Enterprise Europe Network Position Paper on the European Innovation Council (EIC) in Horizon Europe

Introduction

SMEs are the backbone of the EU’s economy. The 99.8% of enterprises which operated in the EU-28 non-financial business sector in 2016 were SMEs. These SMEs employed 93 million people, accounting for 67% of total employment and generating 57% of value added in the EU-28. Almost all (93%) of the SMEs were micro SMEs employing less than 10 persons\(^1\). In 2014, 9.2% of firms with at least 10 employees in the EU-28 business economy were high-growth firms. Despite their rarity, high-growth firms provide a disproportionately high number of jobs, increase EU innovation and contribute to economic growth. However, over 90% of newly created firms are born in traditional sectors (i.e. non-ICT), many of them with their talent and capacities constrained due to internal processes, slowing down their innovation capacity.

Today, while incremental innovation is still valid, disruptive innovation has become the new norm of success. New players are entering existing markets more easily and gaining rapid dominance thanks to genuinely different innovative products or services. Many of the most successful recent innovations were developed not by companies of the 20th century, but by a new generation of tech firms that are creating or taking over the markets of the future. In 2006, there was just one tech company among the world’s ten largest firms in terms of market capitalisation. Today there are seven and the top five are all digital. None are European.

With 8 companies floating on the stock market, 18 acquisitions and a total of €1.3 billion of extra private investment leveraged, the SME Instrument has established itself as an essential player on the European innovation scene. Since its start in 2014, the SME Instrument has invested in a unique selection of 3,200 SMEs to get their breakthrough innovations faster on the market\(^2\).

The Enterprise Europe Network is the world’s largest support network for SMEs with international ambitions. Created by the European Commission in 2008, the Network helps SMEs in their innovation and international growth pathway. It is active in more than 60 countries worldwide and brings together 3,000 experts from more than 600-member organisations, all renowned for their excellence in business support. The strength of the Network is that we are able to maintain a strong local knowledge that keeps us close to our SME clients, while also offering the range of international expertise that helps these innovative small businesses to achieve their ambitions. We provide services in three key areas: international partnerships, advice on doing business abroad and support for business innovation. Regarding business innovation services, since the beginning of Horizon 2020, we are working close with the Commission as Key Account Managers (KAMs) for the SME Instrument (SMEI) beneficiaries. In total, we are looking at approximately 4,000 SMEI cases to be delivered by the KAMs per year (for more information about the Enterprise Europe Network, see Annex 1).

With the publication of the proposal for a decision of the European Parliament and of the Council on establishing the specific programme implementing Horizon Europe, the European Innovation Council (EIC) evolves from the existing instruments (SMEI, Fast Track to Innovation, FET Open and Prizes) grouped into the pilot launched in the last 3 years of Horizon 2020, to two types of new actions: the Pathfinder for advanced research, for the earliest stages of technology development, and the Accelerator for innovation and market deployment actions, including the pre-mass commercialisation stages and company growth. The Accelerator will award blended finance, combining grants with equity investments³.

The knowledge gained by the Enterprise Europe Network thanks to the close collaboration with the SMEI beneficiaries during these last 4 years, let us have a clear idea about the pros and cons of the change of direction from the philosophy and target group of the companies granted by the SMEI, to the proposed Pathfinder and Accelerator, and how these new instruments will fit with the real needs of the SMEs.

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The Enterprise Europe Network has identified the following recommendations for the future of the EIC in Horizon Europe:

**KEY RECOMMENDATIONS**

*Types of innovation and types of entities supported in the European Innovation Council*

The EIC should support breakthrough innovation carried out mainly by SMEs.

We agree that the EIC keeps on supporting breakthrough innovation with a focus on market creating innovations, understood as the development of products, services, processes and business models that open up new markets with the potential for rapid growth at international level.

We strongly recommend that the EIC prioritizes projects lead by the SMEs:

- **The Pathfinder for Advanced Research:**
  
  We may agree that the Pathfinder will be open to all types of innovators, from individuals to universities, research organisations and companies, in particular start-ups and SMEs, and from single beneficiaries to multi-disciplinary consortia. However, we do recommend allocating the largest budget (80%) to breakthrough ideas developed by SMEs (including start-ups and spin-offs), as they have the real capacity and potential to bring them to further take-up by the Accelerator.

- **The Accelerator:**

  **The Accelerator should only support SMEs.** We are opposed to the midcaps being beneficiaries. There is no fundamental need to open the Accelerator to the midcaps, as they already have other funding mechanisms, such as InvestEU. If SMEs have to compete with midcaps for the budget allocated in the Accelerator, the European SMEs will be placed in a great disadvantage.

The Accelerator must be built on the experience and success from the Horizon 2020 SME Instrument Phase 2, where funding for breakthrough ideas with the potential to create new markets or revolutionise existing ones, are led and submitted only by a single SMEs or by a consortium of SMEs established in an EU or Associated Country.
Since FP7, there is a political commitment of enhancing the participation of SMEs in projects funded by the EU Frameworks Programmes. The radical change of philosophy, beneficiaries and implementation from the actual SMEI to the future EIC Accelerator contradicts EU policy and puts SMEs in the weakest position.

We are opposed to let investors or public innovation agencies request for the support of their companies directly to the Accelerator. This rationale is against the ease access to the EIC by the innovators, its transparency, and the fair competition among companies.

An evolution of the SME Instrument, not a revolution
The Enterprise Europe Network strongly recommends maintaining the SME instrument features that proved outstanding results.

Although the positive participating results and impact of the SMEI (published in both the Interim Evaluation of Horizon 2020\(^4\) and the SME Instrument impact report), the current scheme of the SMEI (Phase 1 and Phase 2) seems to be diluted in the EIC. The Network strongly recommends maintaining the features of the SMEI that have proved outstanding results.

The activities funded in Phase 1 are valuable if the Commission follows the “fail soon, fail often” principle (such a successful principle minted in Silicon Valley), supporting only matured business plans for the later take up by the Accelerator. We recommend keeping up the feasibility assessment offered by Phase 1 in the set of instruments integrated in the Pathfinder.

Phase 1 allows companies to mature their business concepts and increase their chances of success in Phase 2. The learning process acquired from Phase 1 increases both a company’s chances in Phase 2 and its probabilities of raising private funds. Statistics confirm that applications that come from completed Phase 1 projects perform better. From previous Phase 1 awardees applying to Phase 2, 66% scored above the threshold for projects to be candidates for funding, if resources allow. In the end, their success rate was

6,8%. On the other hand, among applicants that submitted directly to Phase 2, 37% scored above the threshold and 4,1% got funded\(^5\).

The essence of Phase 2 must remain in the Accelerator as a 1-2 year period, in which the SME is granted to overcome prototyping, miniaturisation, technology scaling-up, design, performance verification, testing, demonstration, development of pilot lines and validation for market replication activities. We support the current so called “soft blending” approach where the company is funded with an equity-free, non-dilutive grant in Phase 2, that will also reduce the perception of risk by future potential investors in an ulterior scaling-up phase of the company.

The appointment of EIC programme managers by the Commission to a portfolio of projects could help SMEs to bring deep expertise, but we do not recommend that the programme managers have the role of evaluating whether the projects should be continued, reoriented or finished. Such assessments should keep on being carried out by EASME.

**Scenario for the combination of grants and loans in the Accelerator**

Grants must remain a core element in the EIC. The Commission has to maintain grants from technology scale-up to early pre-commercial phases. Financial solutions should be optional and sequential.

European policies and instruments have to be designed for the creation of new markets and not for the benefit of the interests of private investors. If private investment is going to be blended with grants, the Commission has to guarantee fair play above the commercial and economic interests of private investment agents.

The two complementary types of actions in the EIC (Pathfinder and Accelerator) should be **based on grants**. For later market uptake and scaling up of the company, the SMEs would need an easier access to financial instruments and leverage from private investment. As KAMs, we have identified that one of the main needs of the SMEI beneficiaries is the access to additional funding (loans, equity, etc.). So far, the EC

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financing instruments are not covering their needs. A new portfolio of instruments should be considered but not obligatory mixed with the grants.

The provision of grants in the Pathfinder and the Accelerator first, with a separate and optional restricted call for follow-on investment in equity type afterwards (either with a repayable convertible loan or with an equity investment), avoids having to commit all the EC support under a single decision. This not only does respond better to the sequential logic of the blending, but also save time and effort in the evaluation process, as the evaluation exercise of the equity support, which is far more complex and time consuming that for a grant, is only done for those beneficiaries with a grant, and during its grant execution.

The EIC calls have to be managed by EASME. If the Commission may establish a special purpose vehicle (EIC SPV) for managing EIC blended finance, it should be clear the target size of the vehicle (how much of the accelerator is devoted to grants and how much to equity), and how much funds Horizon Europe expect to raise for it apart from its foreseen contribution out of the EIC budget.

Venture Capital (VC) is too small and fragmented in Europe and bank lending is risk adverse and it is not adapted to support breakthrough innovation. At this point, the EC should play a more active role by facilitating investor bodies the information and a guarantee of quality of those projects with proven success and impact into the market. The European Investment Bank (EIB) and the European Investment Fund (EIF) risk capital instruments should be better connected to the SME needs, as they can tackle the lack of available risk finance (i.e. In the 3-10M€ range). We welcome the initiative of the EC of developing an online matching platform of investors that will facilitate the connection with the beneficiary SMEs so that they could be better integrated in the SMEI community.

**Bottom up approach**

The Enterprise Europe Network welcomes the adoption to make the EIC calls fully bottom-up, with no predefinition of the topics for the proposals.

A real bottom-up approach will open the calls to unexpected ideas that generate new market opportunities. Moreover, in Horizon 2020, the budget for the SMEI was a
patchwork made up of 17 different budget lines, managed by 7 different DGs. This ensured that, for each topic, a budget is available, and the different proposals for the SME instrument are evaluated separately. However, the SME Instrument budget for each topic was small, potentially resulting in a low success rate. The adoption of a fully bottom-up approach in the EIC will avoid this kind of problems.

However, the bottom-up approach will not be fulfilled if investors and public innovation agencies request for the support of their companies directly to the Accelerator. If this option is implemented, the EIC evaluation criteria (excellence, impact and risk analysis) should be the same for investors and agencies, so that subjectivity is eliminated during the evaluation of the feasibility of the projects. We consider that it is highly unlikely due to the heterogeneous nature of the public agencies and investors and the complexity in assuming these criteria.

**Success rates**

Low success rates should be tackled in the EIC by doubling the available funding for grants to support all the excellent proposals above the threshold.

The Lamy report\(^6\) published in July 2017 provided recommendations on how to maximize the impact of Horizon Europe, proposing to double the FP budget. For our experience, low success rates discourage many companies from applying to the SMEI. The Enterprise Europe Network supports this proposal and stress to **double the budget available for grants for the future EIC**.

Until May 2018, **89% of the proposals submitted to the SMEI Phase 2 were not granted although they were above the evaluation threshold.** This means that 7,466 excellent projects proposed by European SMEs were not supported due to budget constraints. Another critical issue is that, during 2014-2017, **around 3,200 SMEs received funding under the SMEI**, and a total of €1,318 million was invested in their success. If the EIC do not keep on prioritizing the support to SMEs, the already gained impact for the SMEs will dramatically decrease.

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\(^6\) LAB-FAB-APP. Investment in the European future we want. Report of the independent High Level Group on maximising the impact of EU Research & Innovation Programmes.
OTHER RECOMMENDATIONS

The Enterprise Europe Network support in the EIC and the Key Account Managers
Fine tune the collaboration between the experts from the Enterprise Europe Network and the actions and services provided by the EIC.

The clients of the Enterprise Europe Network perform better than SMEs that do not use its services. Almost two-thirds of the Network’s client SMEs confirm the positive impact of the Network on their company. Interviews with clients confirm the positive effect on employment and turnover. Effectiveness increases as more services are used.

SMEs have positive impressions about KAMs' performance in the SME Instrument. The majority of the SMEs (85%) consider that KAMs made a positive contribution, allowing the SMEs to identify the relevant business needs. The Network also provides other additional and specialized services that helps SMEs bring innovative ideas to commercial success on international markets (innovation awareness, innovation capacity building and innovation management services). The great results of the SMEs in the SME Instrument are, amongst others, the result of the services offered by the Network. The Network will keep on supporting SMEs in the EIC, deliver added value to the companies and help them to innovate, become more competitive, grow and expand cross-border.

We recommend that the EIC will continue offering the up to now existing Business Acceleration Services (coaching, Trade Fairs, Company days, Academy, etc), adding new services such as mentoring, technical assistance, and pairing innovators with peers, industrial partners and investors. From the start of the provision of these services by EASME, we have noticed some disconnections between EASME and the KAMs. It is important to improve the communication between them:
- The KAMs must be aware in advance about the business advisory and acceleration services that are going to be offered to their clients, so they can explain the service in dept, and advice if one service fits with the identified company needs (that is one task already carried out by the KAM) or not.

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We propose that, during the design of the business advisory services, the Commission should consider those support activities already offered by the Network to avoid duplicities and to enhance complementarities. The Commission should also count on the Network for the provision of new services (i.e. mentoring, pairing).

**Business coaching service**

The business innovation coaching service has been proved to have a positive impact on the SMEs business strategy. EASME and the Key Account Managers must persist in working together to improve the internal procedure of identifying adequate coaches.

Feedback provided by SMEs on the coaching activities is very positive. 88% agree that coaching had a positive impact on their business strategy. It improved their approach to dealing with the company's challenges and speeded up the progress of their business innovation project⁸.

The collaboration between the KAMs and EASME to improve the procedure of identification and selection of coaches has been very effective, but more improvements must be carried out. For example, EASME has recently introduced a new clause referring that the coaches must not be involved in writing EIC project proposals. The Network does not agree with this clause, as coaches with experience in writing H2020 proposals are very valuable for understanding the context of the innovation project. If the conflict of interest is that the expert can use the coaching days for writing proposals or deliverables, we believe this is unlikely to happen, as the writing service is a much more long and expensive service to be provided by just using the coaching days.

We also insist on improving the database selection filters and the information requested to the candidate coaches. The information provided is so generic that is really difficult to screen specific requirements asked by our SME clients (i.e. experts in ethics, edtech, branding).

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Synergies of the European Innovation Council with national and regional innovation support policies and programmes

Effective collaboration mechanisms have to be designed in order to ensure the alignment of EU, national and regional innovation policies.

The Commission promotes the EIC as a strategic initiative to support breakthrough, market-creating innovation at EU level, in synergy with national and regional levels. Effective collaboration mechanisms must be designed in order to ensure the alignment of EU, national and regional innovation policies. Regions voice must be effectively represented. It should be ensured bilateral understanding about regional and EU innovation strategies, the co-design of the Work Programmes and the co-creation of support services. A representation of the Enterprise Europe Network KAMs as advisors in EIC Programme Committees, advisory and/or working groups may provide a realistic vision about the implementation of the EIC instruments and the needs of the funded SMEs.

Seal of Excellence

The Commission and the national and regional funding authorities should bring together new mechanisms that could support projects awarded with the Seal of Excellence.

The Seal of Excellence (SoE) is a quality label awarded to projects submitted to H2020 which were deemed to deserve funding but did not receive it due to budget limits. It recognises the value of the proposal and supports the search for alternative funding. The SoE Certificate holder can then approach alternative regional, national, private or public funding sources.

Regional and national authorities (e.g. Andalucía, Asturias and the Ministry of Economics and Competitiveness in Spain) have already launched specific calls for funding H2020 projects awarded with the SoE in Phase 1 and 2. However, most of the companies with SoE in Phase 2 do not have the possibility to apply for national or regional calls. We strongly recommend that the Commission make a special effort in building bridges with national and regional authorities, so programme owners/managers could better articulate existing or new funding mechanisms for projects with the SoE.
Feedback letters

More feedback in the evaluation letters must be provided to improve the proposal when resubmission.

We consider that the quality of the evaluation process is high. It is an agile procedure, with clear evaluation criteria and carried out by a balanced pool of experts in technology, business, finance and industry.

The novelty of inviting proposers in Phase 2 to face-to-face interviews in Brussels is much appreciated. However, the Network experts are not informed about the companies that are called for the face-to-face interviews. This information in time could facilitate that the CEOs could be oriented by the Network experts about their pitch in Brussels.

We also have noticed that those proposers that do not receive funding, do not get much information about the reasons for their rejection, and that information could be very valuable if the company’s strategy is to resubmit an improved proposal. We recommend that the jury could communicate a more detailed feedback to the companies applying, especially in the Accelerator, so that they could improve the approach of their innovation project. The evolution from the current feedback letters to a more detailed letter may change the evaluation procedure as, so far, the evaluation of the SMEI projects don’t include consensus between evaluators. Therefore, the comments are individual opinions that might not represent actual recommendations for the SMEs to improve their proposals (and business). If EC need to offer additional feedback to SMEs, they might include a rapporteur in the evaluation procedure.
Annex 1

The Enterprise Europe Network is the world’s largest support network for SMEs with international ambitions. Created by the European Commission in 2008, the Network helps SMEs in their innovation and international growth pathway. It is active in more than 60 countries worldwide and brings together 3,000 experts from more than 600-member organisations, all renowned for their excellence in business support. Member organisations include innovation support organisations, regional development organisations, chambers of commerce and industry, technology poles, universities and research institutes.

The strength of the Network is that we are able to maintain a strong local knowledge that keeps us close to our SME clients, while also offering the range of international expertise that helps these innovative small businesses to achieve their ambitions. We provide services in three key areas:

- **International Partnerships:** through direct access to Europe’s largest data base of business opportunities, our experts help SMEs forge new international partnerships. We organise effective matchmaking and brokerage events at international conferences to save clients time and money. Our tailor-made trade missions lead to successful partnerships thanks to thorough preparation, local knowledge and expert guidance.

- **Advice on doing business abroad:** whatever business, we can advise on the best market opportunities to help SMEs expand internationally. We cut through the complexities of international expansion by providing practical advice, targeted market intelligence and personalised support.

- **Support for business innovation:** we recognise innovation potential and help SMEs shape it into commercial success. Our experts help SMEs commercialise their innovations faster. With our practical, personal advice SMEs are confident to expand internationally protecting their ideas and assets as they grow.

Regarding business innovation services, since the beginning of Horizon 2020 we are working close with the Commission as Key Account Managers (KAMs) for the SME Instrument (SMEI) beneficiaries. The role of the KAMs is to ensure that the SMEs have access to all available services that allow the successful exploitation of their innovation project. We help them to identify their potential needs and bottlenecks, and work with appropriate business coaches to overcome them, obtaining the maximum potential benefits during the project. We also connect SMEs with additional local and national support services. We are more than 300 EU KAMs working with approximately 4,000 SMEI cases per year.

Enterprise Europe Network: [https://een.ec.europa.eu/](https://een.ec.europa.eu/)