1. Objectives and participants

Horizon 2020 takes a new approach to stimulating and supporting research and innovation in SMEs. The dedicated SME instrument puts small companies in the driving seat of European innovation projects, which shall be conducive to their competitiveness and growth while tackling societal challenges. It shall promote more SMEs to benefit from the innovation potential of the internal market and to develop substantial innovations that can compete on European and global markets.

The SME instrument is a radically new concept of EU R&I funding. Simple and efficient implementation and management are key to meet the needs of SMEs and to achieve the
desired impacts. The success of the SME instrument will thus largely depend on a coherent SME friendly implementation.

Developing and discussing concrete ideas for the operation of the SME instrument by drawing on various best practices and experiences were the objectives of a workshop organised by DG Research and Innovation on 23 April 2012. It focused on three important implementation aspects: submission, evaluation and management of projects; the mentoring and coaching system for participating SMEs; and the link to the financial instruments.

The workshop attracted around 100 participants from 24 countries. They were practitioners from national programmes, experts in SME innovation and research (e.g. from the FP7 Advisory Group on SMEs), stakeholders from the SME community and SME associations, members of SME networks, representatives from national innovation agencies and from governmental bodies.

2. Key messages

The main results of the workshop can be summarised as follows:

- **The SME instrument should address the equity gap (1 to 5 million €) of high-potential and European-oriented SMEs in advancing high-risk innovation ideas (demonstration, innovation activities etc.)** after the seed and start-up phase (up to 1 million €), which is supported by national programmes, business angels, Technology Transfer Offices, seed funds etc. Targeting support in such a way would constitute real added value in promoting business innovation in Europe provided the Union funding takes risks and creates incentives for leverage of private co-investor or follow-up investments.

- **"Load the dice" – business-oriented evaluation criteria and process:** The SME instrument should take account of investors’ realities, be selective and competitive to establish its credibility with the market. This requires defining SME-specific and transparent evaluation criteria that are business-oriented and focus on commercialisation potential. Evaluators need to understand business and markets as well as being technology and innovation savvy. The staged scheme with evaluation at each step should allow promoting only the best projects ('quality label'). R&I results that come out of this selection process should have a good chance to succeed in the market and to raise equity.

- **European added value** must be a prerequisite for support under the SME instrument, notably to avoid overlaps with national programmes. This must be strongly reflected in the selection and evaluation criteria (addressing Union-wide challenges and European markets, engaging in cross-border collaborations etc.) and the amount of funding. Opinions were divided whether a lump sum of 50,000 € was sufficient for the concept and feasibility assessment of a European project in phase 1 or should be increased to 100,000 € so that a flexible approach offering a range of funding between € 50,000 to 100,000 might be preferable. Also the mentoring and coaching scheme for participating SMEs needs to offer assistance in developing innovation strategies with a European perspective and should thus benefit from the cross-fertilisation and support of a Union-wide network.

- **Tailored set of rules – keep it quick, simple and flexible:** The SME instrument should be governed by a specific set of SME-friendly rules and procedures. They
should provide for transparency, low entrance barriers and an easy application procedure, a short proposal assessment period and flexible project management. **Calls should be bottom-up and always open** offering SMEs the possibility to access support at the time most suited to their needs. The best practices showed that permanently open calls allow processing a large number of applications efficiently and within a good timeframe. Proposals for simplification and shortening the time to contract (e.g. remote evaluations; only yes/no-decisions at evaluation; no negotiations) conflicted partly with suggestions to make the application process helpful for participants by engaging in interactive discussions and providing feedback which helps to develop the idea.

- The benefits of offering specific **mentoring and coaching** to SMEs were underlined throughout the workshop, including in the third session ('investor readiness'). The scheme accompanying the SME instrument should assist the companies in strategic innovation management, i.e. in implementing a new R&I based idea as part of the overall corporate strategy. It needs to be flexible so as to accommodate for different needs of different SMEs, and it needs to take account of the national and EU support structures that are available. A strong role of the Enterprise Europe Network was supported, but it was also strongly advocated to keep the scheme open to draw on additional expertise and specialised knowledge.

- A **dedicated management for the SME instrument** was favoured because it would support the simplification efforts facilitating SME access, ensure coherence in the implementation and allow for specialisation on SMEs. It would also conform to the bottom-up approach.

- **Monitoring and evaluation** of SME support was considered crucial for the proper management and to assess impact. However, this should not constitute an additional burden for SMEs.

3. **Summaries of the three sessions of the workshop**

3.1. **Session 1: Ensuring excellence in innovation, EU added value and market relevance (submission and evaluation)**

The company-centred approach of the SME instrument aiming at high economic impact presents a challenge to the implementation within the framework of Horizon 2020, notably with regard to organising calls and evaluations, defining award criteria, ensuring seamlessness and managing projects. The first session addressed these issues.

**Questions that guided the discussions:**

1) **How to ensure and to evaluate market relevance and impact, excellence of innovation ('breakthrough innovation') and EU added value?** (criteria, evaluators, etc.)

2) **What size of projects (EU contribution) should be funded in phases 1 and 2 taking into account the EU dimension and the type of activities to be supported?**

3) **How to review the project results (output) and to measure impact?** (reporting, performance indicators etc.)
4) How to organise seamlessness and quick transition between the different parts?
5) What are good examples in Member States for handling a large number of small proposals?
6) How to organise calls in an SME-friendly way? (open call, several or one call per year; requirements for proposal submission etc.)

Uffe Bundgaard-Jorgensen (CEO of Mermaid Venture Consult Aps) opened the discussion by outlining design requirements for the SME instrument basing his reflections, among other things, on a number of pertinent EU projects like ProNano and Gate2Growth/InvestorNet. Good examples of R&I support schemes for SMEs were presented by David Golding, Head of Strategy at the Technology Strategy Board (UK) and Leo Van de Loock, Director of the Agentschap voor Innovatie door Wetenschap en Technologie (BE).

Participants agreed that the SME instrument should be governed by a specific set of SME-friendly rules and procedures that allow for transparency, an easy and seamless application procedure, a short proposal assessment period, a simple and flexible grant agreement as well as payments in time.

Calls should be truly bottom-up and always open allowing SMEs to access support at the time most suited to their needs. The best practices demonstrated that continuously open calls also allow processing a large number of applications efficiently and within a good timeframe. In the Belgian and Danish examples applications are permanently evaluated against a set of criteria with a quality threshold above which projects were funded (no ranking but funding on a first arrived-first funded basis until consumption of available budget); in the UK SMART programme the proposals are assessed every two months. The entrance barriers to calls should be low asking for as little information up front as possible. The UK Launchpad programme, for example, has tested an initial video-clip submission followed by an invitation to a shortlist for full application and assessment.

Participants requested to apply SME-specific and transparent evaluation criteria that are business-oriented and focus on commercialisation potential. The importance of the profile and competences of evaluators was underlined. They need to have a sound understanding of technology and innovation potential, but should also come with market knowledge and business experience and skills. Remote evaluation (at least for phase 1) by at least two independent experts (business/market and technology/knowledge) was proposed.

The staged scheme, where evaluation takes place at each step, should allow stopping weak projects and ensuring excellence all through the process. The success rate of such a competitive scheme could not be expected to be very high. On the other hand, business R&I projects that come out of this process should have a good chance to succeed in the market and to raise equity.

Proposals for shortening the time to contract (e.g. yes/no-decisions at evaluation, no negotiations) conflicted partly with suggestions to make the application process helpful for participants by engaging in interactive discussions and providing feedback which adds value and helps to develop the ideas.

European Union added value must be a precondition for receiving funding under the SME instrument and thus be a key evaluation criterion (addressing Union-wide challenges and European markets, engaging in cross-border collaborations etc). Opinions were divided whether a lump sum of 50,000 € was sufficient for the concept and
feasibility assessment of a European project in phase 1 or should be increased to 100,000 € so that a flexible approach offering a range of funding between € 50,000 to 100,000 might be preferable.

Some participants were concerned that the SME instrument could overlap with some national programmes such as voucher schemes (with regard to part 1), while acknowledging that the SME support landscape was very diverse in Europe. This would make it practically impossible to envisage a joint Union-wide implementation of the scheme or parts of it by national bodies.

Based on experiences and national examples a dedicated management for the SME instrument was favoured. Fragmented SME support would make it difficult for SMEs to find their calls and would contravene the efforts for simplification. Furthermore there would be the risk of little coherence in the implementation across all the implementing entities and little specialisation on SMEs. Fragmented implementation would also defy the bottom-up concept.

Monitoring and evaluation of the SME support was considered crucial for the proper management of the scheme and to assess impact. However, it should not constitute an additional burden for SMEs, but rather rely on what companies provide as information for project application and reporting as well as case studies.

3.2. Session 2: Mentoring and coaching system for SMEs

The SME instrument foresees a mentoring and coaching scheme for the beneficiary SMEs to increase their innovation capacity and to accelerate impact from the support provided. This session dealt with the setting up of such a European scheme.

Questions that guided the discussions:

1) What should be covered by the mentoring and coaching scheme for participants of the SME instrument? What are SMEs’ needs? (strategic innovation plan, financing, human resource management, technical advice etc.)

2) What are best national practices? Which recommendations for a European scheme can be derived from these experiences?

3) How could existing (regional/national/European) support structures be involved while ensuring a European approach?

4) How to ensure consistent quality of the mentoring and coaching service across the EU? How to organise a quality assurance system for a European scheme?

5) What communication and promotion activities are necessary to reach the target population? (role of support network)

Based on their experiences at national level and with European R&D Framework Programmes, Christoph Maier, Director of the Innovation Platform Platinn, and Petra Püchner, Managing Director of the Steinbeis-Europa Zentrum, provided very detailed ideas regarding the scope and the organisation of a European mentoring and coaching system. This was complemented by the presentation of a concrete example of SME support and coaching by Milos Sochor, Chief Consultant at the South Moravan Innovation Centre.

The participants agreed that the low rate of commercialization of European research results would not be increased only by involving more SMEs in the projects. They
highlighted that SMEs were missing guidance during the R&D&I process, as companies rarely adopted a systematic approach to innovation management.

The session pointed to the fact that low innovation and commercialization levels were not the only problems, but were rather aggravated by the fact that most European companies did not venture outside regional or national markets. An innovation support scheme had to be supplemented by support helping to seize the innovation opportunities of the internal market.

Participants made a distinction between general information and guidance (to benefit from EU funding) and consulting on strategic innovation management (to implement a new R&I based concept). The mentoring and coaching scheme of the SME instrument should focus on the second aspect.

A Coaching & Mentoring scheme (C&M scheme) for SMEs would need to cooperate with and support innovation promoters within the companies by providing concrete and targeted services at each step of the innovation process. The companies had to consider as early as possible the objectives and market potential of an innovation project and align it with the corporate strategy.

The session supported the development of a modular approach to the C&M scheme, offering participants different support services. The participating SMEs should be free to choose the services on offer, depending on the internal innovation management needs and gaps within the companies. The session highlighted that innovation differs between industrial and non-industrial firms. This means also that the support services they need would differ. A modular approach would thus be flexible and better fit the SME needs.

Furthermore it was advocated that the C&M scheme takes account of the national and EU support structures that are available so as to avoid overlaps and proliferation of support. While the majority considered proximity to enterprises a key success factor, it was also voiced that this aspect was less relevant for enterprises with a European perspective. The competence and skills of the service providers were more important.

With regard to the implementation some suggested simply earmarking part of the project budget for a mentor/coach(es) to be freely chosen by the SME. However, the majority favoured a structured approach ensuring high quality and relying on existing experience.

The C&M services should be offered by mentors and coaches connected via a Europe-wide network so as to benefit from the cross-fertilisation, learning opportunities and partnering offered by such a network. A strong role of the Enterprise Europe Network was supported. However, it was also asked to keep the scheme open and to draw on further experts with knowledge and long-standing experience of SME innovation support and/or with specialised competences.

The need for high quality of the C&M services was underlined. However, there was little support for a European label or European quality standards for mentors and coaches, rather the scheme should develop internal, steadily improved standards and seek continuous improvement through internal trainings.

3.3. Session 3: Commercialisation of project results supported by private finance: quality label and links to financial instruments

The third session discussed how the SME instrument could ensure transition from the grant-based support provided in parts 1 and 2 to private finance in part 3 in order to boost
commercialisation of project results. This included mainly the idea of a kind of 'quality label' for successful projects and support to improve investment readiness of companies.

**Questions that guided the discussions:**

1) *How does the quality label for successful projects funded by the SME instrument have to be defined to be relevant for private investors?*

2) *What do (private) investors expect from a public SME support scheme?*

3) *Are there any new trends in the way growth potential companies are identified (e.g. web based)? Could they be applied in public schemes as well?*

4) *What recommendations could be given to prepare for investment readiness (notably during part 2 of the SME instrument)?*

5) *How could grants in part 2 be combined with private finance to mitigate risk while ensuring further investment after a phase of public support?*

Three experts in finance animated the discussion. James Burnham, Head of External Affairs of the European Private Equity & Venture Capital Association (EVCA), gave an overview of the approach of venture capital firms and how they source investments. Anton Theuma, Director Paragon Europe Ltd, based his conclusions mainly on the ICT VentureGate project under FP7. This project had supported ICT SMEs that had participated in FP6 and FP7 projects in preparing for investment readiness and connecting to the business angle community. William Stevens, Director Europe Unlimited, drew on his experience in assisting fast growing entrepreneurs raising their profile with venture capital investors.

With regard to the SME instrument the Commission was encouraged to take risks and to be non-dilutive. The SME instrument was regarded as "a great opportunity" to address the equity gap (1 to 5 million €) of high-potential innovative firms to advance their ideas after the seed and start-up phase (up to 1 million €), which was covered by national programmes, business angels. In addition the SME instrument should leverage private co-investor decisions and investments.

For this purpose the SME instrument should be applied in a way that is close to investor realities. In this context it was discussed how a 'quality label' could help venture firms to make their selection and due diligence work. Conceiving the label as an integral part of the competitive selection process and encouraging entrepreneurship could deliver a quality mark that is taken into account by private investors.

Bringing investors and innovators together was generally considered a great challenge. Many investors lack a clear understanding of R&I investment potential or are only interested in latest technology trends. Many SMEs with promising ideas lack investment readiness (business plans) and have only limited knowledge of the various financing options. Taking up the discussion during the second session on mentoring and coaching the importance of developing business and financial skills in SMEs and establishing a sound innovation management were underlined. Social media could be used as enabling technology.

According to participants "deal flow" events provided good occasions to initiate direct contacts between investors and innovators and to develop SME "pitching" skills. Building relationships and networks were considered crucial since many invested via well-established networks or advisors/sponsors or advice from trusted third parties. Companies should be plugged into existing deal flow networks as early as possible.
Finally, several speakers demanded to focus not exclusively on risk investments, but to link also to other and more conventional forms of (debt) financing to promote innovations.

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New approach to SME support in Horizon 2020: implementation challenges and good practices

23 April 2012, 10:00-17:15

Venue: Madou Auditorium, Place Madou 1, 1210 Bruxelles

Programme

Background: Horizon 2020 takes a new approach to stimulating and supporting research and innovation in SMEs. The dedicated SME instrument puts small companies in the driving seat of European innovation projects, which shall be conducive to the competitiveness and growth of the companies while tackling societal challenges. Providing support in three distinct and open, but seamlessly connected stages for all types of innovations is a new concept. Its implementation has to be carefully designed to be efficient in providing easy access for SMEs and effective in achieving the objective to promote market driven innovations that can compete on European and global markets. The workshop shall discuss options for implementing the SME instrument focusing on three key issues and taking account of good practices.

9:30–10:00 Registration

10:00-10:10 Welcome

Clara de la Torre, Director Research and Innovation, DG Research and Innovation

10:10-10:30 Introduction: the dedicated SME instrument

Bernd Reichert, Head of Unit SME, DG Research and Innovation

10:30-12:30 Ensuring excellence in innovation, EU added value and market relevance (submission and evaluation)

Chair: Bernd Reichert, Head of Unit SME, DG Research and Innovation

The SME instrument is a bottom-up scheme encouraging SMEs to put forward their most innovative ideas with an EU dimension. It aims at radical change (product, service, process, organisation etc.) responding to market needs and opportunities for small companies. Hence only SMEs will be able to apply for funding and to decide how to organise the project and with whom to collaborate. This company centred approach presents new challenges to the implementation within the framework of Horizon 2020, notably with regard to organising calls and evaluations,
defining award criteria, ensuring seamlessness and managing projects. This first session will address these issues on the basis of experience gathered in European projects as well as good examples from the United Kingdom and Belgium.

- **Uffe Bundgaard-Jorgensen**, GATE2GROWTH / ProNano
- **David Golding**, Head of Strategy at the Technology Strategy Board – TSB
- **Leo Van de Loock**, Director of the Agentschap voor Innovatie door Wetenschap en Technologie (IWT)

**Discussion**

12:30–13:30 **Lunch Break**

13:30-15:00 **Mentoring and coaching system for SMEs**

**Chair:** Peter Wragg, Head of Unit Business co-operation and business support network development, DG Enterprise

SMEs that have a good innovation management in place, thereby often relying on external expertise, outperform others and are more likely to bring a new development to the market. The SME instrument foresees setting up a mentoring and coaching scheme for the beneficiary SMEs to increase their innovation capacity and to accelerate impact from the support provided. This session shall provide ideas how to organise such a European scheme, building on existing support networks, and how to ensure quality.

- **Christoph Meier**, Director of the Innovation Platform Platinn,
- **Petra Püchner**, Managing Director of the Steinbeis-Europa Zentrum / Enterprise Europe Network partner
- **Milos Sochor**, Chief Consultant at the South Moravan Innovation Centre / European Business & Innovation Centre Network (EBN)

**Discussion**

15:00 – 15:30 **Coffee Break**

15:30-17:00 **Commercialisation of project results supported by private finance: quality label and links to financial instruments**

**Chair:** Steve Rogers, Deputy Head of Unit Financial Engineering, DG Research and Innovation
The market-oriented intervention logic of the SME instrument should render it easier for SMEs to secure additional or follow-up private finance for the commercialisation of project results. Successfully completed projects under of the SME instrument could get a quality label helping to obtain private investment. Part 3 of the SME instrument aims to facilitate access to private finance and provides links to the financial instruments supported in Horizon 2020. Requirements to ensure seamless transition to the third part of the SME instrument, including the quality label, will be discussed in this final session.

- **William Stevens**, CEO & Founder, Europe Unlimited
- **James Burnham**, Head of External Affairs of the European Private Equity & Venture Capital Association (EVCA)
- **Anton Theuma**, Director, Paragon Europe Ltd

**Discussion**

**17:00-17:15**  
**Closing remarks and outlook**

Clara de la Torre, Director Research and Innovation, DG Research and Innovation

**ca. 17:15**  
**End**