



## Position Paper

*European Entrepreneurs CEA-PME, the biggest confederation of voluntarily associated SMEs in Europe, and the German Association of Innovative Companies (VIU) are concerned about the promotion of innovation of small and medium-sized enterprises in Europe with the next Horizon Europe Programme 2021-2027:*

# The “SME instrument” for the promotion of innovative small and medium-sized enterprises must be continued and expanded in Horizon Europe!

**The new proposal of the European Commission is worsening the eligibility conditions for innovative small and medium-sized enterprises (SMEs). European Entrepreneurs CEA-PME and VIU call for the SME instrument to be continued and developed as a specific SME support program for the most promising small and medium-sized enterprises in Europe.**

The current European Research and Innovation Framework Program "Horizon 2020" expires at the end of 2020. The concept for designing research and innovation funding for the years thereafter was presented by the European Commission at the beginning of June 2018 and is currently being discussed in the member states. If the proposal were to be implemented, European Entrepreneurs CEA-PME and the Association of Innovative Companies (VIU) see very decisive disadvantages for micro, small and medium-sized enterprises (SMEs) in Europe.

The European Commission's proposal is as follows: under the "Open Innovation" pillar, a European Innovation Council (EIC) was created in 2017 to bring together support measures for businesses and entrepreneurs. To this end, the EIC is to bundle a package of measures consisting of fast, flexible grants, co-investments and the provision of private equity capital. The budget for the period from 2021 to 2027 is € 10.5 billion.

In the future, two funding instruments will be available to the EIC: Pathfinder and Accelerator. However, **both tools can not under any circumstances be considered as a continuation of SME Instrument Phases I and II**, as both funding instruments are intended to address other important target groups in addition to SMEs.

1. The **Pathfinder** is designed to promote **all types of innovators**, including *universities, individuals and multidisciplinary consortia (including major corporations)*. The money is to be spent to create a start-up company or feasibility study.

Critics from CEA-PME and VIU:

On national level, e.g. in Germany, such programs already exist for research institutions (e.g. in Germany the programme “EXIST” with the same aim, at European level the EAC). If the former SME Phase I funding tool for new target groups is opened up, SMEs will be



marginalized in an extreme funds competition and, due to the high demand, will not be sufficiently considered. There is no need to open this program to new audiences.

Also problematic is the intended support, before the company is established. Those who are not ready to bear the effort and risk of starting a business will never be good entrepreneurs.

Another critical point that we see: if the Pathfinder program, as described in the proposal of the European Commission, is actually implemented, it will be strongly research-oriented and the marketing of the development results will hardly be considered duly. And exactly this marketing support is a great strength of the existing SME instrument and an urgent need for high-tech projects.

2. According to the Commission's proposal, the **Accelerator** will support European start-ups, SMEs and so-called mid-caps, i.e. companies with up to 3.000 employees.

Critics from CEA-PME and VIU:

We fear that - due to better bank ratings and collaterals – Mid-caps would receive a large part of the budget funds and effectively reduce the support to SME further.

The opening up to further groups of beneficiaries will also inevitably lead to an extreme and uneconomical exaggeration of application procedures, without reaching the main target group, namely SMEs.

The Accelerator is mainly about the keyword 'blended finance'. Based on EU Commission President Juncker's plan to mobilize 15 euros of investment for each euro of funding, the Accelerator is supposed to mix grant, mezzanine, loans and equity capital. According to "Science Business", a grant could be, in stages, up to 30 million euros; other co-financiers, e.g. risk capital companies or state innovation institutions, could be involved as partners. To prune the subsidies with the highest possible private investments is, according to CEA-PME and VIU, very desirable. However, we doubt that this will be feasible with the proposed concept for the following reasons:

- The funding agency would need a corresponding "bank" license. Especially when we are talking about financing high-tech start-ups, however, the "mentality" of traditional financial institutions has failed miserably so far, as this target group can hardly be rated and usually has no bankable collateral to offer. It is to be feared that only those projects will be financed, that would also otherwise receive money. According to the National Contact Point (NCP), a similar report has been issued by the European Court of Auditors in comparable cases.
- In Germany, the lending system would presumably fail due to the established house bank system or only progress very slowly.
- The European Commission has already set up networks and initiatives to provide equity capital in Horizon 2020, e.g. InvestEU. From the point of view of CEA-PME and VIU, it makes sense to further expand, strengthen and continue this. According to our information, there is more and more private money in the market, but fewer and fewer deals. As a result, individual deals may become larger, while small, under-capitalized tech-SMEs run dry. This should be the starting point for the future funding program and should not act as a bait for large investments.



- In practice, we have seen similar mixed funding approaches in the KICs (KIC = Knowledge + Innovation Community) formed by the EIT. CEA-PME and VIU believe that these tools are obviously of little interest to tech-SMEs because the decision-making processes are too long and unclear, and we have no good examples of high-tech SMEs in the EIT-KIC programs.

Moreover, the Commission's proposal foresees that in the future the management of the Accelerator projects will be done by the EIC or the European Commission, but with the proviso that a project manager of the EU Commission can cancel or change projects, if the goals set are not achieved. According to the NCP Germany, these program managers are to be hired by the European Commission for a period of three to five years, and will accompany projects at a high scientific and economic level and, in some cases, may also group or cluster projects. European Entrepreneurs CEA-PME and the German Association of Innovative Companies VIU point out that distributed responsibilities are uneconomical on the one hand side, and on the other hand lead at least to a slowing down of the decision-making process. The dynamics of high-tech companies in particular require fast processes in order to be able to react appropriately in strong growth markets.

Another open question is how to bring the Commission's intervention in line with other possible EIC or private financing partners.

The aim of the European Commission is to bring Europe's groundbreaking innovations to market faster. From the perspective of European Entrepreneurs CEA-PME and the Association of Innovative Companies, this goal can only be achieved by promoting SMEs. The strengthening of small and medium-sized enterprises with their flexible adaptability to market changes has proven itself. In addition, SMEs generate the highest tax revenue, employ the most staff and are known to be stable and continuous employers.

High-tech start-ups are the market leaders of tomorrow due to their growth forecasts. The US, for example, is promoting this group of companies with billions through DARPA. Also, Asian states, e.g. Korea, promote high-tech SMEs on a grand scale. So, compared to other countries around the world, European SMEs are clearly at a disadvantage, as SMEs in the US and China are in a huge market with uniform regulations without language barriers, while SMEs in Europe have to fight with a multitude of country-specific regulations, large language barriers and difficult access to capital.

For all these reasons, it is necessary to foster innovative European SMEs throughout the value chain, as this is where tomorrow's most important jobs will be created.

### **Conclusion:**

The proposal of the EU Commission has the great disadvantage that the proven H2020 "SME Instrument" will in fact be abolished. The structures established within Horizon 2020 and the now well-known focal points would be shut down. After all, the SME Instrument has quickly achieved, that from 2014 to 2017, eight European companies have already made their way to the stock markets, and a network of more than 750 active European coaches has been set up, reducing the time between cut-offs and grant decisions for Phase II to just 177 days, while already every invested € 1 was leveraged with another € 1.6 investment. (Impact Report 2018)

European Entrepreneurs CEA-PME and VIU therefore demand:



- Continuation and expansion of Phase I and Phase II of the SME Instrument as grant funding as it fills the crucial funding vacuum for high-tech firms. The SME Instrument is important for SMEs in all European Member States because currently no other funding and support instruments could fill this funding gap.
- Increasing the SME Instrument to € 10.5 billion, as described in the Commission proposal. Demand and need are significantly greater than currently available resources. If we want to do justice to the importance of SMEs in Europe and catch up with support initiatives in the US and Asia, an increase in funding is inevitable.
- Individual support should also be possible in Horizon Europe. No promising company wants to share their most sensitive strategies and specific know-how with others. Companies need to differentiate themselves because they are fully in competition. Due to the dynamics of markets, the company must have full control. Wrong, formally enforced cooperation among partners can quickly destroy a good cause.
- Continue to maintain the technology readiness levels so that all breakthrough innovations have a chance for commercialization.
- The further development of an ecosystem for small and medium-sized enterprises, which allows access to investment funds and the global market via large corporations, is very welcome. In various projects and contracts, the European Commission has already promoted and initiated European-level network services, e.g. Coaches networks and the Accelerator services of the SME Instrument. The bundling of various actions and the sustainable development of these service projects are expressly welcome.

The abolition of the SME Instrument is, in the view of European Entrepreneurs CEA-PME and the VIU, a big step in the wrong direction! The most necessary and best European funding instrument for high-tech SMEs in Europe needs to be continued, as all the structures (promoters EASME, EENs, coaches, accelerator program, evaluators, pitching processes) are in place and operate quickly and transparently. All decision-makers involved have the responsibility to ensure that the best high-tech SMEs from Europe can bring their inventions and developments to the market. The opportunity to continue and develop high-tech companies that can compete with Asia and America through the continuation of the SME Instrument into a high-performance European SME ecosystem must not be wasted!

Brussels and Berlin, 20.9.2018