# Top most common mistakes to avoid when preparing a project application within the Business Development, Innovation and SMEs Programmes

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## 1. Not sufficient understanding of state aid issues

The EEA and Norway Grants Programmes are state aid schemes governed by the provisions of European Commission Regulation no. 651/2014 (GBER). This means that the successful applicants will be awarded with grants according to the state aid types and conditions which apply to the applicant's project. The applicants should pay attention on the relevant provisions included in the above-mentioned Regulation.

For example, in case the Applicant is interested to prepare an investment project under Green Industry Innovation focus area, the following state aid provisions should be carefully read: Art. 13-14 regarding regional aid and Art. 2(49) regarding the definition of initial investment. Please bear in mind that Art. 13 describes the economic sectors and activities which are excluded from regional aid.

https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX%3A32014R0651&from=EN

## 2. The grant rate is too high

The grant rate must not be higher than the maximum mentioned in the Call text. The Call text includes provisions regarding the maximum grant rate that could be requested by the Applicant. The Call text can be found on the website of the specific Programme.

One of the assessment criteria refers to this aspect: *'Grant maximum and minimum amounts and maximum possible grant rates are complied with'.* This is an eligibility criterion and therefore, if the maximum grant rate is exceeded, the project will be declared not eligible and therefore will not be further assessed.

## 3. The Applicant is not old enough

One of the mandatory eligibility criteria that are used for the assessment of project applications refers to the minimum period that should exist between the date which the Applicant was established as a legal entity and the deadline for project submission.

*'The Applicant has been established for at least the period of time set out in the Call for Proposals, section 1.1 Eligible applicants and partners'.*

**4. Unrealistic financial forecasts**

A frequent mistake is related to unrealistic financial forecasts during the project assessment process conducted for previous Calls for Project Proposals. Less rigorous financial estimations and calculation of financial indicators may lead to unrealistic financial forecast and wrong conclusions related to profitability of the project. In addition, the financial forecast is the basis for assessing the two mandatory indicators: the increase in turnover and the increase in net operational profit. In case their forecast is too optimistic, they will commit to reaching unrealistic figures.

The Applicant is expected to build his project on realistic financial estimations that have high probability to be achieved. Useful information about the financial aspects of the project application is available in the mandatory attachment '*Guideline for Detailed Budget and Financial Forecast'* available from each website for the Call for Proposals.

**5. Undertaking in difficulty**

According to Art. 2 (18) from the GBER, no company will receive financing if it falls under the conditions for 'undertaking in difficulty'. A typical example of an undertaking in difficulty is when they find themselves in a situation when accumulated net losses exceed 50 % of the subscribed capital of the company.

**6. The Applicant is too small for the size of the project**

There is a discrepancy between the Applicant's capacity and the envisioned project size. The Applicant should be able to secure proper resources (especially financial resources), to ensure that they will not put a heavy burden on their company during the project implementation period.

An example of an overburdened company would be if a company with a registered average turnover (3-year period) amounting to EUR 200,000 and proposes an investment project with an eligible budget of EUR 2,000,000. Implementation of such project might bring additional challenges for the Applicant's activity, due to the discrepancy between project size and company's financial capacity. Also, for the co-financing, in case the owners of the company will not bring their own resources (equities), there will be reduced possibility to obtain a credit from a commercial bank considering the reduced cash flow of the company, which will make the project significantly difficult to implement.

## 7. Overestimation of the number of hours and hourly rates

In most Research and Development projects the applicant estimates a too high number of hours needed for implementing the project, and / or sets an hourly rate that does not correspond to actual costs or the company's existing remuneration policies. In many cases, the hourly rates included in the budget exceed the actual paid salary. According to the call text, section "*Eligible direct expenditures*" it states that *a) "the cost of staff assigned to the project, comprising actual salaries plus social security charges and other statutory costs included in the remuneration, provided that this corresponds to the project promoter's and project partner's usual policy on remuneration;(...)."*

Also, the number of hours included in the budget for carrying out research and development activities are often overestimated. For example, there have been cases where the staff hours needed for a development project were set to 10 man years of work. This must be avoided, as it is important that the budget is based on realistic assumptions and comply with the provisions set out in the Call text. This will lead to a more efficient assessment process, as the Project Promoter demonstrates that they have the correct understanding of the project costs.

## 8. The project budget is not considering market prices

In many cases the budget does not have a proper justification when assessed according to offers previously obtained by equipment or services suppliers. According to "Project assessment methodology and criteria", one of the technical and financial considerations when assessing the project is "Costs estimates and funding: - The extent to which the project have clear and well documented cost estimates and a financing plan. The budget is correctly elaborated and correlated with project activities, allocated and estimated resources." If the project does not take into account the market prices and the budget has been overestimated, there will be a lot of expenditures registered during the project implementation which might have been used to finance other projects. If the budget is underestimated, during the project implementation the Promoter will need to cover the additional costs from their own sources, each amount exceeding the approved expenses is considered as non-eligible.

## 9. The difference between partnership and consultancy

The partner needs to undertake action and deliver results in the project. This would imply a unique contribution and input to activities that allows the Applicant to achieve the mandatory expected outcomes after project implementation. Choosing a partner that delivers "soft measures", such as market research or training, risks not being considered a real partnership.

### 10. Project Activities are started before the project grant is awarded

One of the most dire mistakes is to start the project activities already before the submission of application or while the application is being assessed. As pointed out in the Call text, one of the Eligibility Criteria for the project is that the work on the project must not have started at the time of submission of the Application. Starting with the project activities while the application is being assessed goes against the state aid regulation. The eligibility of costs usually starts on the date the grant offer is communicated. In addition, the Project Contract also sets the final date of eligibility of costs. Costs incurred after that final date are not eligible.

### 11. The applicant is not a private company

The Project Promoter should carefully check what type of legal entity is eligible for the Call. When it is stated that candidate must be a private company, that means that NGOs and public authorities are **not** eligible. Eligible candidates should be registered under the Commercial Act and should have less than 25% public ownership. Thus, business entities owned by municipalities and state-owned companies are not eligible.

### 12. Incorrect categorisation of a company

The size of the company can impact the assessment of a project proposal. Hence, it is very important that the applicant is accurate in its categorisation of its size, e.g. that an applicant which is actually a large enterprise **does not** categorises itself as an SME. In some cases, the incorrect categorization could lead to the rejection of the application, if large companies are not considered eligible for a certain call. Additionally, the incorrect categorization could lead to a reduction of the grant rate during the evaluation process. When defining your category, please refer to the User Guide to the SME Definition.

### 13. The focus area of the project application is not matching the focus area of the relevant call

It is important that the project proposal is submitted under the correct focus areas. The focus area of a Call for Proposal is specified clearly in the call text. When you submit your application in the e-portal it will provide you the option to select the focus area your project application. It is necessary that you choose the correct option which correlates to the focus area specified in the relevant Call for Proposal.