD performers which must be independent from any other participant and which can come from any country. Examples of RTD performers are universities, research organisations and industrial companies, including research performing SMEs.

In addition, Other enterprises and end-users may participate by making a particular contribution to the project. They must also be independent from any other participant.

## Recommendations for resources and duration

The size of the consortium should typically be between 5 and 10 participants. The overall budget of the project should typically be between €0.5 million to €1.5 million and the duration of the project should normally be between 1 and 2 years. If a project deviates from these recommendations a justification is required.

## Decision-making, coordination of the project and consortium agreement

The management and **decision making** approach of the project should be tailored to the real needs in terms of scale and complexity. The consortium has to ensure that no decision can be taken against the collective interest of the SME participants.

The **coordination of the project** is a demanding and complex management task which requires a well qualified and experienced coordinator. The SME participants may entrust the coordination to a RTD performer or a partner in the consortium specialised in professional project management. The coordinator carries out the following tasks:

- § Monitor the compliance by the partners with their obligations;
- § Verify that all partners access to the grant agreement;
- § Receive the Community financial contribution and distribute it in accordance with the consortium and grant agreement;
- § Keep the records and financial accounts and inform the Commission of its distribution;
- § Intermediary for efficient and correct communication between the participants and reporting regularly to the participants and to the Commission on the progress of the project.

Once a project has been selected and negotiations are finalised the participants have to submit a signed **consortium agreement** to further detail information already reflected in the Technical Annex to the contract. It addresses issues such as the internal organisation of the consortium, the management of the Community financial contribution, rules on dissemination and use, including intellectual property rights management or the settlement of internal disputes.

## Intellectual property rules

Already at the proposal stage the consortium has to provide a clear and adequate description of how the participants will organise IPR (Intellectual Property Rights) ownership and user rights (e.g. licences, royalties) among themselves. The consortium may decide to follow the default regime, which gives full ownership of all project results ("foreground") and IPR to the SMEs.

The consortium may however reach a different agreement in its own best interest, as long as the SMEs are provided with all the rights that are required for their intended use and exploitation of the project results. In practice, this can, for example, mean that the RTD performers keep ownership of the entire foreground (or parts of it) and that the SMEs acquire licences only.

In exchange the RTD performers co-invest with own resources in the project. Therefore the price and payment modalities agreed between RTD performers and SMEs should reflect the value of the intellectual property rights and knowledge acquired, meaning for example that the price of a licence should be lower than the price for ownership of all results.

## Preparing a proposal

This quick guide to Research for SMEs is intended to help understanding the principles of *Research for SMEs*. It does not supersede the official and legally binding documents related to the call. To prepare a proposal please refer to the:

- § Work programme "Research for the benefit of SMEs"
- § Guide for applicants "Research for SMEs"
- § Guide to Intellectual Property Rules for FP7 projects
- § Rules for the submission of proposals

These documents and additional information about the **open calls** are available on the following webpage:

[http://cordis.europa.eu/fp7/dc/index.cfm?fuseaction=UserSite.CapacitiesDetailsCallPage&call\\_id=35](http://cordis.europa.eu/fp7/dc/index.cfm?fuseaction=UserSite.CapacitiesDetailsCallPage&call_id=35)

The **SME TechWeb** provides a wide range of background information and resources for technology oriented SMEs:

<http://sme.cordis.lu/home/index.cfm>

The network of **National Contact Points (NCP) for SMEs** is the main provider of advice and individual assistance in all Member States and associated countries. They offer a wide range of services and should be the first contact when preparing a proposal.

You can easily find the contact details of the designated National Contact Points for your country: [http://cordis.europa.eu/fp7/ncp\\_en.html](http://cordis.europa.eu/fp7/ncp_en.html)

## The SME definition

SMEs employ fewer than 250 persons and have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. Additional conditions for autonomy apply. More information:

[http://ec.europa.eu/enterprise/enterprise\\_policy/sme\\_definition/index\\_en.htm](http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm)

## Calculation of the project budget

Proposals will include a detailed work plan with the different activities necessary to achieve the project's objectives. Based on the resources which are needed to implement the work plan the consortium has to set up a project budget.

### Step 1: The budget for the SMEs

SME participants charge eligible costs under the various activities to the project. The payment of RTD performers' invoices (excl. VAT) by SMEs will be considered as eligible costs for the SMEs. VAT is not an eligible cost.

The following hypothetical example shows a possible distribution of costs for the different activities.

Budget for the SMEs	SME 1	SME 2	SME 3
<b>Activities and costs</b>			
<b>RTD</b>	<b>260.000</b>	<b>395.000</b>	<b>125.000</b>
Own RTD	45.000	55.000	20.000
Invoice RTD performers for subcontracted RTD	215.000	340.000	105.000
<b>DEMO</b>	<b>10.000</b>	<b>25.000</b>	<b>0</b>
Own DEMO	10.000	20.000	0
Invoice RTD performers for subcontracted DEMO	0	5.000	0
<b>OTHER</b>	<b>10.000</b>	<b>5.000</b>	<b>10.000</b>
<b>MANAGEMENT</b>	<b>60.000</b>	<b>5.000</b>	<b>5.000</b>
<b>TOTAL</b>	<b>340.000</b>	<b>430.000</b>	<b>140.000</b>

### Step 2: The budget for the RTD Performers

RTD performers will charge eligible costs only under Management activities and Other activities (including training and dissemination). Resources they use for RTD and Demonstration will be invoiced directly to the SME participants at an agreed price and appear therefore in the budget of the SME participants.

Budget for the RTD performers	RTD 1	RTD 2
<b>Activities and costs</b>		
<b>OTHER</b>	<b>0</b>	<b>30.000</b>
<b>MANAGEMENT</b>	<b>5.000</b>	<b>5.000</b>
<b>TOTAL</b>	<b>5.000</b>	<b>35.000</b>

### Step 3: The budget for the Other enterprises and end-users

In certain cases the SME participants request the participation of Other enterprises and end-users (OTH) to make a particular contribution to the project. They may also charge eligible costs under the various activities to the project.

Budget for Other enterprises and end users	OTH 1
<b>Activities and costs</b>	
<b>RTD</b>	<b>10.000</b>
<b>DEMO</b>	<b>40.000</b>
<b>OTHER</b>	<b>0</b>
<b>MANAGEMENT</b>	<b>0</b>
<b>TOTAL</b>	<b>50.000</b>

### Step 4: The total budget of the project

The individual budgets form together the total budget of the proposed project:

Partners & costs	RTD	DEMO	MANAG	OTHER	TOTAL
<b>SME 1</b>	<b>260.000</b>	<b>10.000</b>	<b>60.000</b>	<b>10.000</b>	<b>340.000</b>
Own activities	45.000	10.000			
Subcontracting	215.000				
<b>SME 2</b>	<b>395.000</b>	<b>25.000</b>	<b>5.000</b>	<b>5.000</b>	<b>430.000</b>
Own activities	55.000	20.000			
Subcontracting	340.000	5.000			
<b>SME 3</b>	<b>125.000</b>	<b>0</b>	<b>5.000</b>	<b>10.000</b>	<b>140.000</b>
Own activities	20.000				
Subcontracting	105.000				
<b>RTD 1</b>			<b>5.000</b>	<b>0</b>	<b>5.000</b>
<b>RTD 2</b>			<b>5.000</b>	<b>30.000</b>	<b>35.000</b>
<b>OTH 1</b>	<b>10.000</b>	<b>40.000</b>	<b>0</b>	<b>0</b>	<b>50.000</b>
<b>TOTAL</b>	<b>790.000</b>	<b>75.000</b>	<b>80.000</b>	<b>55.000</b>	<b>1.000.000</b>

### Calculation of the EC contribution

The European Community will provide a financial support to the project which covers only part of the total costs. The SME participants will therefore have to contribute with own resources, in cash or in-kind, to the project. The EC contribution is based on upper funding limits for individual activities:

- § Research and technological development activities: maximum of 50 % of the eligible costs.  
However, for SMEs, non-profit public bodies, secondary and higher education establishments, and research organisations: a maximum of 75 %.
- § Demonstration activities: maximum of 50%
- § Management and other activities: maximum of 100%

One important rule for the calculation of the EC contribution applies:

**In order to achieve the aim of promoting the outsourcing of research and demonstration activities, the financial support to the project will be limited to 110% of the total amount of the subcontracting to the RTD performers (price to be invoiced by RTD performers to SMEs).**

Partners & costs	RTD [50%/75%]	DEMO [50%]	MANAG [100%]	OTHER [100%]	TOTAL	Maximum EC contribution
<b>SME 1</b>	<b>260.000</b>	<b>10.000</b>	<b>60.000</b>	<b>10.000</b>	<b>340.000</b>	<b>270.000</b>
Own activities	45.000	10.000				
Subcontracting	215.000					
<b>SME 2</b>	<b>395.000</b>	<b>25.000</b>	<b>5.000</b>	<b>5.000</b>	<b>430.000</b>	<b>318.750</b>
Own activities	55.000	20.000				
Subcontracting	340.000	5.000				
<b>SME 3</b>	<b>125.000</b>	<b>0</b>	<b>5.000</b>	<b>10.000</b>	<b>140.000</b>	<b>108.750</b>
Own activities	20.000					
Subcontracting	105.000					
<b>RTD 1</b>			<b>5.000</b>	<b>0</b>	<b>5.000</b>	<b>5.000</b>
<b>RTD 2</b>			<b>5.000</b>	<b>30.000</b>	<b>35.000</b>	<b>35.000</b>
<b>OTH 1</b>	<b>10.000</b>	<b>40.000</b>	<b>0</b>	<b>0</b>	<b>50.000</b>	<b>25.000</b>
<b>TOTAL</b>	<b>790.000</b>	<b>75.000</b>	<b>80.000</b>	<b>55.000</b>	<b>1.000.000</b>	
<b>TOTAL amount of subcontracting, excl. VAT</b>						<b>665.000</b>
<b>Maximum EC contribution = 110% of subcontracting to RTD performers excl. VAT</b>						<b>731.500</b>
<b>Requested EC contribution is the minimum of the two:</b>						<b>731.500</b>

Therefore this fictional project would receive a financial support of up to €731.500.

## Distribution of the EC contribution

In a next step the partners in the consortium have to decide how to allocate the total EC contribution among themselves.

It is important to distinguish between the distribution of costs between partners and the allocation of the EC contribution among partners. It is up to the consortium to decide upon the allocation of the EC contribution. This allows the consortium to find the right balance between the individual contributions to the project (costs for in-kind and financial resources) and the expected benefits from the project results.

For our project example we show two possible scenarios – but keep in mind that each consortium should find a tailor-made solution according to its individual situation

It is important to keep in mind that the SMEs have always to take into account the payment of the invoices of the RTD performers. Each participant has also to make sure that they carry out the transaction and remuneration in accordance with the applicable national laws.

**Scenario 1:** RTD performers receive a contribution to cover their management and other costs, SME 2 and 3 receive a contribution which allows them to cover the RTD performers invoices and the remaining EC contribution goes to SME 1. Participants OTH 1 does not receive any EC contribution.

Partners & costs	Total costs	EC contribution for each participant	Own contribution (in kind)	Own contribution (in cash)
<b>SME 1</b>	<b>340.000</b>	<b>241.500</b>	<b>98.500</b>	<b>0</b>
Subcontracting	215.000			
<b>SME 2</b>	<b>430.000</b>	<b>345.000</b>	<b>85.000</b>	<b>0</b>
Subcontracting	345.000			
<b>SME 3</b>	<b>140.000</b>	<b>105.000</b>	<b>35.000</b>	<b>0</b>
Subcontracting	105.000			
<b>RTD 1</b>	<b>5.000</b>	<b>5.000</b>	<b>0</b>	<b>0</b>
<b>RTD 2</b>	<b>35.000</b>	<b>35.000</b>	<b>0</b>	<b>0</b>
<b>OTH 1</b>	<b>50.000</b>	<b>0</b>	<b>50.000</b>	<b>0</b>
<b>TOTAL</b>	<b>1.000.000</b>	<b>731.500</b>		

**Scenario 2:** All partners receive an EC contribution according to their share of costs in the project with the exception of participants OTH 1, which does not receive any EC contribution.

Partners & costs	Total costs	EC contribution for each participant	Own contribution (in kind)	Own contribution (in cash)
<b>SME 1</b>	<b>340.000</b>	<b>261.800</b>	<b>78.200</b>	<b>0</b>
Subcontracting	215.000			
<b>SME 2</b>	<b>430.000</b>	<b>331.100</b>	<b>98.900</b>	<b>13.900</b>
Subcontracting	345.000			
<b>SME 3</b>	<b>140.000</b>	<b>107.800</b>	<b>32.200</b>	<b>0</b>
Subcontracting	105.000			
<b>RTD 1</b>	<b>5.000</b>	<b>3.850</b>	<b>1.150</b>	<b>0</b>
<b>RTD 2</b>	<b>35.000</b>	<b>26.950</b>	<b>8.050</b>	<b>0</b>
<b>OTH 1</b>	<b>50.000</b>	<b>0</b>	<b>50.000</b>	<b>0</b>
<b>TOTAL</b>	<b>1.000.000</b>	<b>731.500</b>		