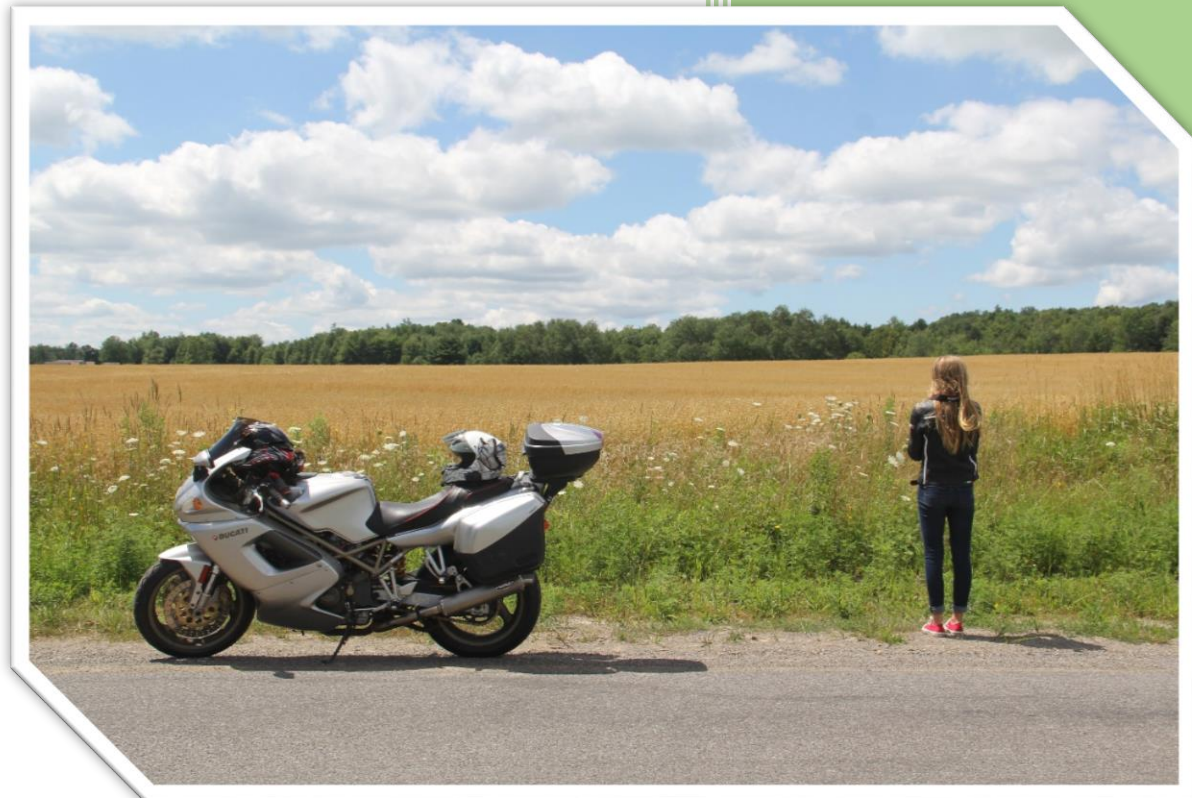


A1.3c: Policy recommendations report on the improvement of existing policy measures



RRA PK

June 2018

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1 Executive summary

The purpose of this report is to provide policy recommendations for policymakers and public authorities in INNOGROW regions on the topic of rural SMEs' innovation adoption and competitiveness.

Combining results from the comparative policy report of INNOGROW Activity 1.3 with additional desk research, the report suggests that existing policy instruments should incorporate a comprehensive approach for accelerating innovation in rural SMEs. Such an approach foresees that innovation should be adopted throughout the whole cycle of SMEs development, from the pre-financing stage to the successful scale-up.

The report includes 25 recommendations, proposing a mix of regulatory, financial, and educational measures that can accelerate rural SMEs' innovation capacity and competitiveness. Key recommendations advocate:

- More flexible financing mechanisms, especially in the early stages of innovation development.
- Regulations for creating a support ecosystem for innovation.
- The cultivation of a culture of business change and innovation.
- The establishment of supporting mechanisms for the internationalisation of rural SMEs.
- A tighter and more direct link between R&D institutions and rural SMEs.

2 Introduction

This document is the second, concluding output of INNOGROW Activity 1.3 “Analysing existing measures in INNOGROW regions for promoting innovation in rural economy SMEs”. The aim of this report is to suggest improvements on existing innovation policies in INNOGROW regions for rural economy SMEs and to enable partners to implement policy instruments more effectively.

This report follows the first output of Activity 1.3, which is a comparative policy report on the policies promoting innovation in rural SMEs in partners’ regions. To ensure the cohesion and continuity between these two outputs, this document first presents key findings and identifies common trends and policy issues that stem from the comparative analysis report.

The report is structured in the following way: section 1 provides an executive summary, and section 2 introduces the document’s purpose, aim, and structure. Section 3 presents the context of the document, namely the activity it belongs to and the project within the activity is being implemented. Section 4 summarises key findings from the first output of Activity 1.3 (the comparative policy report). Section 5 builds on and elaborates broader policy issues that emerge from the comparative policy report. Finally, section 6 offers specific policy recommendations for improving INNOGROW regional policies on rural SMEs’ innovation adoption efforts and section 7 provides guidelines for the implementation of policy recommendations.

3 Context of the INNOGROW project

3.1 The INTERREG EUROPE programme

The INTERREG EUROPE programme (www.interregeurope.eu) promotes the exchange of experience on thematic objectives among partners throughout the European Union (EU) on the identification and dissemination of good practices, to be transferred principally to operational programmes under the Investment for Growth and Jobs goal, but also, where relevant, to programmes under the European Territorial Cooperation (ETC) goal. This will be done via the support and facilitation of policy learning, sharing of knowledge, and transfer of good practices between regional and local authorities and other actors of regional relevance.

INTERREG EUROPE is one of the instruments for the implementation of the EU's cohesion policy. With this policy, the EU pursues harmonious development across the Union by strengthening its economic, social and territorial cohesion to stimulate growth in the EU regions and Member States. The policy aims to reduce existing disparities between EU regions in terms of their economic and social development and environmental sustainability, taking into account their specific territorial features and opportunities. For the 2014-2020 funding period, cohesion policy concentrates on supporting the goals of the Europe 2020 strategy, which targets to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion.

3.2 The INNOGROW project

The "Regional policies for innovation driven competitiveness and growth of rural SMEs – INNOGROW" project aims to improve partners' policies on rural economy SMEs competitiveness as regards the integration of new production technologies and business models that lead to innovative products. The project will promote the adoption of innovation by rural economy SMEs, through sharing practices/experiences between regions and actors relevant to rural economy SMEs competitiveness and integrating lessons learned into regional policies and action plans.

Rural economy SMEs need to remain globally competitive by adopting innovative solutions, new business models and modernisation approaches that will lead to increases in productivity and access to new markets. Territorial capacity building and policy innovation involving all regional actors are critical factors for promoting the diffusion of innovations, to maintain and strengthen SMEs' competitiveness and consequently regions' growth. Regions in rural areas can play an important role in the modernisation of existing SMEs and the proliferation of innovative start-ups, providing incentives to promote the adoption of technological innovations, such as organic farming, functional food, crop resistance systems, selective breeding and feeding processes to boost livestock resistance to local conditions. At the management level, incentives need to be provided for the mixed production of crops and livestock products, and new business models and coalitions that lead to innovative business ideas.

3.2.1 INNOGROW partners

INNOGROW brings together 9 partners from 8 countries (Table 1), involving the managing authorities and regional bodies influencing regional and national policy instruments, to promote the adoption of technology and business model innovations by rural economy SMEs:

Table 1: INNOGROW partners & countries

No.	Country	Partner
LP1	Greece	Region of Thessaly (RoT)
PP1	Italy	Lombardy Foundation for the Environment (FLA)
PP2	Latvia	Zemgale Planning Region (ZPR)
PP3	United Kingdom	The University of Newcastle upon Tyne (UNEW)
PP4	Bulgaria	Stara Zagora Regional Economic Development Agency (SZREDA)
PP5	Czech Republic	Regional Development Agency of the Pardubice Region (RRA PK)
PP6	Italy	Chamber of Commerce of Molise (CoC – Molise)
PP7	Slovenia	Regional Development Agency of Gorenjska, BSC Business Support Centre Ltd, Kranj (BSC)
PP8	Hungary	Pannon Novum West-Transdanubian Regional Innovation Non-Profit Ltd (PANOV)

3.2.2 INNOGROW activities

To boost SMEs’ competitiveness and foster rural development, the INNOGROW project includes a wide range of activities, focusing on promoting the interregional

learning process and the exchange of experience among regional authorities. Project activities include:

- Investigation of innovative technologies' impact on rural economy SMEs competitiveness and productivity.
- Identification of successful new business models for rural economy SMEs.
- Evaluation and analysis of existing policies and strategies related to the promotion of innovation in rural economy SMEs.
- Analysis of the factors (barriers and enablers) that influence rural economy SMEs to adopt innovation.
- Promoting public dialogue and consultation process to build consensus and ensure the successful implementation of regional action plans, through the support and participation of key regional stakeholders.
- Fostering interregional learning and capacity building through workshops, study visits, and policy learning events.
- Development of transferable tools & resources to promote benchmarking and policy learning, and transfer knowledge and lessons learned beyond the partnership.
- Joint development of action plans to promote the improvement of the policy instruments addressed by the project.
- Increasing awareness, promoting and disseminating the project results and knowledge beyond the partnership.

3.2.3 INNOGROW expected results

INNOGROW will improve 8 policy instruments, relevant to the abovementioned policy areas, targeting to achieve:

- Enhanced innovation support services for over 5% of rural economy SMEs in partners' regions.
- Improved horizontal & vertical cooperation among SMEs in rural areas for products commercialisation.

- Increased capacity of 200 staff of public administrations to effectively implement policies, stimulating innovation adoption by rural economy SMEs.
- 10 million of Euros of investments unlocked to promote innovative technologies & new business models.

3.3 INNOGROW Activity 1.3

INNOGROW Activity 1.3 "Analysing existing measures in INNOGROW regions for promoting innovation in rural economy SMEs" aims to identify and compare existing policies on competitiveness in the INNOGROW regions that foster the adoption of innovation by rural SMEs. Additionally, it offers policy recommendations for the improvement of such policies in INNOGROW regions.

Activity 1.3 consists of three parts: a methodology, a comparative analysis, and policy recommendations. The first two parts have already been delivered (by PANOVA and UNEW respectively), and this policy recommendations report is the last part that concludes the activity (prepared by RRA PK). The outline of the activity is the following:

1. Methodology: Based on the results of A1.1 and A1.2 activities, PANOVA created a methodology for project partners in order to identify the measures which support the adoption of innovation by rural SMEs. Apart from data collection tools, the methodology provided definitions and evaluation guidelines for conducting the comparative analysis of the data.
2. Comparative analysis report: Based on the methodology designed by PANOVA, UNEW prepared a comparative analysis report, offering an overview of the policies promoting innovation in rural SMEs in partners' regions and analysing supportive evidence, enablers, and impact of measures. Findings in the report were: industry focus of policy measures, types of adopted Innovation involved in the policy measures, main difficulties faced in the adoption of innovative technologies, degree of success in the implementation of the policy measures, outcomes/benefits generated by the operation of the policy measure.

3. Policy recommendations report: This document is the policy recommendations report, the third part that concludes Activity 1.3. RRA PK uses the comparative analysis drafted by UNEW to synthesise and analyse partners' input and offer policy recommendations on the improvement of existing policies in INNOGROW regions. The delivery of policy recommendations for the improvement of existing policies in INNOGROW regions aims to support project partners to implement policy instruments more effectively and to boost SMEs' acceptance and adoption of innovations in country and rural areas. Recommendations put forward in this document focus on key policy issues and propose defensible policy measures for rural economy SMEs, to ensure an effective policy context and implementation for the diffusion of innovations that disrupt existing business models.

The following figure (Figure 1) outlines the overall timeline and structure of Activity 1.3 and the following graph (Figure 2) shows the links that Activity 1.3 as with other INNOGROW activities:

Figure 1: Timeline & structure of Activity 1.3

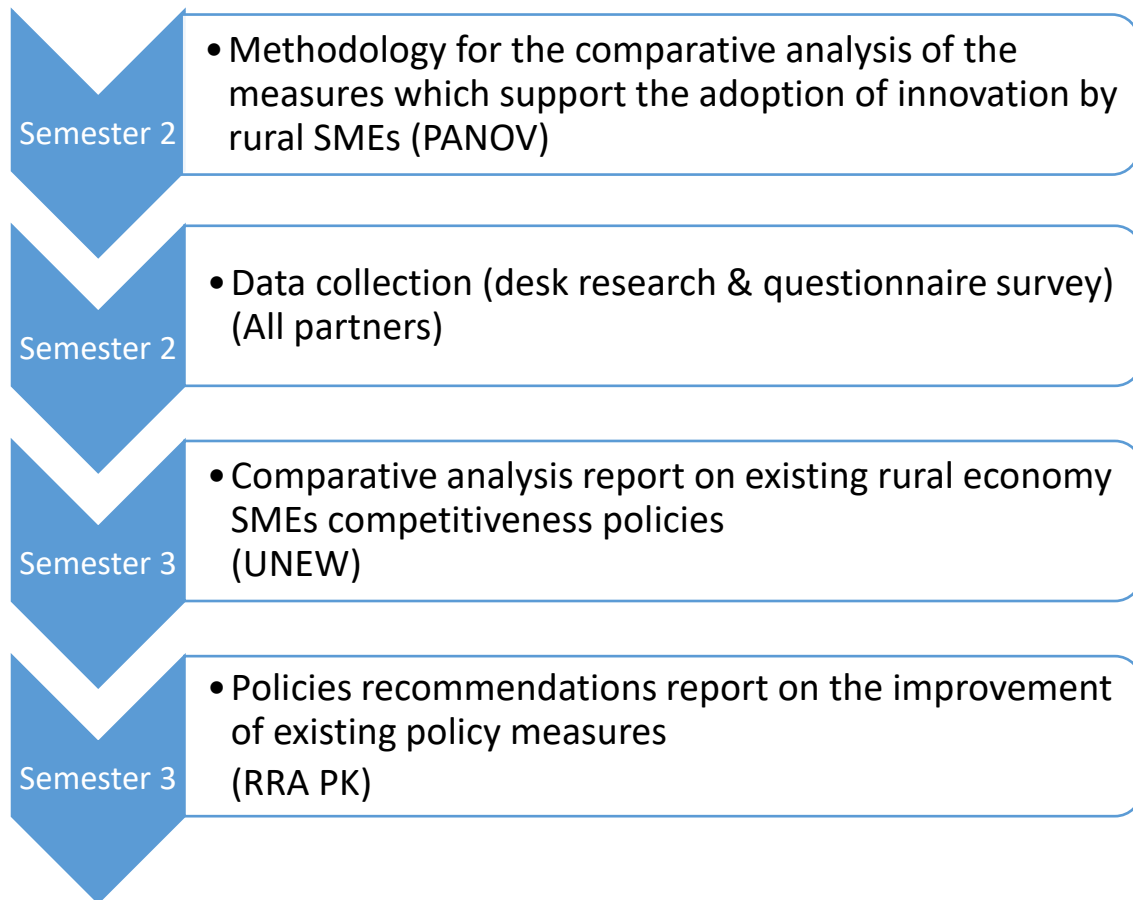
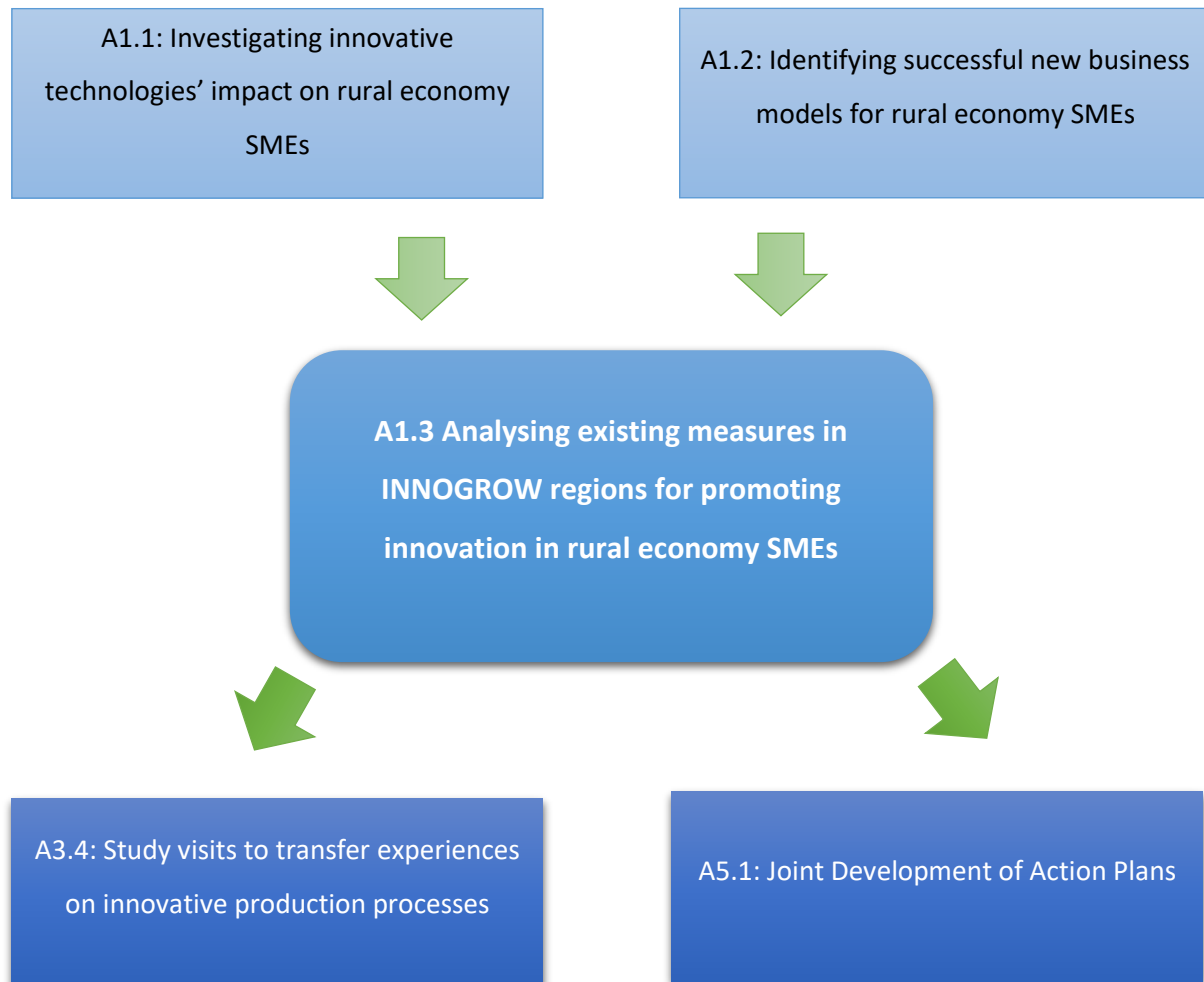


Figure 2: Link with other INNOGROW activities



4 Key findings from comparative analysis

This section highlights key findings on existing rural economy SMEs competitiveness policies, taken from the UNEW comparative analysis report (see ANNEX A, B, and C).

The data collected according to the methodology (PANOV) were analysed in the comparative policy report (UNEW). The compiled data show that 15 case examples of policy measures have been identified across 6 INNOGROW partner countries (ANNEX 1, Table 5). Italy has contributed to the highest number of the selected cases with 6 cases (Molise (3) and Lombardy (3)), followed by Czech Republic (4), Bulgaria (3), Slovenia and Hungary (2), and Latvia (1). Regarding geographical focus, of the 18 cases, 10 are focused at the national level, 4 are local, 2 are regional, and 2 have both a national and regional focus.

Following the classification already presented in the comparative policy report, key findings can be grouped into five thematic areas:

4.1 Industry focus of policy measures

Key finding 1 (Figure 3):

Concerning the industry focus of policy measures, the comparison revealed a diversified policy landscape in INNOGROW regions. Considering that rural economies host a wide variety of SMEs,¹ it is expected that policy measures targeted to them go beyond a single-industry framework. Findings showed that the largest share (33%) of policy measures are focused on multiple small-scale rural economy industries (e.g. ITC). However, a greater concentration of policy measures on some specific industries indicates the existence of more developed sectors in INNOGROW regions. For example, policy measures with a focus on the food and beverage service activities and the energy and resource industry add up to 22.2% and 16.7%, respectively, of the total measures collected.

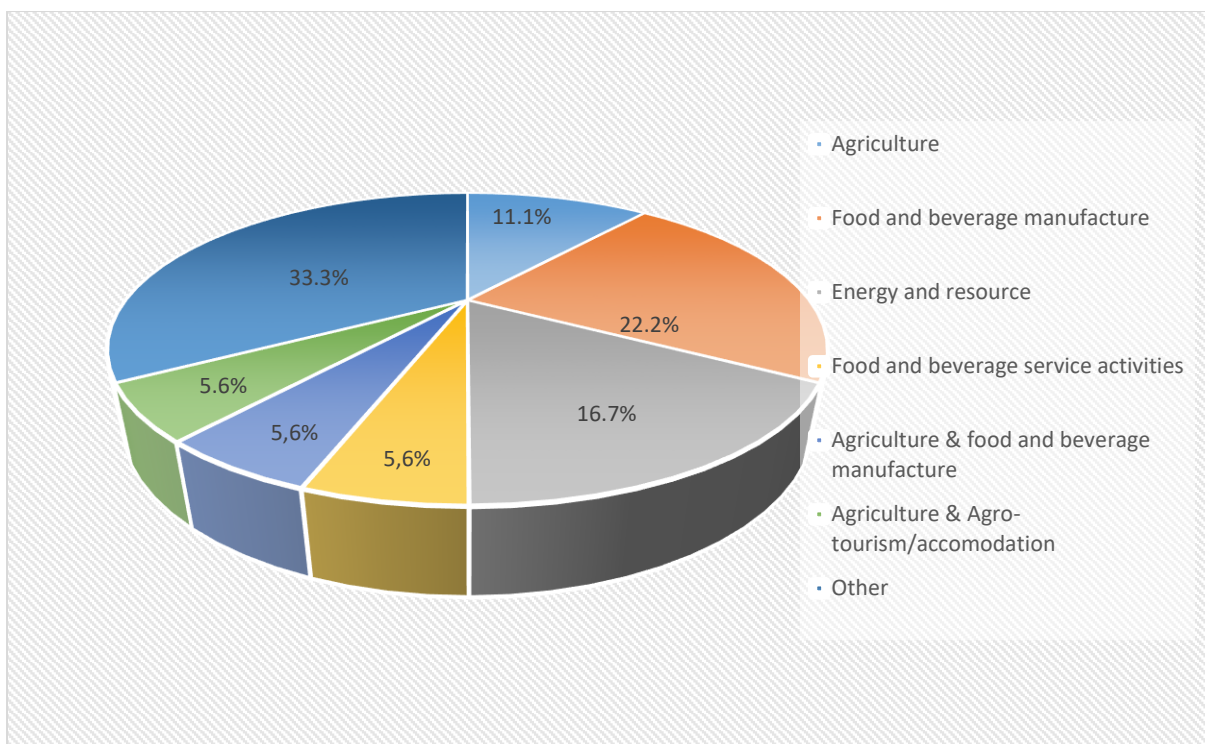
¹ Eurostat 2011

Key finding 2 (Figure 3):

Data comparison revealed that policy measures are concentrated around various economic uses of agriculture. Although barely any individual categories related to agriculture (agriculture, agriculture and food and beverage manufacture, agriculture and agro-tourism/accommodation) account more than 10%, collectively accumulate the highest percentage of policy measures (27.9%). Consequently, agriculture emerges as the most versatile resource for rural SMEs to exploit, as well as a resource that requires diversified policy planning from regional authorities.

Figure 3: Industry focus of policy measures

Source: Comparative policy analysis report – INNOGROW Activity 1.3



4.2 Types of adopted innovation involved in the policy measure

Key finding 1 (Table 2):

Approximately one-third of the adopted innovations are oriented towards the development of new products (33%), a result concurrent with findings from INNOGROW deliverable A1.2 (Figures 3 & 4). Such findings consolidate that rural SMEs focus primarily on innovations relevant to their value proposition. The development of innovative products may involve the creation of entirely new value propositions, but it can also involve the diversification of existing ones.

For example, the development of complementary products and services that connect or bundle together to create more value (e.g. complements, extensions/plugin-ins, modular systems), or the modification of products/services in order to deliver superior value to customers (e.g. superior product, ease of use, safety, customization, environmental sensitivity) are ways of providing an innovative value proposition.

Key finding 2 (Table 2):

Results from the comparative analysis show that rural SMEs in INNOGROW regions adopt eco-friendly innovations. Innovations regarding renewable energies, organic farming, and agro-farming collectively account for 22.2%, placing them as the second most adopted type of innovation after new product development. This finding indicates the ecological potential of innovation that could be exploited by rural SMEs.

Table 2: The Type of adopted Innovation that is involved in the policy measure

Source: Comparative policy analysis report – INNOGROW Activity 1.3

Type of adopted Innovation	Responses	Percent
New production development	6	33.3%
Renewable energy	2	11.1%
Internal products’ treatability system	1	5.6%
Precision agriculture	1	5.6%
Organic farming, Agro-farming, & New product development	2	11.1%
Other	6	33.3%
Total responses	18	100.0%

4.3 Main difficulties faced in the adoption of innovative technologies

Key finding 1 (Table 3):

Lack of funding has been established as a major difficulty for many rural SMEs. 26.9% of reported cases cited lack of funding and lack of financial resources as an obstacle for integrating innovative technologies or production methods. Previous research conducted in deliverable A1.4 confirms lack of funding as a major barrier to rural SMEs’ innovation efforts. Such results indicate that SMEs’ access to finance from external sources seems to be limited, creating critical bottlenecks. Therefore, there is an urgent need for policy-makers to address this significant challenge by bringing down the cost of innovation and increasing the availability of innovation capital through funding programmes and support mechanisms.

Key finding 2 (Table 3):

Lack of appropriate external advice was also reported as a second main difficulty (19.2%). Previous research also identifies lack of adequate external support mechanisms to innovation as important barriers to the adoption of innovative technologies in SMEs. Elements of external support could be innovation centres, rural digital hubs, and agri-food accelerators.

For example, external advice and support may stimulate SMEs to engage in innovation and R&D activities, accelerating the reallocation of resources to innovation-driven firms and industries. In contrast, a poor innovation support system can substantially increase the cost of introducing new products and make returns to investment in new products and technologies more uncertain.

Table 3: Main Difficulties Faced in the Adoption of Innovative Technologies

Source: Comparative policy analysis report – INNOGROW Activity 1.3

Main Difficulties	Responses	Percent	Percent of Cases (N=17)
Lack of funding/financial resources	7	26.9%	41.2%
Lack of expertise/skills of existing employees	4	15.4%	23.5%
Inability to hire new employees with relevant skills	4	15.4%	23.5%
Lack of customer demand	1	3.8%	5.8%
Lack of appropriate external advice	5	19.2%	29.4%
Other	4	15.4%	23.5%
Do not have any difficulties	1	3.8%	5.8%
Total responses	26	100.0%	152.9%

4.4 Degree of success in the implementation of the policy measures

Key finding 1 (Figure 4):

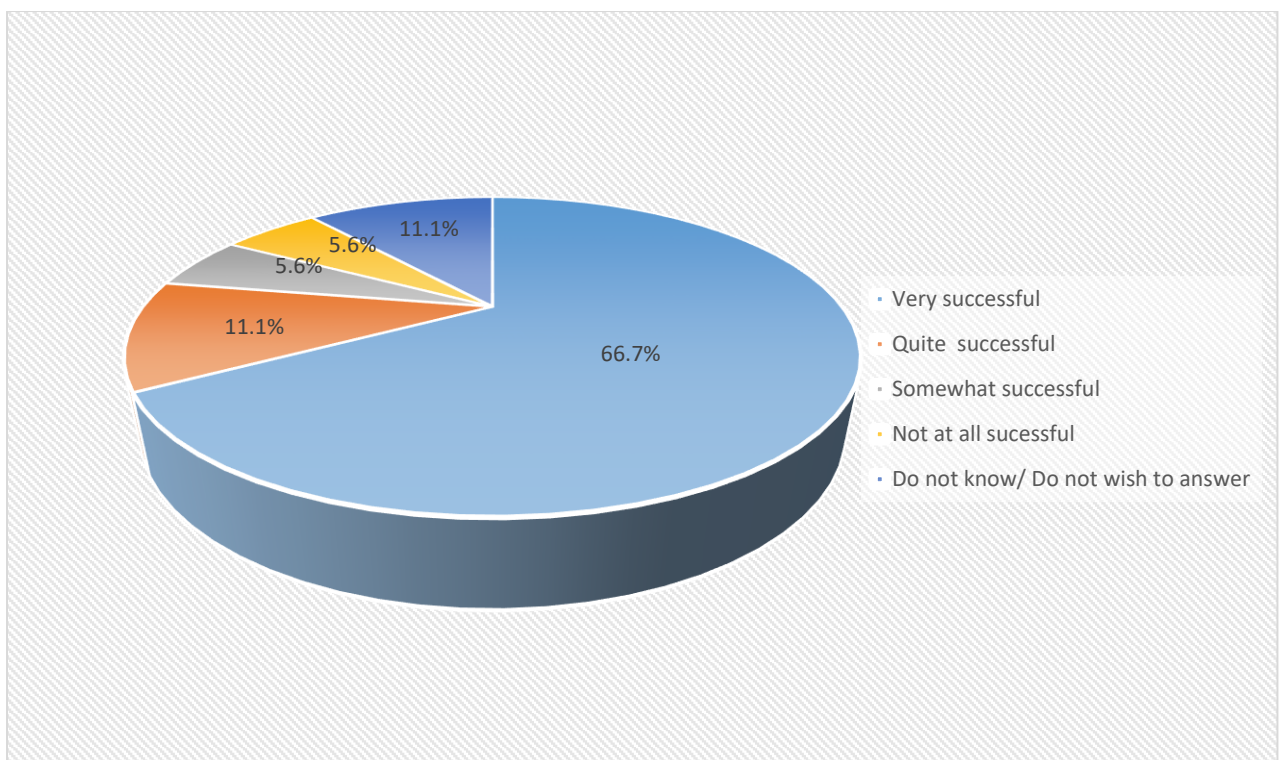
Implementing policies to improve the adoption of innovation identified difficulties only in some partners' regions. Generally, most of the cases were successfully implemented, with 67% of the selected policy measures are considered to have been very successfully implemented. It is noticeable that only one policy instrument failed to successfully address its objectives.

However, such a finding is incongruent with findings from deliverable A1.4, where the lack of an adequate regulatory framework was identified as a crucial barrier to innovation by rural SMEs in INNOGROW regions.

Nevertheless, policy instruments need to constantly adapt to key challenges that emerge in the field of rural development and SMEs' competitiveness. Therefore, it is required that policy-makers always develop effective measures for tackling various challenges, the most serious of which pertain to technological, environmental, demographic, and political changes, as well as globalisation and evolving markets.

Figure 4: Degree of Success in the Implementation of the Policy Measures

Source: Comparative policy analysis report – INNOGROW Activity 1.3



4.5 Benefits generated by the operation of the policy measure

Key finding 1 (Table 4):

The comparison report shows that the perceived benefits resulting from policy measures implementation are social, internal, and market-related. More specifically, the three most significant benefits were perceived to be an increase in job opportunities (employment) and enhanced research and innovation capacity (both at 25.8%), followed by increased productivity for the participating companies (19.4%). Therefore, policy measures are perceived by rural SMEs as having far-reaching outcomes, touching on social growth (employment), the internal capacities of SMEs (research and innovation capacity), and market performance (productivity).

Table 4: Outcomes/Benefits generated by the operation of the policy measure

Source: Comparative policy analysis report – INNOGROW Activity 1.3

Outcomes/Benefits	Responses	Percent	Percent of Cases (N=16)
Cost reduction/ annual savings	4	12.9%	25.0%
Increased productivity for the participating companies	6	19.4%	37.5%
Increase in job opportunity (employment)	8	25.8%	50.0%
Enhanced research and innovation capacity	8	25.8%	50.0%
Improved resource efficiency	4	12.9%	25.0%
Other	1	3.2%	6.3%
Total responses	31	100.0%	193.8%

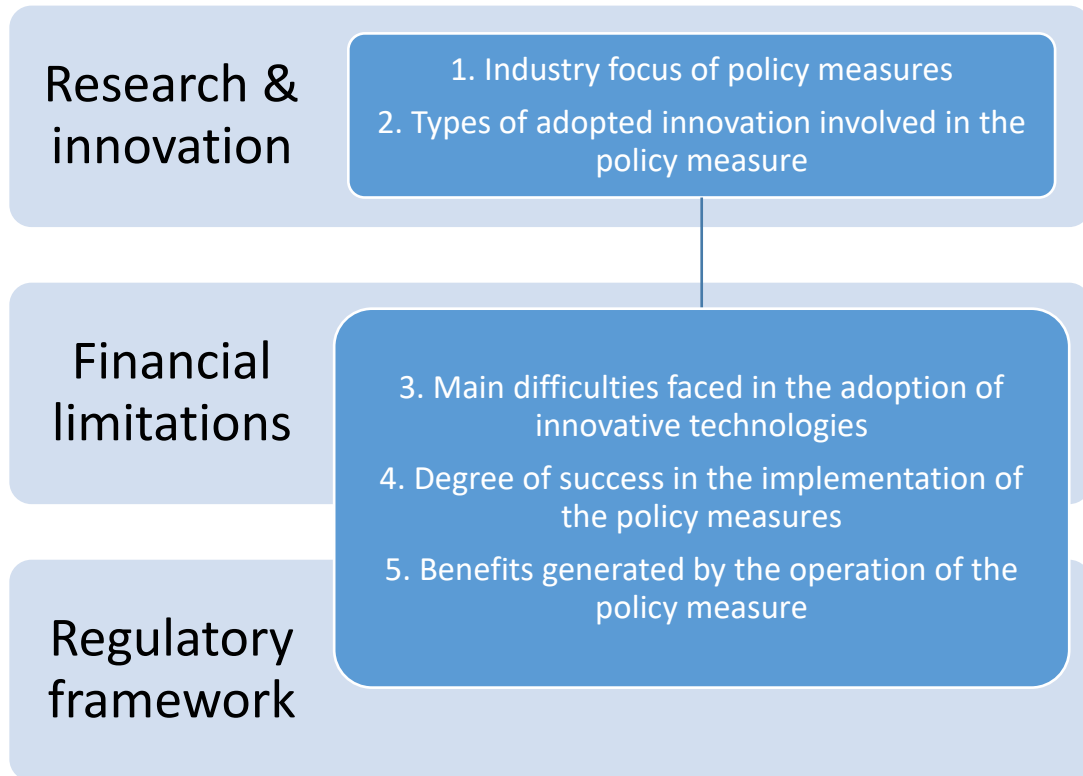
5 Analysis of key themes from comparative analysis

This section presents a meta-analysis of the comparative policy report results (already presented in the previous section), complementing the analysis with original desk research. The desk research was a literature research and it was conducted in the context of this INNOGROW Activity. It focused on the challenges that rural SMEs encounter in their efforts to innovate and increase their competitiveness.

The aim of this section is to approach the comparative report findings from a wider perspective in order to identify the broader thematic background and key issues relevant to the next section, which presents the policy recommendations.

The meta-analysis identified three wider themes emerging from the comparative policy report findings: a) financial limitations, b) regulatory framework, and c) research and innovation. These themes do not correspond one to one of the key findings from the previous section. They are broader in nature because they aim to elaborate the already presented comparative report findings. Nevertheless, the “research and innovation” meta-analysis point picks up themes from the first and second categories of the previous section, while the “financial limitations” and “regulatory framework” meta-analysis points deal with issues emerging from the other three categories (see the following Figure).

Figure 5: Common issues & key findings



5.1 Meta-analysis point 1: Financial limitations

Comparative report results clearly show that there is an urgent need to address financial challenges for rural SMEs. Policymakers should concentrate on modern trends are creating new opportunities for the development of rural areas and the emergence of new rural businesses. The internet and other digital technologies are offering the potential to overcome geographic distance and create new forms of proximity to knowledge, markets, and relationships. For example, bringing down the cost of innovation and increasing the availability of innovation capital through funding programmes and support mechanisms are some possible ways to create a better financial environment for rural economy SMEs.

Policy-makers can take advantage of emerging opportunities by finding smarter ways to deliver effective business support and to make targeted efforts to overcome some of the specifically rural challenges. Taking into account the

diversity of INNOGROW rural areas and the particular severity of certain challenges and/or the strength of specific opportunities in individual locations will be essential.

The secret to economic growth for rural SMEs will be the effective harnessing of emerging opportunities in the most appropriate ways for a specific rural location through thoughtful planning, strategic investment, and community buy-in. For example, we can combine the comparison analysis results that show a concentration of policies around the food and beverage sectors with comparison findings demonstrating that agriculture is a significant and diversified resource for rural economies in INNOGROW regions. This combination can lead policymakers to recognise that both food/beverage industries and agricultural uses could be developed together under the development of agri-food policies.

Already, the agri-food sector provides 7 % of all employment and 3.5 % of added value in the European economy.² However, major opportunities still exist to further develop the food economy based on increasing quality, adding value and improving market access. Farmers focusing on primary production can explore opportunities to add value to their products. Increased opportunities exist where consumers have shown themselves to be willing to pay more for demonstrably higher quality – this can include local or regional specialties, organic food, and food that is produced locally or according to stricter environmental standards. Agri-food development policies could bring about greater policy changes, since such measures may aim to reduce the gap between rural producers and urban consumers through smarter food supply chains.

Another critical aspect that may enable policy-makers to address financial limitations in rural economy SMEs is the development of educational programmes and incentives that promote financial literacy. There is no doubt that entrepreneurial skills and competencies constitute one of the major issues in the successful performance of businesses of all sizes. This becomes even more important for smaller firms because they may not be able to afford in-house

² EU Rural Review 24, 2017.

specialised financial skills and experience, despite the fact that the latter constitutes necessary preconditions for ensuring that decisions made are the ones which will best serve the SMEs' financial interests.

5.2 Meta-analysis point 2: Regulatory framework

As the comparative report shows, the regulatory framework is a key element in rural SMEs' success, being a driver for economic growth when it is successfully planned and implemented, while hindering innovation efforts when it is lacking. Policy-makers should consider that policymaking can benefit all the aspects underlying innovation adoption, including access to finance and technological equipment, capacity building and human resources, market linkages, availability of research facilities, and access to key information, among others, through regulations, interventions, and schemes.

For these reasons, a regional SME development strategy should aim to establish a support ecosystem that accompanies innovative SMEs for an extensive period of time. Regional authorities and relevant institutional bodies could develop particular business model consultation tools and services in collaboration with relevant stakeholders and experts that guide and assist rural SMEs throughout the whole development and execution of their idea.

Policy-makers should consider smarter approaches to help rural businesses seize the emerging economic opportunities. Moving towards approaches that accompany entrepreneurs along with a 'support itinerary' through an ecosystem of support services has certain benefits over support models that limit themselves to 'one-off' interventions. These benefits stem from incorporating multiple elements and practices such as peer learning, shared workspaces, coaching, mentoring, training, incubators, accelerators, investment finance and shared technical equipment.

Lack of appropriate external support is one the main barriers to innovation for rural SMEs in INNOGROW regions. This comprehensive approach to innovation could be a way that rural SMEs can tackle such difficulties, aiming to create a culture of business change and innovation, cultivating the development of new

ideas and enabling those that have the motivation and potential to move through the necessary stages of development.

5.3 Meta-analysis point 3: Research and innovation

The prevalence of product innovation in INNOGROW regions could provide useful information to policy-makers and public authorities who could focus on developing already existing policy instruments in two complementary directions. On the one hand, improved policy instruments could enable greater opportunities for product innovation. On the other hand, restructured policy instruments promoting other types of innovation –ones that rural SMEs seem less eager to try– could facilitate the dissemination of innovation in rural regions.

Some examples of other types of innovation relevant for rural SMEs could be profit formula innovation, which is the introduction of innovative pricing strategies and models (e.g. bundled or flexible pricing, financing, advertising revenue, membership, metered or subscription models) and resources innovation, which builds on existing infrastructure to develop additional resources or diversify existing ones (e.g. use current IT infrastructure to offer web services).

Additionally, comparison results indicate that the connection between innovation and green growth could be further explored. The concepts of the green and circular economy are relevant here, providing general guidelines from which policymakers could draw from.

The green economy is about taking advantage of growth opportunities that are environmentally sustainable, as well as improving environmental performance in ways that are economically and socially viable. This typically requires new ways of thinking and new ways of working. The green economy includes the transition to low-carbon and resource-efficient economic activities in ways that can improve environmental sustainability whilst delivering cost savings and business opportunities.

Developing new, sustainable income streams from previously 'waste' materials is the concept of the 'circular economy', whereby resources are recycled within value chains. Reducing the consumption of resources and taking advantage of increasing

consumer preference for environmentally friendly products and services – for example through green tourism or product branding – are two ways of turning the environmental performance into increased profits.

6 Policy recommendations

This section includes the valorisation of the main lessons learned from the partners' input and the comparative policy analysis. The rationale is to provide guidance to policymakers as regards the formulation, development, and review of SME-targeted policies to promote the diffusion of innovative solutions and new business models. Their implementation will result in overcoming the challenges associated with businesses' engagement in research and innovation strategies and maximising competitiveness through the adoption of innovation.

Rural SMEs should be an important policy target for relevant authorities. Due to their propensity to be affected by fast-changing market factors and their inability to reciprocate with their resources at hand, facilitating rural SMEs innovation strategies could play a key role in fostering their viability. Therefore, specifically for rural areas, regional policy changes targeted specifically to SMEs' ecosystem could enable rural SMEs to overcome their own structural disadvantages as well as transform themselves into key drivers for economic growth, innovation, and employment.

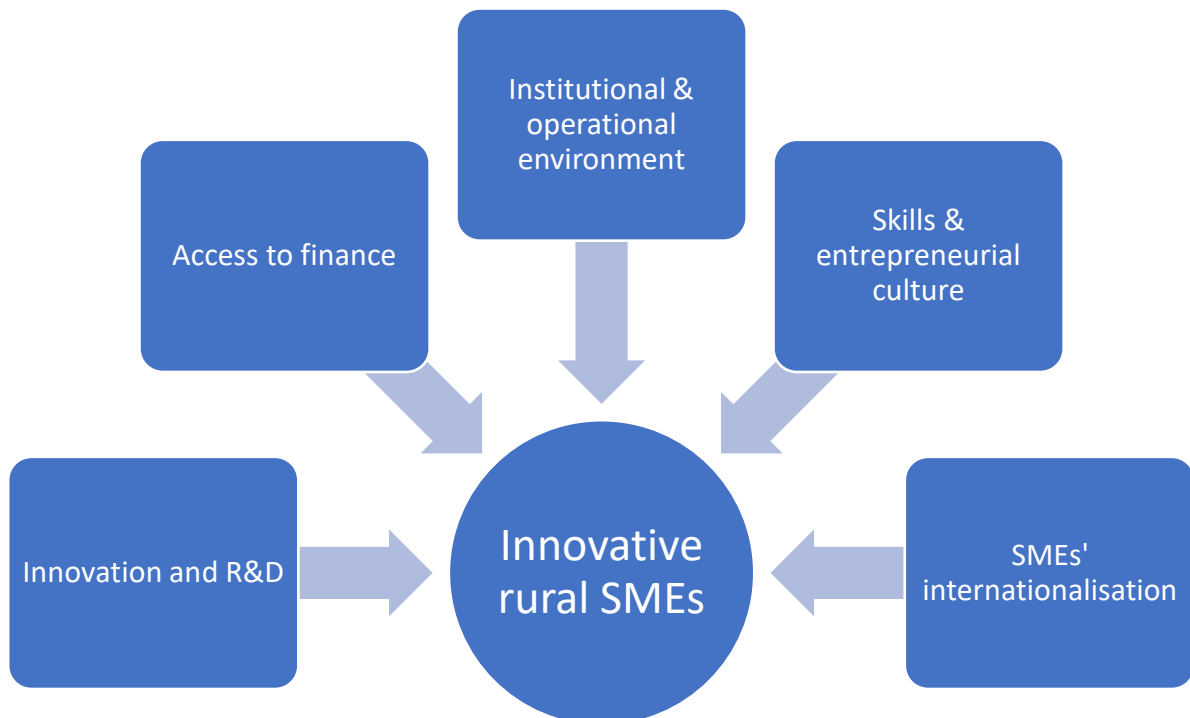
Flexible incubating ecosystems of incentives are better suited for facilitating innovation compared to single policy interventions. Policymakers should forward manifold changes across the value chain, including all relevant stakeholders, from direct financial to non-business incentives. For this reason, all relevant aspects of the innovation cycle should be taken into account when developing policy instruments relevant for rural SMEs' innovation attempts.

The following recommendations are divided into five parts, all of which contribute to fostering innovation in rural economy SMEs in INNOGROW regions:

- **Section 1** "Ease access to finance for rural economy SMEs" suggests measures for unlocking financial possibilities for rural economy SMEs.
- **Section 2** "Improve the institutional framework and operational environment" advises on how the institutional context of rural SMEs could be amended in order to facilitate the adoption of innovative strategies in rural SMEs.

- **Section 3** “Promote skills development and entrepreneurial culture” proposes measures for developing an entrepreneurial culture and promoting skills development that could assist in innovation adoption by rural SMEs.
- **Section 4** “Support SMEs’ internationalisation” includes recommendations on how regional authorities’ support could enable the internationalisation of rural economy SMEs.
- **Section 5** “Facilitate rural SMEs’ innovation and R&D” includes general recommendations on how policymakers could accelerate innovation adoption in rural SMEs.

Figure 6: Innovation ecosystem for rural economy SMEs



6.1 Ease access to finance for rural economy SMEs

- *Promote availability of public regional capital on early stages of financing innovative SMEs.*

Rural SMEs face difficulties in accessing financial capital in the early stages of the idea. Concentrating public funds policies for promoting availability of capital to business model innovative SMEs mainly on early stages of the financing of the firm could be used to leverage private sector financing in order to reduce the financing gap.

- *Establish regional and local business model innovation equity initiatives (e.g. regional funds).* Recognise the need for proximity between suppliers of funds and those who require finance, particularly for small-scale investment. Regional and local equity initiatives (e.g. regional funds) are appropriate for such types of investment.

- *Prioritise measures to ease innovative SMEs access to markets.*

Whether international markets or public procurement there is a need for an institutional set-up based upon the use of non-discriminatory measures which seek to support efforts made by SMEs themselves. Policy in this area seeks to tackle the disadvantages experienced by rural SMEs due to their lack of access to human resources, to external markets and to technology essential for developing innovation practices.

- *Provide financial support to SMEs that innovate.*

Targeted financial instruments could be designed to support innovation by rural SMEs and start-ups, in a way that meets their specific business needs. Ideas include voucher schemes to give them access to the public research and education infrastructure (e.g. advice and expertise from university-based experts and participation in certified training programmes), grant schemes to co-operate

with university-based staff in joint research projects, as well as seed funds for innovative start-ups.

- *Mobilise financial support synergies for rural SMEs' innovation.*

When providing financial support, synergies with other instruments should be sought to maximise their effectiveness in terms of innovation and entrepreneurial outcomes. For instance, seed funds for start-ups could be combined with vouchers for training in managerial skills, while matched grants for innovation activities could be linked to credit-guarantee schemes on loans obtained from banks by SMEs.

6.2 Improve the institutional framework and operational environment

- *Develop business model consultation tools and services targeted specifically to SMEs.*

The implementation of a regional SME development strategy should aim to establish a support ecosystem that accompanies innovative SMEs for a long period of time. Regional authorities and relevant institutional bodies should develop particular business model consultation tools and services in collaboration with relevant stakeholders and experts that guide and assist rural SMEs throughout the whole development and implication of their idea.

- *Develop clear and open policy reforms on innovation.*

Clear and accessible information about the intended policy reforms as well as taking into account stakeholders' feedback would contribute to greater community engagement and improved policy results.

- *Develop formal coordination mechanisms for rural SMEs policy among stakeholders.*

A formal framework for interaction on SME policy making is needed to improve coordination among relevant ministries and government agencies. In addition,

public-private consultations (PPC) on SME-related policies could also be strengthened to strike the right balance among the needs of all relevant stakeholders. Regular participation of rural SMEs representatives in such coordination mechanisms would ensure that private sector perspectives are taken into account when developing business-related regulations, thus improving stability and predictability of regulations over time.

- *Encourage SMEs to recognise, measure, and report intangible assets.*
Reporting ICT skills, organisation, software and networks, intellectual property rights, new and small firm assets can be managed more effectively and more reliably both internally as well as by capital markets and investors.
- *Embed monitoring mechanisms to ensure that programmes in support of SMEs deliver measurable results.*
Policies should be regularly monitored and evaluated to ensure implementation is efficient and effective. In particular, policymakers need to ensure that budgetary resources are available, that they are spent with care and that targets are being met. In this regard, a scheme to assess the level of implementation of the various actions should be updated regularly, identifying milestones, responsibilities, budget needs, deadlines, next steps and expected results for each practical action.
- *Improve SME statistics collection and dissemination.*
Broadening and deepening the production of SME statistics could help build a more accurate picture of the sector's performance and further base policymaking on quantitative evidence. This would entail expanding the current basic structural business statistics by sector and size class (i.e. number, employment and value-added) to include more refined data on business demographics (e.g. birth rate, death rate, survival rate, high-growth enterprises), export performance (e.g. SMEs' share of export) and innovation (e.g. expenditure on R&D, technology absorption).

6.3 Promote skills development and entrepreneurial culture

- *Promote demand-side financial education programmes targeting SME entrepreneurs.*

INNOGROW regions could put in place financial education initiatives to improve entrepreneurs' financial skills. This would help to reduce the asymmetry of information between SMEs and potential lenders, and thus the risk perceived by the latter. SMEs need greater knowledge of the financial products available in the market, as well as how to produce credible business plans and sound financial statements for banks to use to assess loan applications.

- *Develop country-wide labour market and training needs analysis.*

INNOGROW regions could perform regular region-wide labour market analyses to better understand businesses' demand for skills, identify skills shortages in the domestic economy and anticipate future developments at the regional level. For example, a framework for training needs analysis could be set up to assess SMEs' current training needs in the agrotourism sector which, according to the comparative analysis results, could further develop.

- *Strengthen stakeholder participation in developing and implementing VET policies.*

Vocational education and training (VET) systems needs to be strengthened through greater participation by stakeholders. This would improve the relevance of VET programmes for the labour market. This could be achieved through stronger involvement of employers in the design of curricula (e.g. via regional Chambers of Commerce and Industry) and the definition of minimal standards for the technical infrastructure of VET schools, as well as through strengthened participation of SMEs in sectoral committees to be consulted for regional and country-wide VET policies.

- *Improve the quality and attractiveness of regional VET institutions.*

The quality of VET needs to be enhanced to improve its attractiveness as an educational option for prospective students. A priority in this area is to build the capacity of teachers at VET institutions. This will involve dedicated training for existing teachers, a pedagogic module for university students to enable them to teach after completing their studies and involving professionals and SME entrepreneurs in the teaching body of VET schools.

- *Facilitate SME access to non-formal training.*

Stronger co-operation among stakeholders would improve the recognition and trust of non-formal education and training options. A committee involving representatives of the business sector, training providers, line ministries, and local municipalities could be set up to collect information on SMEs' training needs, map the current supply of non-formal training, ensure the quality of training providers (e.g. through officially recognised certification) and increase awareness of non-formal learning options through networking events for adult education providers.

6.4 Support SMEs' internationalisation

- *Improve export promotion activities and export-related skills among SMEs.*

Current export promotion activities should be broadened to provide information on priority sectors and target markets for rural economy SMEs. INNOGROW partners could also support SMEs to develop a cluster-type approach with regional and industrial business partners to help them meet the quality and quantity demands of international markets. Co-ordination at certain steps of the value chain may help SMEs strike better deals with suppliers, share promotion costs, engage in joint marketing activities, and exchange exporting knowledge.

- *Provide targeted financial support to exporting SMEs.*

Providing specific financial support to help exporting SMEs overcome the financing barriers and risks typically encountered when engaging in international trade. A wide portfolio of financial and insurance products could be made available, depending on the specific needs identified among rural economy SMEs. These could include export loans to finance additional working capital, export credit insurance to cover market and political risk, as well as export factoring to convert an exporter's trade receivables into discounted liquidity.

- *Implement a blended approach support to internationalisation.*

A blended approach could also be adopted, combining financial support and technical assistance for exporting SMEs. This would, for example, not only supply SMEs with liquidity to finance their export activities, but also equip them with the technical skills required to adequately assess the risks and challenges of trading with foreign partners, and increase the likelihood of a successful outcome and their ability to repay the loan. While trade-related financial and technical support to SMEs should be linked, they should be provided by separate entities with the relevant expertise.

6.5 Facilitate rural SMEs' innovation and R&D

- *Promote a "triplehelix" notion of innovation.*

A "triplehelix" type of partnership, involving academia, the private sector, and the public sector could facilitate the development of a dynamic innovation ecosystem in INNOGROW regions. While universities typically expand the knowledge base and provide research capacity, businesses can convert this knowledge into commercially viable products, and the government should create a supportive environment for innovation. Such a triplehelix partnership improves the competitiveness of rural economy SMEs by building a more advanced, knowledge-based rural economy.

- *Enable existing technological innovations to be absorbed by rural SMEs.*
Apart from triplehelix partnerships, innovation policies should also focus on enhancing rural SMEs' capacity to absorb existing technologies. Policymakers should concentrate on creating a business ecosystem that goes beyond single-function innovations in order to include the broader concepts of technological and business model innovation.
- *Foster collaboration between industry and academia.*
Linkages between businesses and universities could be encouraged to enhance applied research and SMEs' engagement in innovation activities. Research institutes could develop technical audits of rural SMEs, which could raise awareness among SMEs of their research flaws and capacities. For example, joint partnerships initiatives between SMEs and public research institutes could be established, with the former contributing financial resources and a market-oriented perspective and the latter providing experienced technical staff and research equipment. A cluster-type approach could be promoted, whereby SMEs co-ordinate their needs for innovation and engage with public research facilities with a shared objective.
- *Strengthen international linkages between European, national, and local hubs of knowledge.*
Transfer of institutional infrastructure, best practices, paradigmatic policies, and expertise relating to innovation practices assists SMEs access to knowledge, networking opportunities, and encourages the exchange of experiences. Co-operation among all stakeholders – including SME associations, public agencies, and intermediary organisations – should correct deficiencies in existing sources of information.
- *Increase the participation of SMEs in innovative clusters.*
Results from the comparative report show that rural SMEs lack resources in R&D. Interregional collaboration between rural SMEs and thematically related

R&D institutions could assist dissemination of innovative practices to rural SMEs. Research networks and technology markets are decisive pools of knowledge from which rural SMEs could draw innovative resources from. For example, This could be achieved by building a culture of entrepreneurship at universities to promote university-based spin-offs (e.g. by including entrepreneurial features in curricula, or by fostering linkages with local start-up networks, incubators, or science parks), as well as by establishing dedicated technology transfer offices at universities to facilitate the transfer of R&D results to innovative SMEs.

- *Amend the legal framework for innovation.*

The legal framework for innovation could be amended to facilitate the commercialisation of university-based research and innovation among SMEs. In particular, public universities and research centres should be allowed to own shares in spin-off companies and to commercialise their inventions and intellectual property (IP) rights generated through publicly-funded R&D. Improvements to the regulatory environment could also be made to encourage SMEs to invest in R&D, for example by fostering local competition (i.e. raising SMEs' need for innovation activities) and designing policies to enforce IP rights for SMEs.

7 Feasibility and implementation strategies

This section outlines some guiding principles for implementing the policy recommendations discussed in the previous section.

- *Develop policies in consultation with relevant stakeholders.*

Since the rural SME innovation strategy is a mix of structural reforms and policy interventions, all key public authority stakeholders ought to be involved in the process. These include the ministries, banks, statistical offices, universities, and regional authorities and agencies. From the private sector, the main stakeholders to be involved include a wide array of SMEs' representatives, local Chamber of Commerce and Industry, as well as relevant sectoral associations. Clear and accessible information about the intended policy reforms would contribute to greater engagement, as would taking into account stakeholders' feedback. This will be key for securing commitment in the implementation phase and accountability for the strategy results.

- *Provide targeted services to SMEs.*

The implementation of a rural SME innovation strategy should aim at improving the business and operational environment for SMEs. Therefore, analysis of the most pressing needs rural SMEs should be carried out in the policy areas where regional agencies intend to provide support. This will ensure that the services provided are relevant and meet the demand and needs of small entrepreneurs. When it comes to financial support, it is suggested that SMEs indicate the results to be achieved, for instance by including in their applications indicators such as an increase in value added, turnover, export, R&D investment and employment. Some of these indicators could also be put in place as entry conditions for applying for financial support.

- *Set long-term and intermediate targets.*

The objective of the SME innovation strategy should be to improve the competitiveness of rural SMEs so they can thrive in both domestic, European,

and international markets. To assess the overall success and impact of the SME regional policies, intermediate and long-term targets are needed. These need to be specific to the SME sector, and could include the number of SMEs, people employed, exporting activities, and innovation indicators, etc. It is also important to create feedback mechanisms for SMEs to regularly evaluate whether the support services implemented work well or whether adjustments are required.

- *Embed monitoring mechanisms.*

Policies should be regularly monitored and evaluated to ensure implementation is efficient and effective. In particular, policymakers need to ensure that budgetary resources are available, that they are spent with care and that targets are being met. In this regard, a scheme to assess the level of implementation of the various actions should be updated regularly, identifying milestones, responsibilities, budget needs, deadlines, next steps and expected results for each practical action.

- *Promote and reward good practice.*

One of the ways of improving business innovation and competitiveness is to identify, communicate and facilitate the transfer of practices that seem to work successfully somewhere else. This approach is based on the idea that instead of formulating an abstract ideal state we want to reach, public authorities should support what has been or is being implemented and is proven to work somewhere else. Especially helpful for identifying best practices are impact tools that identify EU, national, and regional best practices. It is important that the policy-makers have a benchmark to work with in promoting innovation practices.

- *Ensure the sustainability and environmental impact of business innovation.*

Equally important for accelerating innovation in rural SMEs is to ensure grant schemes and support mechanisms are weighted towards the environmental considerations. This should be implemented through both specialist provision

and through awareness raising within existing provisions. Opting into 'greenness' as a means to gain financial resources and improve the sustainability of innovation benefits secures environmental business management and low impact of business processes on the environment.

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9 ANNEX A: Identified policy measures

Table 5: Identified cases of policy measures across INNOGROW partner countries

Source: Comparative policy analysis, INNOGROW Activity 1.3

Policy measure	Country	Level of policy
Measures for starting a business or self-employment, Latvian National Employment Agent	Latvia	National
Local Development Programme "Continue in innovation" – Thematic 4.2 – Action 4.2.1 (Molise 2007/2013)	Italy	Local
Local Development Programme "Continue in innovation" – Thematic 4.2 – Action 4.2.1 (Molise 2007/2013)	Italy	Local
Local Development Programme "Continue in innovation" – Thematic 4.2 – Action 4.2.1 (Molise 2007/2013)	Italy	Local
The programme "Start-up per EXPO" (Lombardy region)	Italy	Regional
The Programme "Ricerca e Innovazione" Measure D (Lombardy region)	Italy	Regional
The initiative "Eccellenze in digitale" (Lombardy region)	Italy	Regional
The National Innovation Fund	Bulgaria	National

The Operational Program - Development of the competitiveness of Bulgarian Economy 2007-2013	Bulgaria	National
Priority areas NO.1 "Entrepreneurship" and NO.9 "Skills and Innovation" of the National SME Promotion Strategy 2014-2020	Bulgaria	National
Development Plan of Pardubice Region	Czech Republic	Regional
There is no existing policy measure to support pet food producers	Czech Republic	National
There is no any tools for the implementation of this project	Czech Republic	National
Open call in the OP PIC programme (New packaging system)	Czech Republic	National
Rural Development Programme 2007-2013 & Rural Development Programme 2014-2020	Slovenia	Regional/ Local
Rural Development Programme 2007-2013 & Rural Development Programme 2014-2020 (Adding value to agricultural and forestry products and conservation improvement of the rural heritage)	Slovenia	Regional/ Local
West-Transdanubian Operative Program (Project call NO. NYDOP-1.1.1/C-12-2012: Enhancement of the innovation potential of the region by creating innovation start-ups)	Hungary	Regional
Local Economic Development:	Hungary	Local

TOP-1.13-16 (Territorial and Settlement Development Operational Program)		
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10 ANNEX B: Comparison of policy measures

Table 6: Comparison of policy measures

Source: Comparative policy analysis, INNOGROW Activity 1.3

Type of adopted innovation	Policy measure	Policy aim	Country	Level of policy	Implementing process	Impact of the policy measure	Areas for improvement	Status
New product development	Measures for starting a business or self-employment, Latvian National Employment Agent	Provide business advice & financial support for the unemployed on developing business plans	Latvia	National	Enhancing business development plans by expertise	Job creation	Business advisory and funding opportunity	Very successful
	Local Development Programme "Continue in innovation" – Thematic 4.2 – Action 4.2.1 (Molise 2007/2013)	To develop innovation capability in rural areas	Italy	Local	Local development plans by local agents	Capital investment	-	Very successful

	The Programme "Ricerca e Innovazione" of Lombardy region (Measure D)	to promote innovation and competitiveness of regional SMEs	Italy	National	Cooperating with the regional chamber of Commerce to provide funding	Promote internationalisation and networking	-	Very successful
	The National Innovation Fund	To improve products, processes and services, improve the innovative potential and technological level of SMEs, and increase business investment	Bulgaria	National	Providing funding for research and Development and technical feasibility Projects	Financial support	Funding process	Very successful
	Development Plan of Pardubice Region	To improve agricultural production and product quality, support market orientation and foster the competitiveness	Czech Republic	Regional	Providing Funding	Product improvement	Funding opportunity and staff training	Somewhat successful

		s of local production						
	No existing policy measure to support pet food producers	-	Czech Republic	National	-	-	-	Don't know/ don't wish to answer
Renewable energy	Local Development Programme "Continue in innovation" – Thematic 4.2 – Action 4.2.1 (Molise 2007/2013)	To facilitate capital investment for introducing new technologies	Italy	Local	Local development plans by local agents	Capital investment	-	Very successful
	Local Development Programme "Continue in innovation" – Thematic 4.2 – Action 4.2.1 (Molise 2007/2013)	To develop energy management and reduce energy consumption	Italy	Local	Local development plans by local agents	Reduction of energy consumption	Funding process	Very successful

Precision agriculture	West-Transdanubian Operative Program (Project call NO. NYDOP-1.1.1/C-12-2012: Enhancement of the innovation potential of the region by creating innovation start-ups)	To support start-up businesses in managing their projects and making business plans	Hungary	Regional	Enhancing start-up companies	Development of innovation potential	Funding process	Very successful
	The "Start-up per Expo" programme	To simulate young professional entrepreneurs	Italy	National	Cooperating with the chamber of Commerce of Milan to provide funding	Job creation	-	Very successful
Internal products'	Local Economic Development:	To promote small-scale product	Hungary	Local	Local development	Financial support	Funding process	Very successful

traceability systems	TOP-1.13-16 (Territorial and Settlement Development Operational Program)	development and enhance the supply chain system for local businesses			plans by rural agents			
Organic farming, Agro farming, and New product development	-Rural Development Programme 2007-2013 -Rural Development Programme 2014-2020	The innovation adaptation by rural SMEs, the establishment of networking to promote innovation and exchange of experience and know-how. The improvement of rural SMEs' competitiveness	Slovenia	Regional/ Local	Providing a strategical support by Rural Development Net	The bottom-up approach	Funding opportunity	Very successful

	<p>-Rural Development Programme 2007-2013</p> <p>-Rural Development Programme 2014-2020</p>	<p>The innovation adaptation by rural SMEs, the establishment of networking to promote innovation and exchange of experience and know-how. The improvement of rural SMEs' competitiveness</p>	Slovenia	Regional / Local	<p>Providing a strategical support by Rural Development Net</p>	<p>Improving competitiveness</p>	<p>Funding opportunity</p>	<p>Very successful</p>
Other	<p>Operational Program - Development of competitiveness of Bulgarian Economy 2007-2013 (Technological infrastructure)</p>	<p>To develop a competitive and efficient production and to promote Bulgarian businesses to international market</p>	Bulgaria	National	<p>Promoting knowledge exchange, competitiveness and international market</p>	<p>Improving competitiveness</p>	<p>Funding process</p>	<p>Quite successful</p>

	Priority areas No.1 "Entrepreneurship" and No.9 "Skills and Innovation" of the National SME Promotion Strategy 2014-2020	To stimulate young entrepreneurs including students, PhD students and graduates to get involved in agribusiness.	Bulgaria	National	Providing funding	Job creation	Funding opportunity	Quite successful
	No tools for the implementation of of a new technology for filling bulk mixtures into small-sized packaging	-	Czech Republic	National	-	-	-	Not at all successful
	Open call in the OP PIC programme (New packaging system)	Providing funding to acquire a new technology	Czech Republic	National	Grant policy system and programme are applied to the wrong principles	-	Changing or cancelling the grant policy system	Don't know/ don't wish to answer

	The initiative "Eccellenze in digitale" (Lombardy region) (Website and social media)	To increase level of digitalization and improve the effectiveness of online marketing activities	Italy	National	Providing funding	IT skill development and business opportunity	-	Very successful
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11 ANNEX C: Outcomes & benefits of policy measures

Table 7: Summary of Significant Outcomes / Benefits of the Policy Measures

Source: Comparative policy analysis, INNOGROW Activity 1.3

Policy measure	Country	Cost reduction/ Annual saving	Increase in productivity for the participating companies	Increase in job opportunities	Enhanced Research and innovation capacity	Reduce in greenhouse gas emissions	Improved resource efficiency	Other
Measures for starting a business or self-employment, Latvian National Employment Agent	Latvia			X				
Local Development Programme "Continue in innovation" – Thematic 4.2 – Action 4.2.1 (Molise 2007/2013)	Italy				X			

The "Ricerca e Innovazione" programme	Italy			X	X			
The National Innovation Fund	Bulgaria	X			X			
Development Plan of Pardubice Region	Czech Republic			X			X	
No existing policy measure to support pet food producers	Czech Republic	-	-	-	-	-	-	-
Local Development Programme "Continue in innovation" – Thematic 4.2 – Action 4.2.1 (Molise 2007/2013)	Italy	X						
Local Development Programme "Continue in innovation" –	Italy	X						

Thematic 4.2 – Action 4.2.1 (Molise 2007/2013)								
West-Transdanubian Operative Program (Project call NO. NYDOP-1.1.1/C-12-2012: Enhancement of the innovation potential of the region by creating innovative start-ups)	Hungary			X	X		X	
Policy measure	Country	Cost reduction/ Annual saving	Increase in productivity for the participating companies	Increase in job opportunities	Enhanced Research and innovation capacity	Reduce in greenhouse gas emissions	Improved resource efficiency	Other
The “Start-up per EXPO” programme	Italy		X		X		X	
Local Economic Development:	Hungary		X	X	X			

TOP-1.13-16 (Territorial and Settlement Development Operational Program)								
Rural Development Programme 2007-2013 and Rural Development Programme 2014-2020	Slovenia		X	X				
Rural Development Programme 2007-2013 & Rural Development Programme 2014-2020 (Adding value to agricultural and forestry products and conservation improvement of rural heritage)	Slovenia		X	X				
Policy measure	Country	Cost reduction/ Annual saving	Increase in productivity for the	Increase in job opportunities	Enhanced Research and	Reduce in greenhouse gas emissions	Improved resource efficiency	Other

			participating companies		innovation capacity			
Operational Program - Development of competitiveness of Bulgarian Economy 2007-2013 (Technological infrastructure)	Bulgaria		X		X			
Priority areas No.1 "Entrepreneurship" and No.9 "Skills and Innovation" of the National SME Promotion Strategy 2014-2020	Bulgaria			X	X			
No tools for implementation of a new technology for filling bulk mixtures into small-sized packaging	Czech Republic	-	-	-	-	-	-	-

Open call in the OP PIC programme (New packaging system)	Czech Republic	X						
The initiative "Eccellenze in digitale"	Italy		X					X