

Special Report

**The SME Instrument in action:
an effective and innovative
programme
facing challenges**



EUROPEAN
COURT
OF AUDITORS

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Executive summary

I The SME Instrument was set up under the Horizon 2020 research framework programme to support innovation in small and medium-sized enterprises (SMEs). Its objective is to develop and capitalise on the potential of SMEs by filling the gap in funding for early stage high-risk projects and increasing private-sector commercialisation of research results. It is targeted towards innovative SMEs in the EU and 16 associated countries that show strong ambition to develop, grow and internationalise in all different types of innovation.

II With an overall budget of €3 billion for the period 2014-2020, the instrument provides grants to high-potential companies to either support them in developing a feasibility study (up to €50 000 in Phase 1) or in conducting research and development and market-testing (€2.5 million in Phase 2). Assistance may also be provided through coaching, mentoring or other business acceleration services (Phase 3).

III In this audit, we assessed whether the SME Instrument supports innovation by SMEs. We examined whether it has targeted the right type of SMEs; if it achieved wide geographic coverage; if the selection process and Commission support were effective, and if the Commission adequately monitored and followed up the instrument, in order to make improvements. We expect the observations arising from our audit and the recommendations we make to feed into the debate on how to set up and administer the SME instrument's successor from 2020 onwards.

IV We found that the SME Instrument provides effective support to SMEs in developing their innovation projects and that having the EU branding that comes from receiving EU support helps companies to attract additional investment.

V Nevertheless, the instrument's broad objectives and targets, together with the changes introduced during the course of its implementation, have caused some uncertainty for stakeholders. We identified a risk that the instrument funds some SMEs that could have been financed by the market.

VI Participation in the SME Instrument varies markedly between countries. This is partly due to external factors but also because of the varying levels of support provided by National Contact Points and limitations in the Commission's marketing and communication activities.

VII We found that improvements have been made to evaluation and selection procedures during the lifetime of the instrument, with the oral presentation of project proposals to a panel of jury members being a particularly useful addition in identifying the best proposals. However, a two-way feedback between the evaluation stages is missing. In addition, some IT tools are not fit for purpose, thus undermining the process which is already under pressure.

VIII The resubmission of unsuccessful proposals is a large and increasing drain on management and evaluation resources without providing added value. Not only does it increase administrative costs, it also lowers the success rate, thus discouraging participation.

IX Phase 1 of the instrument provides effective support, thanks to its simple and fast selection process, the EU branding, and access it gives to business acceleration services. However, it imposes disproportionately high administrative costs on the Commission's administration and its relevance is diminished in countries where similar programmes already exist.

X Phase 2 of the instrument, which provides a higher level of support with the aim of bringing the innovation to market, enjoys the same positive outcomes as Phase 1 and also helps SMEs in raising additional investment.

XI Nevertheless, we found that the majority of beneficiaries still need additional financing to support their innovative endeavours and bring their projects to market. The Commission has taken little action to create links between SMEs' financing needs and EU-backed financial instruments, and its knowledge of beneficiaries' financial needs is limited.

XII Coaching and business acceleration services have the potential to amplify the effects of the instrument but having been launched late, only a small share of SMEs made use of the services. Moreover, they have not been sufficiently tailored to the needs of beneficiaries.

XIII Monitoring of investment raised and company evolution is cost-efficient but it does not assess the true impact of the instrument. Although beneficiaries have managed to raise investments in addition to the grants received, imbalances exist among participating countries, with north-west European SMEs raising more private funding than those in the south and east of Europe.

XIV In the report, we recommend that the Commission should:

- improve marketing and communication strategy for the instrument;
- improve its support to National Contact Points (NCPs) for SMEs and the Enterprise Europe Network (EEN); refine the instrument selection procedure to make better use of resources and fund the best proposals;
- limit the number of times a proposal can be resubmitted and publish the success rate per project proposal;
- propose to Member States that the Commission manages schemes similar to Phase 1;
- preserve a scheme similar to Phase 2 in the next programming period, building on the existing results;
- enhance the business acceleration services by allocating appropriate resources; and
- identify and promote synergies between the SME Instrument and EU backed financial instruments.

Introduction

Importance of SMEs and innovation in the EU economy

01 According to the European Commission's Annual Report on SMEs 2017/2018, SMEs account for 99 % of the companies operating in the EU non-financial business sector, 66 % of total employment and 57 % of value-added in the EU's non-financial business sector.

02 Both the European Parliament and the Council have stressed the importance of supporting innovation (particularly breakthrough innovation) and the growth of start-ups and SMEs. They have noted that support to innovative SMEs and start-ups is essential in order to maximise Europe's potential for growth and socio-economic transformation¹. Academic studies^{2,3} have demonstrated the relationship between entrepreneurship, SME activity, economic growth and job creation.

03 The Europe 2020 Strategy⁴ emphasises the importance of innovation in boosting growth and employment in the EU. "Innovation Union" is one of the Strategy's seven flagship initiatives, aiming "to create an innovation-friendly environment that makes it easier for great ideas to be turned into products and services that will bring economy growth and jobs"⁵.

¹ Impact Assessment of the 9th EU Framework Programme for Research and Innovation (a New Horizon for Europe).

² The vital 6 per cent. How high-growth innovative businesses generate prosperity and jobs 2009 - NESTA (National Endowment for Science, Technology and the Arts).

³ Henrekson, M. & Johansson, D. 2010. Gazelles as job creators: a survey and interpretation of the evidence. *Small Business Economics*, 35, 227-244, p. 240.

⁴ Communication from the Commission, Europe 2020, A strategy for smart, sustainable and inclusive growth, COM(2010) 2020.

⁵ http://ec.europa.eu/research/innovation-union/index_en.cfm

Increased focus on SME and innovation in H2020

04 H2020 is the eighth EU research framework programme. With a budget of €76.4 billion for the period 2014 to 2020, it ranks as the world's largest public research and innovation programme⁶.

05 H2020 has placed greater emphasis on innovation than any of its predecessors, by providing more funding for testing, prototyping, business-driven R&D and promoting innovative entrepreneurship. H2020 has also set a more ambitious target in terms of funds to be allocated to SMEs than any other previous framework programme: SMEs should receive a minimum of 20 % of the total combined budget of €9 billion under the pillars "Leadership in enabling and industrial technologies" and "Societal challenges".

06 A budget of €3 billion has been earmarked for the SME instrument (SME-I), which equates to 33 % of the SME target for the whole H2020⁷.

What is the SME Instrument?

07 The SME-I was set up under the Horizon 2020 (H2020) research framework programme (FWP) to support innovation in small and medium-sized enterprises (SMEs). It provides grants to high-potential companies to support them in developing a feasibility study (Phase 1) and in conducting research and development (R&D) and market-testing (Phase 2). Assistance may also be provided through coaching, mentoring or other business acceleration services (Phase 3). Available to SMEs in Member States and countries that have signed association agreements (associated countries)⁸, the SME-I aims to help companies scale up and internationalise.

08 The SME-I is a novel instrument, since it allows SMEs to participate as single beneficiaries without necessarily being part of a consortium as usually required by research framework programmes. It targets projects having reached at least technology readiness level 6.

⁶ Regulation (EU) No 1291/2013 establishing H2020.

⁷ Idem.

⁸ http://ec.europa.eu/research/bitly/h2020_associated_countries.html

09 The objective of the SME-I is to develop and capitalise on the potential of SMEs by filling the gap in funding for early stage high-risk research and innovation, and increasing private-sector commercialisation of research results. It is targeted at SMEs showing a strong ambition to grow and internationalise and shall be provided for all types of innovation where each activity has a clear European added value.

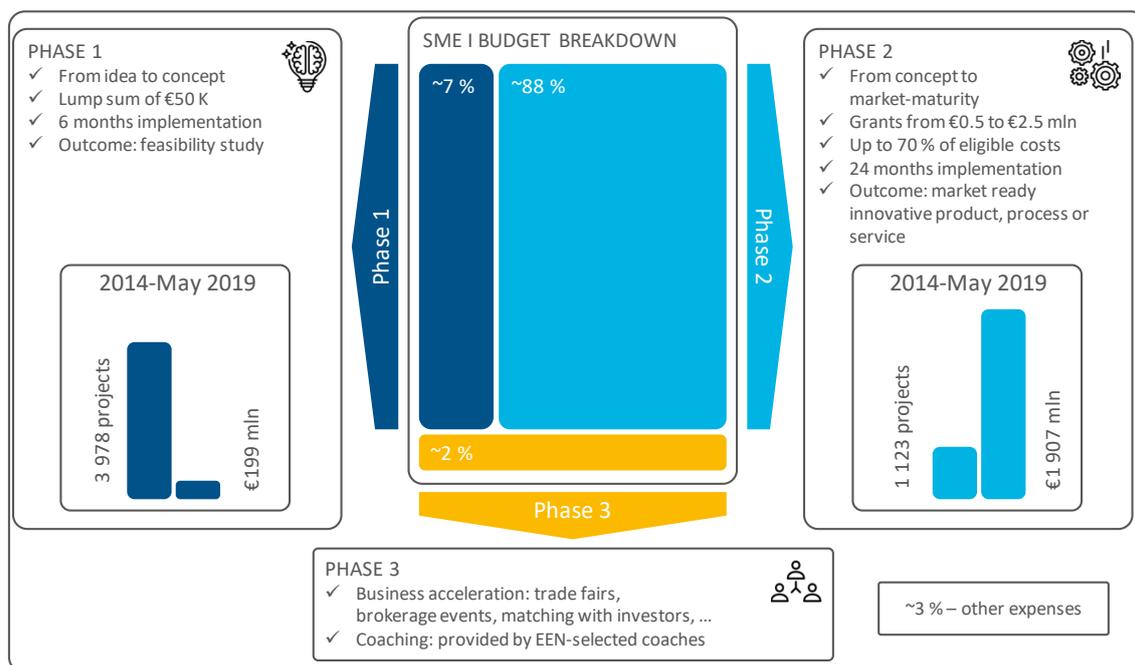
10 Responsibility for policy development with respect to the SME-I lies with the European Commission's DG Research and Innovation (DG RTD), while implementation is carried out by the Executive Agency for Small and Medium-sized Enterprises (EASME).

11 The instrument comprises three phases (see *Figure 1*):

- **Phase 1 (investigation of technical and commercial feasibility of a business idea):** exploring the scientific or technical feasibility and commercial potential of new ideas. Grants of €50 000 are awarded with a 70 % co-financing rate from the EU.
- **Phase 2 (development and demonstration):** developing innovation for the purposes of demonstration, performance verification, testing, the development of pilot lines, validation for market replication, and other activities aimed at bringing innovation to investment readiness and maturity for market take-up. Grants of up to €2.5 million can be awarded with a 70 % co-financing rate.
- **Phase 3 (additional EU support to enter the market):** providing support, training and coaching, as well as facilitating access to risk finance. This phase consists of a bundle of services offered to beneficiaries in Phases 1 and 2. No additional grants are awarded in this phase.

12 Although the different phases are numbered, the SME-I is not sequential: there is no need to complete Phase 1 in order to participate in Phase 2. The services offered in Phase 3 may be provided at any point during implementation of the innovation project, or even after finalisation.

Figure 1 – The SME-I: structure and budget distribution



Source: ECA.

A short history of the SME Instrument

13 The SME Instrument was launched in 2014, with a design based on the USA’s SBIR⁹ programme. Its “funnel model” would make a large number of low-level investments in feasibility studies for promising innovation projects (Phase 1), with the best progressing to Phase 2 and an increased level of funding. However, the obligation to pass through Phase 1 before Phase 2 was removed at the design phase, allowing applicants to directly apply to either.

14 As for other parts of Horizon 2020, the SME Instrument is implemented via work programmes, which cover periods of two or three years, and with each work programme, the characteristics of the instrument can be modified according to policy intentions.

15 The 2014-2015 and 2016-2017 work programmes divided the SME-I budget into thematic topics e.g. biotechnology, health, security. SMEs would apply to the topic, which fitted their project best.

⁹ <https://www.sbir.gov/about/about-sbir>.

16 The 2018-2020 work programme featured a “European Innovation Council (EIC) Pilot” which grouped the SME-I together with certain other programmes – Future Emerging Technologies Open (FET Open), Fast Track to Innovation (FTI) and H2020 Prizes. The main changes introduced under the EIC Pilot affecting the SME-I were:

- a bottom-up approach in an open call without needing to apply to a thematic topic;
- a “pitch” by SMEs for selection in Phase 2: face-to-face interviews with a panel of experienced innovators;
- increased mentoring and coaching opportunities for all beneficiaries through Phase 3.

17 In June 2018, the Commission presented a proposal for a regulation establishing Horizon Europe post-2020¹⁰. The proposal envisages an EIC as the third pillar in a framework programme with a budget of €10.5 billion that would “combine all EU support to breakthrough and market-creating innovation in one place” and comprise two instruments: the Pathfinder for Advanced Research and the Accelerator. Therefore, the previous Phase 1 would definitively be discontinued while actions similar to those in the previous Phases 2 and 3 would be included in the Accelerator¹¹.

¹⁰ COM(2018) 435, Proposal for a Regulation establishing Horizon Europe, June 2018.

¹¹ In April 2019 the Commission, the European Parliament and the Council reached a [provisional general agreement](#) on Horizon Europe.

18 In March 2019, the Commission modified the work programme and launched the “Enhanced EIC Pilot” to run from June 2019 to the end of 2020. The Enhanced EIC Pilot represents a transition towards the proposed EIC under Horizon Europe (post-2020), forging a closer relationship between the constituent parts and bringing significant changes to the SME-I. Phase 1 was discontinued and the following instruments were introduced:

- o the “Pathfinder”, replacing the former FET-Open and FET-Proactive;
- o the “Accelerator”, replacing the previous Phase 2:
 - development and scaling-up of high-risk innovation by SMEs;
 - introduction of the non-bankability concept¹²;
 - grants of up to €2.5 million; and
 - option for equity injection of up to €15 million (blended finance).

19 The EIC Pilot represented an evolution of the SME-I, mostly in line with its original design, while the Enhanced EIC Pilot introduced changes facilitating a transition towards the proposed EIC under Horizon Europe. The SME-I is the largest element in both the EIC Pilot and EIC Enhanced Pilot, accounting for around two-thirds of the respective budgets.

20 The proposal for the EIC under Horizon Europe, currently in legislative procedure, preserves some elements of the instrument such as a continued focus on SMEs and grant-only support. However, certain other aspects under consideration have yet to be developed or tested¹³.

¹² The concept of non-bankability is defined in the EIC frequent asked questions as an “inability to attract sufficient funding”.

¹³ For example, the provision of financial support to projects through equity finance, and the partial acceptance of the selection processes carried out in other calls or programmes.

Audit scope and approach

21 This special report is the latest in a series of ECA publications examining financial support to innovative SMEs¹⁴. Both the European Parliament and the Council have stressed the importance of supporting innovative SMEs and start-ups in order to maximise Europe’s potential for growth. We expect the observations arising from our audit and the recommendations we make to feed into the multiannual financial framework debate on how to set up and administer the SME instrument’s successor from 2020 onwards.

22 In this audit, we examined whether the SME Instrument was effective in supporting innovation by SMEs?

23 The audit addressed whether:

- the instrument targeted the “right SMEs” (i.e., those with high innovation potential);
- the instrument achieved geographical reach as well as searching for excellence;
- the Commission’s selection process was designed to fund the best projects;
- the Commission provided effective support to beneficiaries;
- the Commission adequately monitored and followed up the instrument in order to make improvements.

24 Our audit therefore focused on the design, management and outputs of the SME-I and its evolution towards the EIC including the EIC Pilot. We included in our audit the grants awarded in the period January 2014 to May 2019.

¹⁴ Special reports on guarantees (SR 20/2017 SME Guarantee Facility) and on venture capital (SR 17/2019).

25 The audit combined evidence from a range of sources:

- o a desk review of documents;
- o an analytical data review;
- o surveys of beneficiaries, unsuccessful applicants receiving a seal of excellence, remote evaluators and national innovation agencies (NIAs);
- o information visits to Bulgaria, Denmark, France, Romania, Slovenia, Spain and the United Kingdom; and
- o interviews with Commission Directorates-General, EASME, the European Investment Bank (EIB), European Investment Fund (EIF) and other relevant stakeholders.

26 For further details on our audit methodology and sources of evidence, see [Annex I](#).

Observations

Targeting the right beneficiaries

27 According to the H2020 Regulation¹⁵, the SME-I targets innovative SMEs with a strong ambition to develop, grow and internationalise.

Objectives and target group of the SME Instrument have changed during its implementation

28 SME-I stakeholders pointed out in interviews and in response to our surveys that the SME-I would have benefited from a more precise definition of its target and objectives at its inception.

29 This ambiguity, particularly concerning the type of companies being targeted by the SME-I, was also highlighted in the SME Experts Advisory Group (EAG) 2014 Report¹⁶. According to the EAG, additional resources and a deeper analysis of the intended target group would have allowed the Commission greater confidence in attracting the right type of applicants.

30 The objectives in successive work programmes changed several times throughout implementation. The first two work programmes (2014-2015 and 2016-2017) focused on any innovation that boosted company growth and was new to the market. The work programmes for the EIC Pilot (2018-2020) and the Enhanced EIC Pilot (2019-2020) shifted focus towards “market-creating” innovation. By comparison, the SBIR programme has changed little since its renewal in 2011¹⁷.

31 The frequent changes introduced during the short life of the SME-I has led to confusion for key actors, such as the National Contact Points (NCPs), the Enterprise Europe Network (EEN) and applicants about what should be funded.

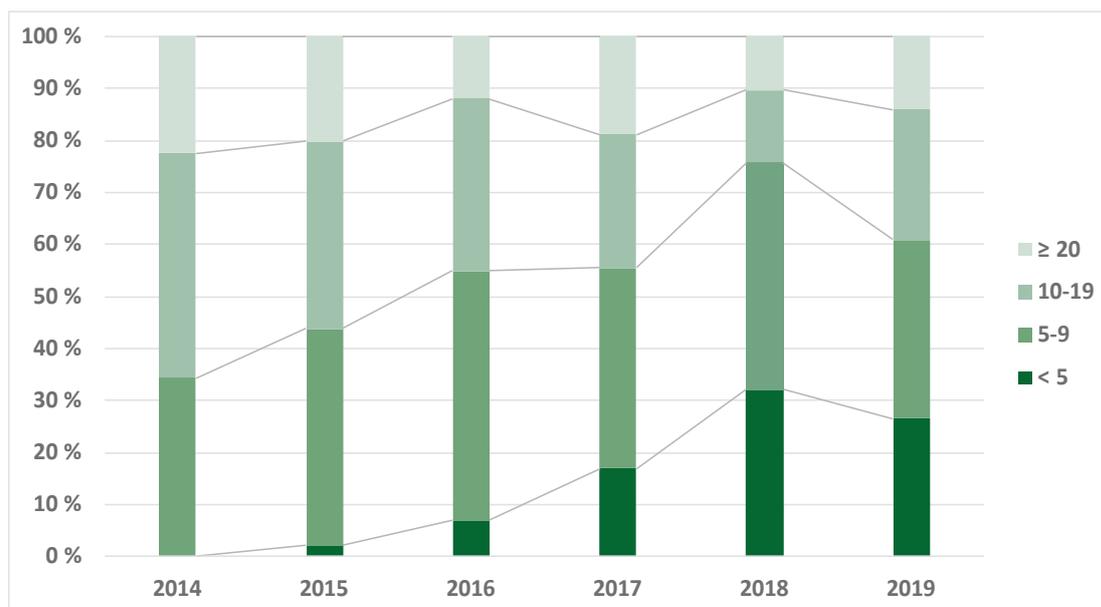
¹⁵ Regulation (EU) No 1291/2013 establishing H2020.

¹⁶ 2014 Annual Report of the EAG on Innovation in SMEs.

¹⁷ <https://sbir.nih.gov/reauthorization#eligibilityDiv>

32 During implementation of the SME-I, the type of companies targeted has shifted from mature companies that had participated in previous FWPs, to innovative and in particular, young companies without previous FWP experience. The introduction in 2018 of the bottom-up approach and the pitch under the EIC Pilot accelerated the move towards a more youthful mix of SMEs (see [Figure 2](#)).

Figure 2 – Age of Phase 2 funded SMEs by call year



Source: ECA based on Commission data.

33 The current age profile of beneficiaries matches that of companies identified in the Nesta study¹⁸ on the factors for growth and differences in job creation for companies. This indicates that the current portfolio of beneficiaries is better positioned to deliver growth and job creation.

34 The bottom-up approach has solved the issue seen with the previous structure where companies would select the "topic" on which to apply for support, based on the different award success rates. It has also simplified the administrative procedures for the calls. An alternative approach may be appropriate where there is a need to ring-fence specific areas considered a priority for the EU.

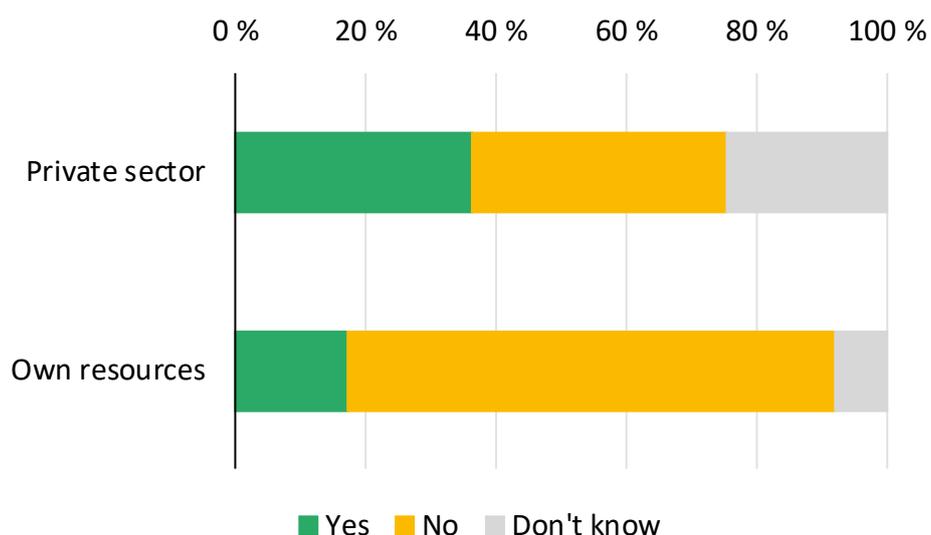
¹⁸ Nesta Working Paper No 11/02, A look at business growth and contraction in Europe.

Late introduction of non-bankability concept

35 The SME-I aims to “fill the gap in funding for early stage high-risk research and innovation”¹⁹. However, the successive work programmes have not specified how to target SMEs facing difficulties in obtaining funding from other sources, and the concept of “non-bankability” was only introduced with the Enhanced EIC Pilot in 2019.

36 According to various stakeholders interviewed, there is a risk of the SME-I crowding-out private investment. This was borne out in the results of our survey among beneficiaries. In Phase 2, 36 % of respondents believed that their projects could have received funding from the private sector, and 17 % replied that they could have used their company's own resources to fund innovation. Jury members also confirmed this risk in interview (see [Figure 3](#)).

Figure 3 – Phase 2 companies’ alternative sources of private funding



Source: ECA survey to beneficiaries.

37 However, the stakeholders highlighted the subsequent crowding-in effect generated by the EU grant that helps beneficiaries to later attract the additional funds needed to advance their innovation projects and scale up.

38 The bankability of a project is a complex concept determined by several variables, such as volume of funds needed, timing and price. Given its complexity, most interviewees believed there was a need to define what bankability meant and how it should be measured.

¹⁹ Regulation (EU) No 1291/2013 establishing H2020.

39 Prior to 2019, the bankability of projects was not considered in the SME-I selection process. Indeed the instrument awarded grants to some SMEs that could have been financed by the market. The introduction of the non-bankability concept requires clear provisions on how it can be demonstrated, particularly since the EU branding of the SME-I and the grant itself attract additional financial resources supporting beneficiaries' innovation projects.

Geographical reach

Varying levels of participation among countries – partly due to factors beyond the control of the Commission

40 The main factor determining SME-I participation and project success is excellence. Therefore, given the contrasting innovation levels among Member States, an uneven distribution of funds is to be expected. At the same time, however, through H2020 the EU aims to ensure that the benefits of an innovation-led economy are widely distributed and maximised²⁰.

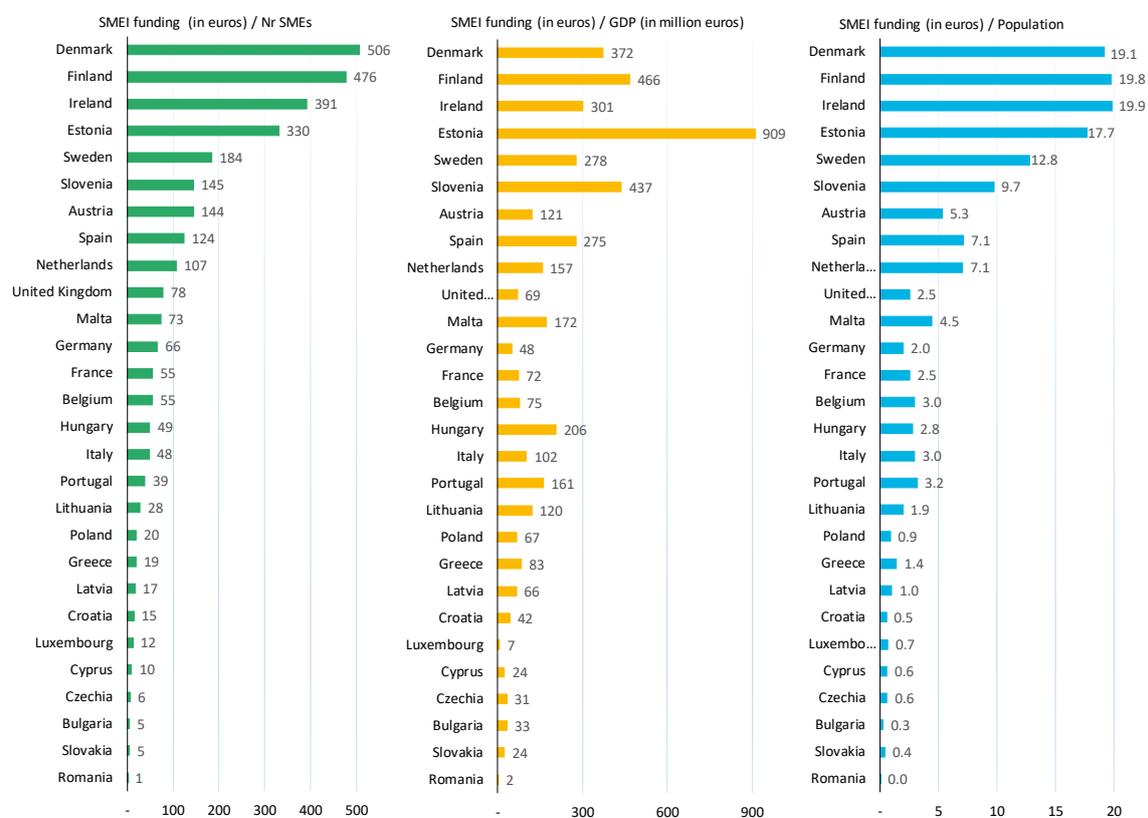
41 The graphs and maps below (*Figure 4*, *Picture 1* and *Picture 2*) illustrate country-level statistics on the number of submitted applications and funding received relative to the number of SMEs, GDP and population. *Annex II* shows the distribution of SME-I funding per Member State in absolute and relative terms, the number of projects awarded, the number of proposals and the success rate per Member State.

42 Traditionally, Horizon 2020 implementation analysis has featured two different groups of Member States: EU-15 and EU-13²¹. In the case of the SME Instrument, this distinction does not serve to explain the variation in funding received (see first column of *Figure 4*).

²⁰ Recital (14) of Council Decision No 2013/743.

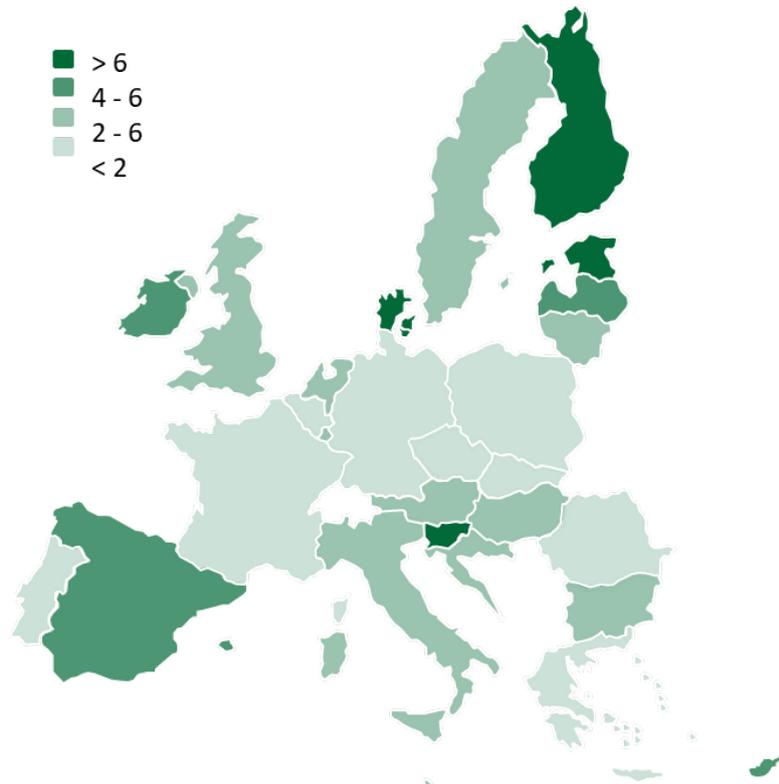
²¹ EU-13 Member States are meant as Bulgaria, Croatia, Cyprus, Czechia, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia, whereas EU-15 countries are the other 15 Member States of the European Union.

Figure 4 – Distribution of SME-I funding by number of SMEs, GDP and population



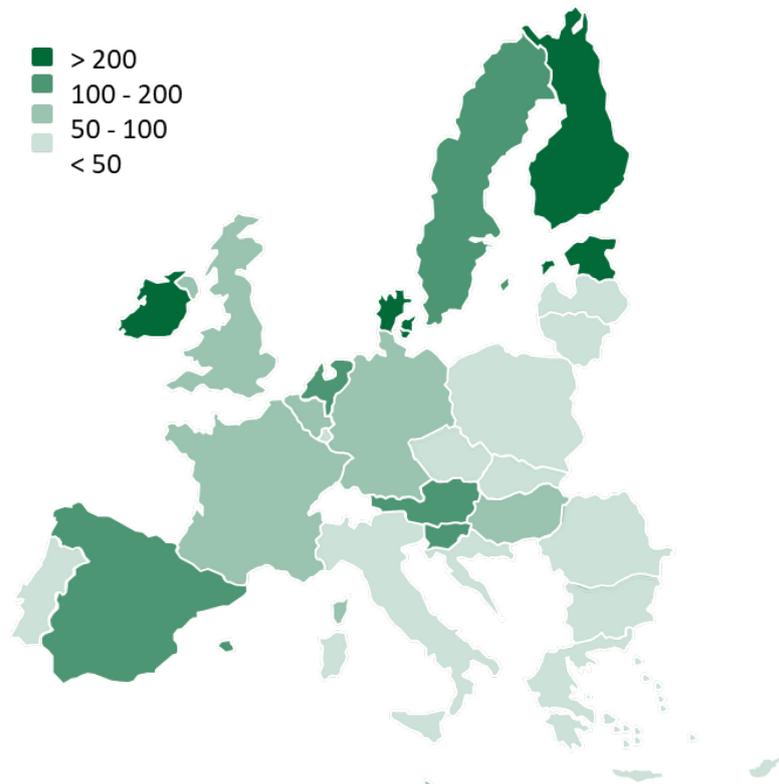
Source: ECA, based on Commission data.

Picture 1 – Number of submitted project proposals per thousand SMEs



Source: ECA.

Picture 2 – SME-I funding per SME (€/SME)



Source: ECA.

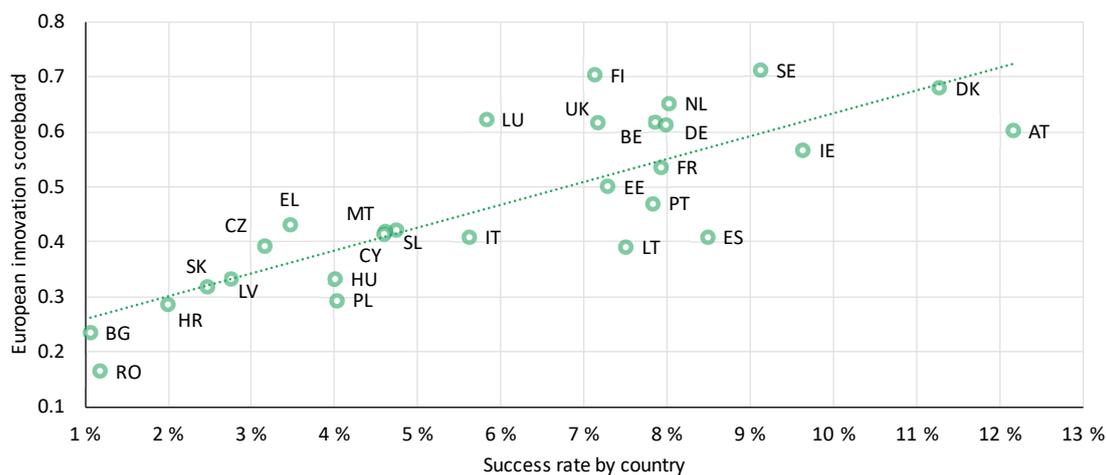
43 The level of participation in SME-I and project success rate are affected by several factors:

- (1) innovation ecosystem and number of SMEs in the country;
- (2) existence of a national strategy on the SME-I;
- (3) effort made to promote the SME-I; and
- (4) support provided by NCPs and the EEN.

44 While some of these factors are beyond the Commission's control, others – such as the marketing and promotion of the instrument or the support provided by the NCPs – fall within its influence.

45 Differences in success rates between countries are partly explained by existing variation in the levels of innovation. *Figure 5* shows a strong correlation between success rates in the SME-I and the European Innovation Scoreboard Summary Innovation Index²².

Figure 5 – Correlation between SME-I success rate and the 2019 European Innovation Scoreboard



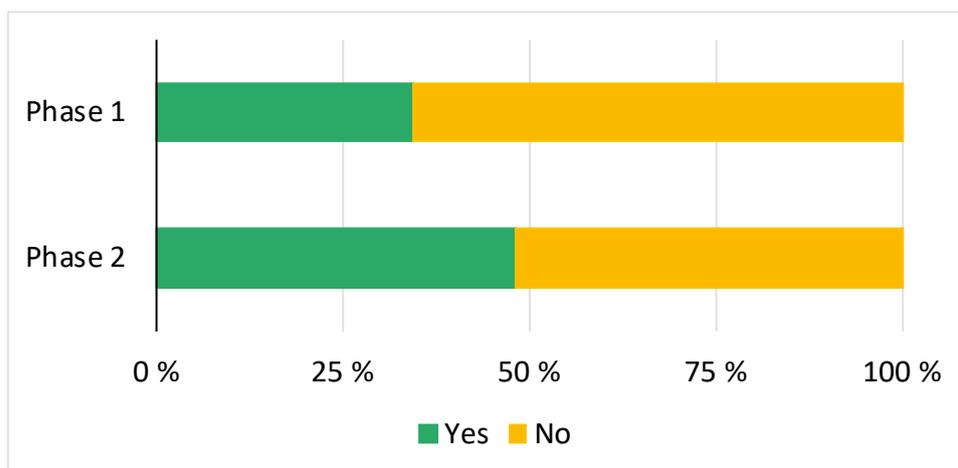
Source: ECA based on Commission data.

²² https://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en

46 A common characteristic of participant countries with high participation and success rates in the instrument is the presence of an active national innovation agency (NIA), which acts as intermediary with the innovative SMEs. Conversely, in the three Member States with the lowest level of participation (compared to the number of SMEs in the country) and the lowest success rates, there is no NIA.

47 In our survey of national innovation agencies (NIAs), we asked whether they had national programmes supporting SMEs in applying for the SME-I. Just under half of NIAs confirmed that they had national programmes supporting SMEs applying for Phase 2, with 35 % reporting this for Phase 1 (see [Figure 6](#)). Interviewees noted that since the SME-I instrument was created, some national agencies had scaled down similar programmes and instead prepared their companies for SME-I.

Figure 6 – Do national programmes supporting SMEs in applying for Phase 1 and/or Phase 2 exist in your country?



Source: ECA survey to NIAs.

48 Spain is a good example of a Member State with a national strategy supporting innovative companies that could be eligible for the SME-I. The Spanish authorities have set up a system to market the SME-I, actively searching for highly innovative companies and supporting them in applying for the instrument. Spain is the greatest beneficiary of the SME-I: it receives some 20 % of the total budget and has the highest number of applicant SMEs. Despite being a moderate innovator according to the European Innovation Scoreboard, it has one of the highest success rates. Ireland and Denmark also actively promote the instrument and prepare their SMEs for participation.

49 In Member States visited with a low level of participation in the SME-I (in terms of funds awarded and success rate), awareness of the SME-I was limited. There was little specific support or promotion at national level or guidance for companies regarding the instrument. In turn, low success rates have discouraged other companies from applying to the SME-I. Moreover, the existence of alternative national programmes, which return higher success rates, has reduced the attractiveness of the SME-I for companies and auxiliary agents such as consultants.

Awareness affected by the absence of a targeted marketing and communication strategy at Commission level

50 The SME-I represents a new form of support in the FWP, targeting mainly single SMEs with highly innovative projects, with a market-driven approach.

51 The traditional types of H2020 applicant (universities, large corporations and research centres) is familiar with the funding opportunities offered by H2020. These organisations have experience with both H2020 and previous FWPs and, in many cases, have dedicated staff managing applications and projects. The type of companies targeted by the SME-I generally have not participated in previous FWPs and may not even have included public funds in their finance strategy.

52 We examined whether SME-I was promoted, implemented and monitored to provide easy access to the instrument for SMEs as set out in Council Decision 743/2013. We also looked at the extent to which marketing techniques were used to make the right companies aware that this funding opportunity exists and appropriate channels of communication must be identified and used to reach them.

53 The Commission and EASME had a limited budget to launch communication activities and organise various events gathering potential beneficiaries of the SME-I, mainly H2020 information days. Reports published by the EAG highlighted the absence of a marketing strategy for the SME-I, and the need to identify the right “clients” and adjust communication channels and tools accordingly. The SME-I evaluation²³ saw this as a possible explanation for varying penetration rates in the EU-28 countries, and pointed to the need to re-examine the communication and marketing strategy.

²³ “Evaluation of the SME instrument and the activities under Horizon 2020 Work Programme Innovation in SMEs”, February 2017.

54 Despite the efforts made to reach potential beneficiaries, the Commission did not have a structured marketing and communication strategy. It did not employ a sufficiently targeted approach to raise awareness among innovative SMEs of the funding opportunities offered by the SME-I.

55 The Commission relies heavily on the promotion done at national level by the NCPs and the EEN to achieve uniform implementation of the SME-I. It considers the NCPs to be “the main structure for providing practical information and assistance to potential participants”. As SMEs are less familiar with H2020 than other participants in the FWP (see paragraph 51), the role of the NCPs is particularly important for SMEs. The NCPs are appointed and paid by the national authorities. They are responsible for ensuring that “the new programme becomes known and readily accessible to all potential applicants”²⁴. However, as stated in the ECA special report 28/2018²⁵, the level of support offered by the NCPs varies among Member States. In some, they act as full-time NCPs; in others, they have to combine NCP tasks with other responsibilities.

56 The level of support provided by the NCPs varies across Member States, influencing the level of participation and success rates. In only two of the six Member States visited were the NCPs fully dedicated to the role. The NCPs in two Member States held proposal-writing workshops and pre-screened applications. One organised mock jury pitches. Others did little, aside from hosting H2020 information days.

57 The NCPs and EEN reported that the SME-I had been promoted mainly at national level with limited support from the European Commission, as the programme does not allocate the NCPs a specific budget for dissemination activities.

²⁴ http://ec.europa.eu/research/participants/data/support/ncp/h2020-standards-principles_en.pdf.

²⁵ Special report 28/2018 The majority of simplification measures brought into Horizon 2020 have made life easier for beneficiaries, but opportunities to improve still exist.

58 Access4SMEs is an H2020 coordination and support action aiming to “facilitate transnational cooperation among NCPs for SMEs and access to risk finance, upgrade their skills and tools in order to raise their standard of support”²⁶. Interviewees stated that Access4SMEs has been the main source of information on the SME-I for the NCPs, EENs and beneficiaries. However, the network was only set up in September 2016 – almost three years after the launch of the instrument – and so was not in place when its services would have been the most valuable.

Selection of projects

59 An effective selection procedure is critical to ensuring that the best applications are chosen for funding. In view of this, the selection procedure should have sufficient resources and assign the appropriate type of experts to each stage of the evaluation.

60 The SME Instrument is based on a continuously open call for proposals, with four cut-off dates per phase per year. The evaluation process is carried out remotely by four independent evaluators per proposal. Since 2018, the selection procedure for Phase 2 grants has included a presentation of the projects to a jury, which is a second stage of evaluation conducted by a panel of six experts, mostly investors.

Limited resources for evaluation and remote evaluation procedure overloaded by high number of submissions

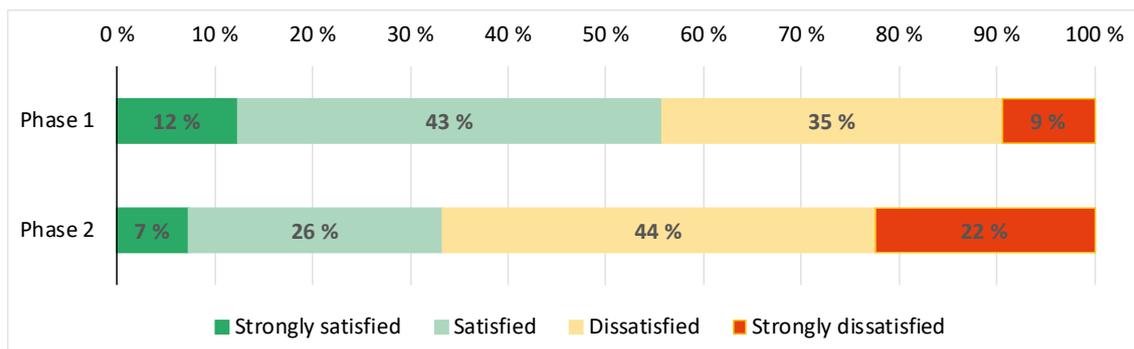
61 EASME receives and manages a very high number of proposals at each of the four cut-off dates per year for each of the two phases. At the last cut-off date for 2018, it received more than 1800 applications for Phase 2 and 2200 for Phase 1.

62 The evaluation process is challenged by a combination of limited resources and a high number of submissions. Evaluators have only 1.6 hours in Phase 1 and 2.4 hours in Phase 2 to complete the evaluation and its documentation, although applications are lengthy (10 pages excluding annexes for Phase 1 and 30 pages excluding annexes for Phase 2).

²⁶ http://www.access4smes.eu/project/#_goal

63 In our survey, only 34 % of Phase 2 evaluators responded that the 2.4 hours allocated by the Commission to evaluate the proposals was sufficient. The average time needed was 5.1 hours. For Phase 1, 56 % of respondents were satisfied, requiring three hours instead of 1.6 hours allocated by the Commission (see [Figure 7](#)).

Figure 7 – Level of satisfaction expressed by evaluators on hours given to evaluate proposals



Source: ECA survey to evaluators.

64 The evaluators replying to our survey were mostly satisfied with the guidance and training provided, though they would like to receive feedback on their evaluations and statistics of outcomes, enabling them to benchmark and improve their performance. They expressed concern about the training for new evaluators and the consequent variability in their scoring. Statistics from EASME confirm this variability and H2020 rules require that 25 % of evaluators are newcomers.

Presentation to jury largely improves the selection procedure while complying with time-to-grant

65 The introduction of the presentation of projects to a jury in 2018 was a positive change, since it compensates for the weaknesses inherent in a remote evaluation and allows for the verification of the practicality of the project and the potential of the team to implement it. Nevertheless, certain elements remain sub-optimal.

66 The jury members assess 20 presentation of projects during an evaluation week and are expected to read the documents submitted by applicants in advance. However, the jury members we interviewed felt that they did not receive the documents sufficiently in advance to review potentially 1 600 pages of application information.

67 They also suggested having access to the comments from the remote evaluators' reports. In doing so, useful knowledge would be retained, thereby improving efficiency, given the limited time available for preparing and discussing the presentation of projects to the juries. Similarly, evaluators considered that the quality of their evaluations would be improved if they received the jury members' comments on the proposals they had evaluated.

68 No systematic due diligence is currently performed on applications reaching the presentation stage. Jury members indicated the need for a "light" due diligence process to verify the accuracy of the information provided by applicants on patents, company profile and team composition.

69 The Commission set the time-to-grant (time between the cut-off date and the signature of the grant agreement) target at a maximum of three months for Phase 1 and six months for Phase 2. Actual time-to-grant has decreased since the start of the programme and despite the introduction of the presentation to juries in 2018, in that year EASME signed 90 % of the grants within the target time.

Some IT tools pose risks for the evaluation process

70 Applicants submit proposals online via the electronic proposal submission system on the H2020 Participant Portal.

71 To arrange presentations of projects and compose juries with suitable skills, EASME uses a spreadsheet workbook, which is vulnerable to breakdown that could cause delays and jeopardise an evaluation procedure.

72 Since there are no dedicated IT tools to reimburse applicants for their participation in the pitch, they are registered as evaluators in the internal expert management system (EMI). Consequently, there is a risk that they could accidentally be contacted for the purpose of evaluating proposals.

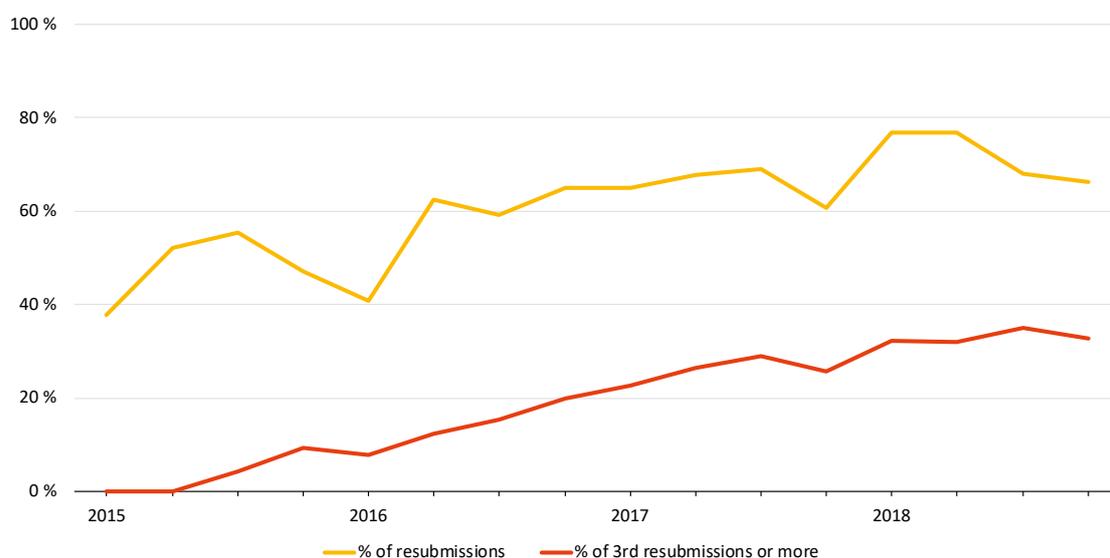
73 In addition, changes in the selection process introduced in September 2019 under the Enhanced EIC pilot (request for financial data from participants and technology readiness level information) require bolt-on solutions that have not yet been developed.

Resubmission of proposals straining evaluation resources

74 There is no limit to the number of times that an unsuccessful application can be resubmitted to the SME-I. At evaluation, a resubmitted proposal receives the same treatment as any other initial application, with no information from previous evaluations being carried forward.

75 The additional cost to the applicant of resubmitting an unchanged proposal is negligible. The number of resubmitted applications has been steadily increasing and now forms a sizeable proportion of total submissions. For the latest 2018 Phase 2 cut-offs (see [Figure 8](#)), 66 % of applications were resubmissions, with half of these appearing for at least the third time.

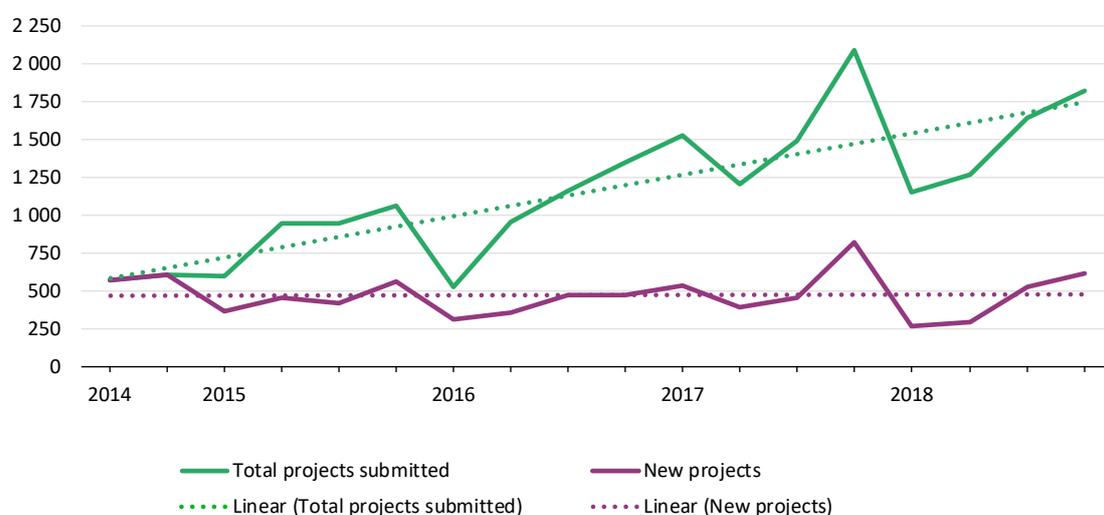
Figure 8 – Share of resubmissions in Phase 2



Source: ECA based on Commission data up to end 2018.

76 The increase of applications over time is only due to the resubmissions. The number of new projects applying for Phase 2 has remained stable at 500 applications per cut-off (see [Figure 9](#)).

Figure 9 – Phase 2 projects: new vs. total



Source: ECA based on Commission data.

77 Resubmissions place a significant and increasing strain on evaluation resources. Between 2015 and 2018, the cost of evaluating proposals on their third and subsequent resubmission – considering only remote expert evaluators’ fees – was over €4.3 million (including more than €1.8 million in 2018).

78 The H2020 mid-term evaluation suggested that oversubscription discouraged participation, impaired the quality of evaluations, was a drain on resources and left a number of high-quality proposals unfunded.

79 The average success rate for SME-I submissions is 4.7 % in Phase 2 and 8.6 % in Phase 1. However, if we calculate the success rate per project proposal rather than per submission, around 11.5 % of Phase 2 and 16.6 % of Phase 1 proposals are ultimately successful.

Effectiveness of support in the SME Instrument phases

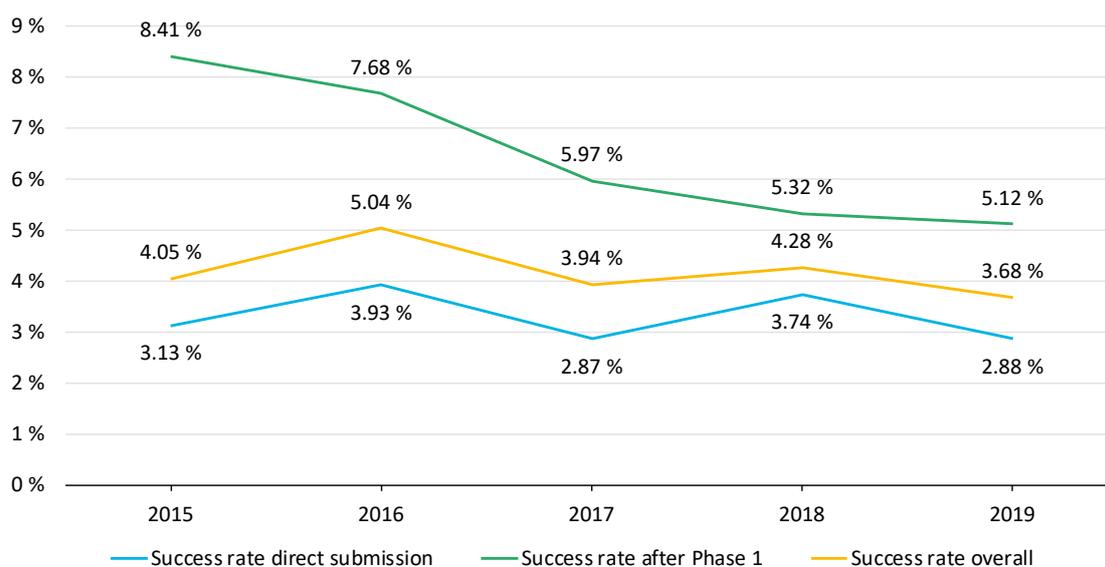
80 Support provided by the SME-I should be timely and relevant and meet the needs of innovative SMEs.

Phase 1 provides useful support to SMEs but similar schemes already exist in some Member States

81 According to interviewed stakeholders, Phase 1 and Phase 2 have effectively become two different programmes. Phase 1 helps companies with no public funding experience, such as small IT companies or start-ups; Phase 2 is more complex, which means the type of companies applying for Phase 1 find applying for Phase 2 a challenge.

82 The difference in success rates between companies passing through Phase 1 before applying to Phase 2 and companies applying directly to Phase 2 has been narrowing throughout SME-I implementation. However, the Phase 2 success rate is still 50 % higher for companies passing through Phase 1 than for companies applying directly to Phase 2 (see [Figure 10](#)).

Figure 10 – Comparison of success rate of SMEs applying directly for Phase 2 with SMEs having already applied for Phase 1 before Phase 2



Source: ECA based on EASME data.

83 Phase 2 beneficiaries that had passed through Phase 1 indicated that the first phase had provided good preparation, helping them to improve the project.

84 Stakeholders interviewed in some Member States believed that Phase 1 projects could often be carried out just as well at national level, although this would be a challenge in some Member States.

85 In our survey of the NIAs, 48 % of respondents declared that their Member State had national programmes similar to Phase 1. When asked about the main strengths of SME-I Phase 1 compared with national programmes, the NIAs cited the fast and transparent selection procedure, the credibility conferred by the EU label, and access to coaching and business acceleration services. In addition, they praised the critical mass of innovative companies that had been set up thanks to SME-I Phase 1, which had managed to attract many innovative companies to the EU programme.

86 When asked for their views on continuing Phase 1 under the new FWP, 86 % of NIA respondents considered that Phase 1 should be preserved under the new FWP (see [Box 1](#) for examples of opinions of NIAs on whether to continue with funding for Phase 1). Those in favour of continuing Phase 1, indicated that the business acceleration and coaching services had increased these companies' capacity to handle innovation activities in a professional way, allowing them to scale up and grow. They suggested that the European nature of the call for proposals spurred SMEs to raise their level of ambition from the early development stages, and that the simple and fast evaluation process had no equivalent at national level. Those against continuing Phase 1, (14 %) noted the absence of added value over national/regional instruments and the absence of a significant link between Phases 1 and 2.

Box 1

National Innovation Agencies opinions on Phase 1

- “Phase 1 has been an excellent entry point to Horizon 2020 for SMEs with no prior experience of European or International programmes for R&I. The mentoring and coaching activities provided by EEN to SME I beneficiaries have increased these companies’ capacity to handle innovation activities in a professional way, allowing them to scale and grow.”
- “Phase 1 has enabled SMEs to take one step further. SMEs themselves often lack knowledge and resources to make exhaustive IP, market and competition surveys, etc. After finalisation of the Phase 1 project, they are also well prepared, not only to apply for Phase 2 funding but also for other funding resources/capital. The grant received from the EC is also kind of a trust and quality label.”
- “Phase 1 is valuable, but does not add the most benefit. Rather it is important that MSs/Associated Countries also invest themselves, so that small-scale interventions such as this could be left to national/regional agencies. However, not all MSs are equipped at present to deliver such support.”
- “Phase 1 provides no additionality; any MS can set up a similar programme.”

Phase 1 imposes an excessive burden on SME Instrument administration

87 Since the launch of the SME-I, 3 978 Phase 1 grant agreements have been signed. The process from start to finish requires a considerable administrative effort in terms of evaluation, grant preparation, grant signature and coaching services. Four project officers manage around 1 000 projects per year. Project monitoring is therefore limited to administrative checks, without an assessment of the quality of the feasibility study.

88 *Table 1* compares the costs of remote evaluation per phase with the overall amount granted. It highlights a large difference in the costs of each phase, with the relative evaluation costs being ten times greater (per euro granted) in Phase 1 than in Phase 2. The benchmark for the cost of evaluation in the private venture capital sector is 3 %.

Table 1 – Cost of remote evaluations

	PHASE 1	PHASE 2
Number of proposals evaluated	39 419	20 957
Number of proposals evaluated per day and evaluator	5	3
Remote evaluation cost per proposal	€360	€600
Total cost	€14 190 840	€12 574 200
Granted amount	€170 800 000	€1 760 609 479
Cost of evaluation / Granted amount	8.3 %	0.7 %

Source: ECA.

89 Despite the greater administrative overhead incurred for Phase 1 compared to Phase 2, Phase 1 provides effective support, thanks to the fast selection process at EU level, the EU label for beneficiaries and the access to the BAS. In addition, it has attracted many innovative companies to the EU programme. However, in countries where similar programmes to Phase 1 already exist, its relevance is diminished.

90 The Commission has discontinued Phase 1 from September 2019.

Phase 2 provides effective support to SMEs

91 Interviewed stakeholders (representatives from the NIAs and NCPs, innovation experts, evaluators, jury members, the EEN, SME umbrella organisations and beneficiaries) were unanimous in their endorsement of Phase 2 on account of its many positive elements, such as:

- the intensity of financial support at a high technology readiness level that Member States cannot provide²⁷;
- competition among SMEs at EU level;
- attraction of additional investment through association with the EU brand (see paragraphs 119 and 121);
- availability of coaching and business acceleration services;
- simple and fast selection and award processes compared to national schemes; and
- focus on the “go-to-market” strategy of the projects, in which projects develop an action plan specifying how the SME will reach customers and achieve competitive advantage.

92 In our survey to the NIAs, we asked whether they thought that SME-I Phase 2 should continue under Horizon Europe and why (see **Box 2** for examples of opinions of NIAs on whether to continue with funding for Phase 2). All respondents said that it should continue.

²⁷ Commission Regulation No 651/2014 declaring certain categories of aid compatible with the internal market.

Box 2

National Innovation Agencies opinions on Phase 2

- It offers something different from what is available at the national level; in addition, it facilitates the creation of international networks. Coaching is also important.
- It is a great instrument that is easy to understand for the applicants.
- It is an important and unique programme to support growing SMEs in the pilot phase.
- The success and popularity of the scheme amongst SMEs has proved that it has a very suitable setup for SMEs. The changes made during the implementation period (especially interviews) have raised the value of the scheme.

93 When asked if significant changes should be made to the design of the SME-I, 75 % replied “no”, 16 % indicated limited changes and only 11 % more profound changes. This suggests that Phase 2’s current form is generally well appreciated.

94 Phase 2 of the SME-I provides effective support to beneficiaries. It provides EU branding that gives visibility to the companies and projects, helps them to raise additional investment, and allows access to the EU network of coaching and BAS. Phase 2 enjoys a very high appreciation in its current form among surveyed NIAs. This opinion is shared by all stakeholders interviewed.

Phase 3 business acceleration services have potential but were launched late

95 The coaching and business acceleration services (Phase 3) play a key role in the overall setup of the SME-I, as they should respond to SMEs’ innovation needs through tailor-made support, competence development and networking. According to a study published by the University of Manchester, there is “a far greater level of success for firms (particularly small firms) in measures that combine direct and indirect support”²⁸.

²⁸ “The Impact of Direct Support to R&D and Innovation in Firms”, *Compendium of Evidence on the Effectiveness of Innovation Policy Intervention*, August 2012.

96 Coaching covers a broad range of topics, notably: business development, organisational development, cooperation and financing. Phase 1 beneficiaries receive three days' coaching and Phase 2 beneficiaries receive 12. The SME-I has led to the set-up of the first European network of coaches to support beneficiaries.

97 Business acceleration services are open to both Phase 1 and Phase 2 beneficiaries and include participation in:

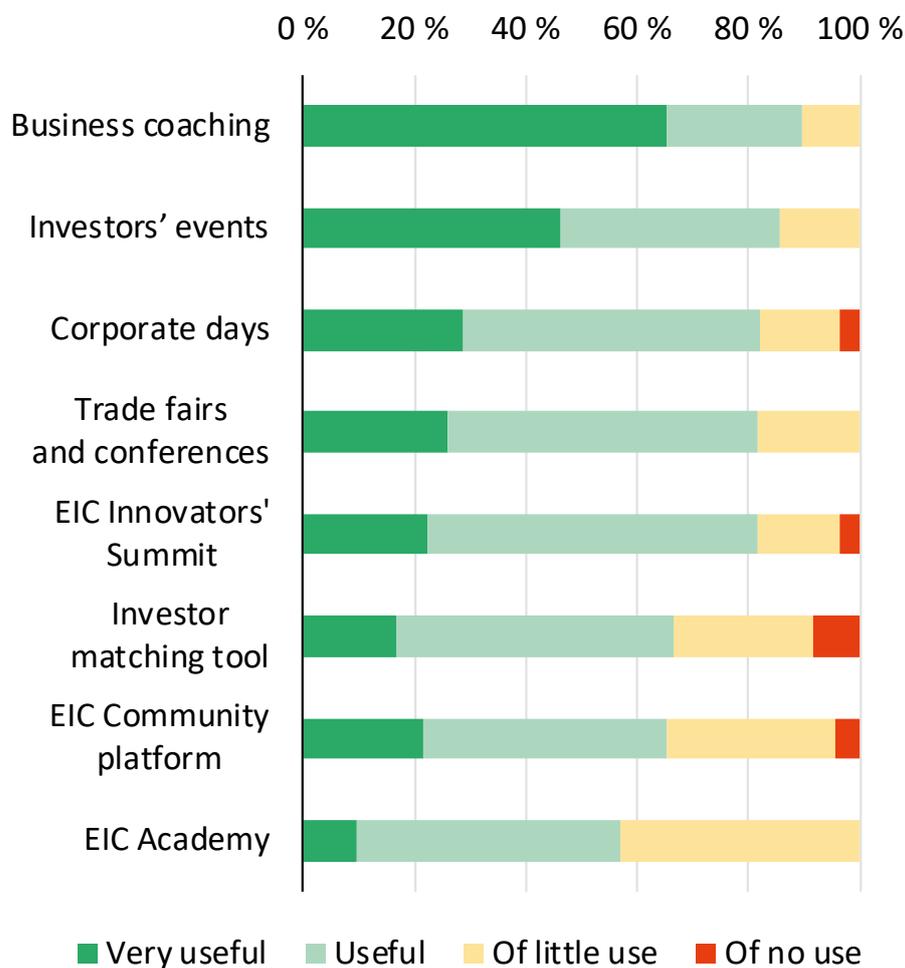
- trade fairs and conferences;
- corporate days;
- investors' events;
- the EIC Innovators' summit;
- mentoring;
- the EIC Community Platform;
- an investors' matching tool;
- the EIC Academy.

98 Phase 3 events and other business acceleration services have focused primarily on putting SMEs in contact with potential investors or business partners. EASME has done little to help beneficiaries in reaching out to potential customers (both large private corporates and public bodies through innovative public procurement).

99 SME beneficiaries responding to our survey very much appreciated both the coaching scheme and any business acceleration services that they had used (see [Figure 11](#)). This positive opinion was confirmed by our visits to beneficiaries and the surveyed NIAs. Nevertheless, the NIAs and EEN nodes suggested that EASME could:

- better coordinate the organisation of events with local players (NIAs and EEN nodes);
- better target the marketing of business acceleration services to avoid emailing SMEs about events that were not relevant to them;
- explore opportunities to collaborate with national promotional institutions that could provide investment opportunities to SME-I beneficiaries.

Figure 11 – Beneficiaries’ level of satisfaction with coaching and BAS



Source: ECA survey to beneficiaries.

100 Interviewed innovation experts take the view that business acceleration services should stimulate the demand-side through matching SMEs with potential large business customers and supporting their participation in innovative public procurement schemes.

101 In comparison, Phase 3 of the SBIR programme is oriented towards public procurement. In the United States, federal agencies with annual R&D budgets exceeding \$100 million are required to allocate 3.2 % to beneficiaries of the SBIR programme in the form of public procurement. In 2015, the contracts signed between US federal agencies and SBIR beneficiaries amounted to \$1.3 billion, while grants overall were worth \$1.2 billion²⁹.

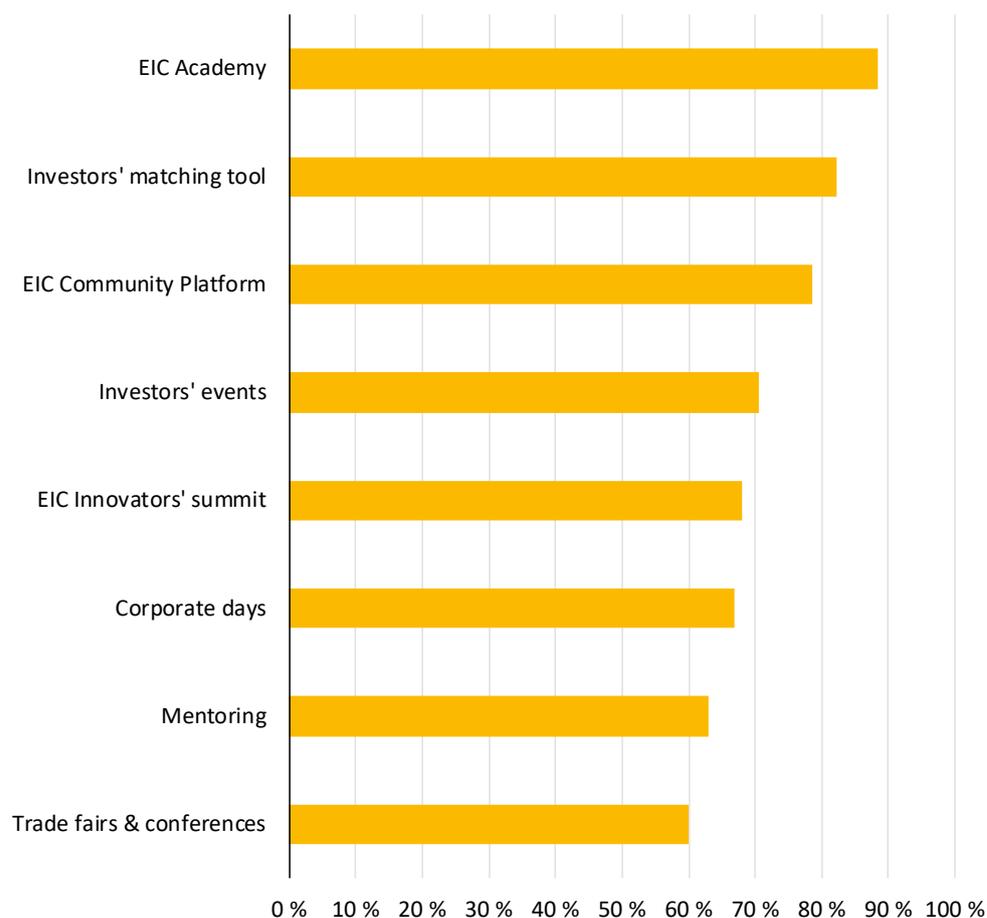
²⁹ SBA Office of Investment & Innovation on SBIR, December 2016.

102 The importance of public procurement for innovation for SMEs and start-ups is recognised by the Commission in its Guidance on Innovation Procurement³⁰. In this document it indicates that “by acting as a lead customer, public buyers can provide innovative companies with an opportunity to test their new solutions under real-life conditions. Moreover, by becoming their customer and thus increasing their turnover, contracting authorities might encourage other investors – both public and private – to invest in their activities”. However, at present, the Commission has not included any innovative public procurement schemes among the business acceleration services to link the SME-I beneficiaries to EU agencies or national institutions.

103 Uptake of the various business acceleration services has been low, with attendance among the surveyed beneficiaries ranging from 12 % at the EIC Academy to 40 % at trade fairs and conferences (see *Figure 12*). This is partly explained by the fact that some services only started at the end of 2017, almost four years after the launch of the instrument.

³⁰ Commission notice C(2018) 3051, 15.5.2018.

Figure 12 – Percentage of respondents that did not make use of BAS



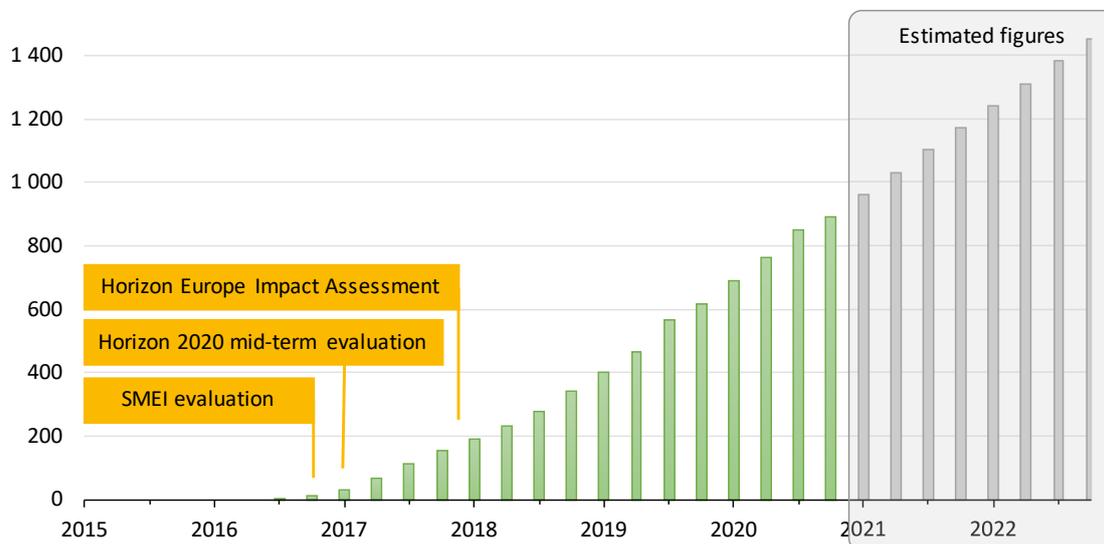
Source: ECA survey to beneficiaries.

Effectiveness of the SME Instrument not assessed and its future role in Horizon Europe is still to be determined

104 In order to provide timely input to the drafting of the new regulation, the Commission performed several evaluations in the early years of the SME-I – despite the lack of mature data (see [Figure 13](#)) – such as:

- the mid-term evaluation of the SME-I published in February 2017, by which point, no Phase 2 innovation project had yet been completed;
- the H2020 mid-term evaluation published in May 2017, affected by the same constraints as in the point above;
- the Horizon Europe Impact Assessment published in June 2018. Only around 200 companies had at this point completed their Phase 2 innovation projects. Furthermore, it normally takes a few years to see the real impact of the innovation project.

Figure 13 – Cumulative number of SME-I Phase 2 projects finished and the period covered by evaluation exercises



Source: ECA based on Commission data.

105 Due to the novelty of the programme and the absence of any previous track record, the SME-I was evaluated purely on the basis of inputs and completed Phase 1 projects, and not on the basis of results from Phase 2 projects. Consultations conducted and independent reports produced for the design of the EIC under Horizon Europe (see [Annex II](#)) were similarly affected. Therefore, the Commission could not base the design of the EIC under Horizon Europe on a comprehensive analysis of the SME-I's implementation, achieved results and impact.

Attracting investment after SME Instrument funding

106 One of the SME-I's objectives is to facilitate access to private capital and create links to EU-backed financial instruments³¹. According to Council Decision 743/2013, "links to the financial instruments [...] are foreseen, for example, by giving SMEs that have successfully completed phases 1 and/or 2, priority within a ring-fenced volume of financial resources".

Commission has only limited knowledge of beneficiaries' overall financing needs and has not made link to EU financial instruments

107 EASME does not systematically collect information on Phase 2 beneficiaries' additional financial needs for full development of their projects. EASME last carried out a survey in 2016 to assess these needs but posed no questions on the preferred source or intended use of funding.

108 In 2018, DG RTD asked the EIB to produce a study on access to finance for SME-I beneficiaries, which was then used to support the Horizon Europe Impact Assessment³². The EIB based the report on prior assessments and on a survey conducted on a sample of beneficiaries. However, the sample was not representative and only 24 beneficiaries responded to the survey. Consequently, the report provides only limited insight into the actual financial needs of SME-I beneficiaries.

109 Our representative survey (see [Annex I](#)) provided some indication of the financial needs of Phase 2 beneficiaries. In particular:

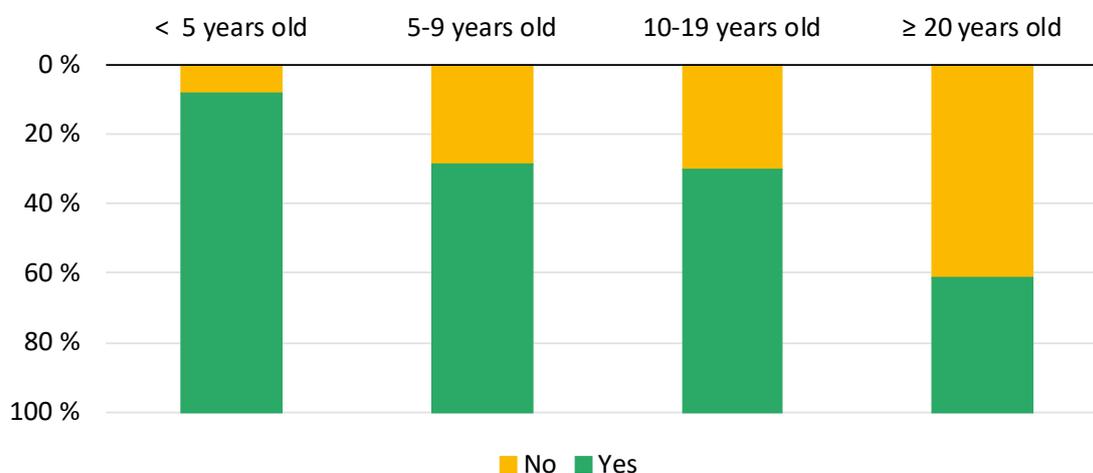
- three quarters of respondents said they needed additional financing of an average of €7.1 million;
- 70 % of respondents seeking additional financing expressed an interest in private venture capital investment, while 48 % were open to debt instruments such as loans or credit lines.

110 The type of financing sought varies according to company maturity with young SMEs more interested in equity injections than older ones (see [Figure 14](#)).

³¹ Regulation (EU) No 1291/2013 establishing H2020.

³² EIB-Innovfin Advisory Group: "Improving Access to Finance for Beneficiaries of the SMEI" (March 2018).

Figure 14 – Share of respondents looking for venture capital support by age of the company



Source: ECA survey to beneficiaries.

111 The majority of SME-I beneficiaries would need additional financing to support their innovation endeavours and bring their innovation projects to market. However, the Commission’s knowledge of beneficiaries’ financial needs is limited.

112 Under the 2014-2020 multiannual financial framework, the EU launched a large range of financial instruments to support innovation by SMEs³³. However, 64 % of beneficiary survey respondents were not aware of these instruments.

113 The EIB report on access to finance for beneficiaries of the SME-I³⁴ drew the following conclusions, which were confirmed through our survey and interviews with beneficiaries:

- There is a funding gap for SME-I beneficiaries when projects exit Phase 2.
- Grants provide a positive market signal to private capital providers.
- Available information on financial instruments is fragmented and communication between private and public capital providers is limited.

³³ Among others: “Access to risk finance initiative” (InnovFin) under H2020; “Access to finance for SMEs” (COSME); European Fund for Strategic Investments (EFSI).

³⁴ EIB-Innovfin Advisory Group: “Improving Access to Finance for Beneficiaries of the SME-I” (March 2018).

114 An EAG report³⁵ in 2016, pointed to the lack of synergies between different EU financial interventions and the need for the SME-I to coordinate with other public investors, to better meet projects' demands for funds following Phase 2 completion.

115 We analysed the list of beneficiaries of EU-backed venture capital managed by the EIB and the EIF and found that, by the end of 2018, only 16 SME-I beneficiaries (eight of which were Phase 2) had received such financial support. In five cases, the financial instrument's investment occurred before the SME-I grant had been awarded.

116 One of the SME-I's aims since inception has been to create links with EU-backed financial instruments. However, the Commission has taken very little action to this end: it did not ring-fence any funds for SME-I beneficiaries and beneficiaries have limited awareness of the EU-backed financial instruments.

³⁵ H2020 EAG, Innovation in SMEs Annual Report 2016.

Beneficiaries attract further investment but levels vary across EU

117 SME-I grant agreements do not impose reporting obligations on beneficiaries following completion of the project. Instead, EASME monitors beneficiaries' evolution after finalisation of the SME-I grant through two database sources managed by external contractors:

- **Source 1:** is used to assess investment raised by SME-I beneficiaries. The database is populated through collecting information on investment rounds which is publicly available on-line. To assess the reliability of this source, we carried out checks on a random sample of 30 Phase 2 beneficiaries, which corroborated the figures obtained from information available on-line.
- **Source 2:** is used to assess the evolution over time of SME-I beneficiaries' performance in terms of turnover, net income, cash flow and employment levels.

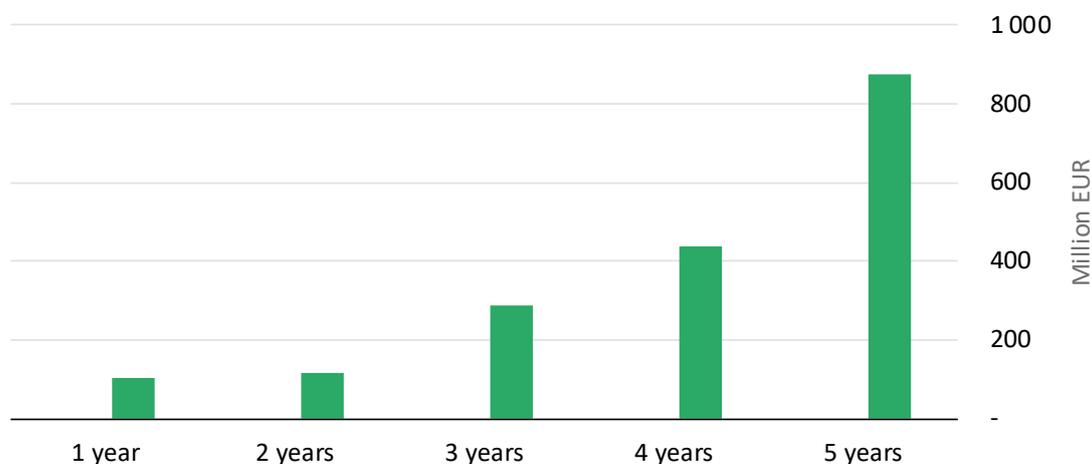
118 Information collected directly from beneficiaries may be less reliable due to self-reporting bias. In addition, the use of third-party information is more cost-efficient. At the same time, both sources of information used are incomplete, since:

- **Source 1** underestimates the actual investment raised by SME-I beneficiaries, due to the unknown quantity of investment in the form of debt and equity injections that are not published on-line.
- **Source 2** provides complete information for approximately only 60 % of all SME-I beneficiaries³⁶.

119 According to the information available on-line, the investment-to-grant ratio is 2.9 for Phase 2 beneficiaries that received an SME-I grant in 2014 and 2015 and exited their innovation projects in 2017. *Figure 15* shows the evolution in additional investment raised by beneficiaries in the years following the granting of SME-I support.

³⁶ Source: EASME.

Figure 15 – Evolution in additional investment raised by beneficiaries in the years since grant



Source: ECA based on EASME data.

120 These figures do not include investment rounds that are not disclosed online, such as most of smaller equity injections and nearly all debt capital provided by banks, funds and other financial players. Investments raised by only 11 % of Phase 2 beneficiaries are publicly available on-line.

121 In comparison, the majority of Phase 2 beneficiaries (78 % of respondents to our survey) declared that Phase 2 funding had helped them leverage further funding to support their innovation needs. Hence, beneficiaries' actual capacity to attract investment is presumably higher than that inferred from information available on-line.

122 According to third-party (source 1 see paragraph [117](#)) information confirmed by data collected in project reporting, SME-I beneficiaries show positive trends in structural growth, with approximately 75 % of the companies having seen their operating revenue grow since applying for the grant and 67 % increasing their headcount.

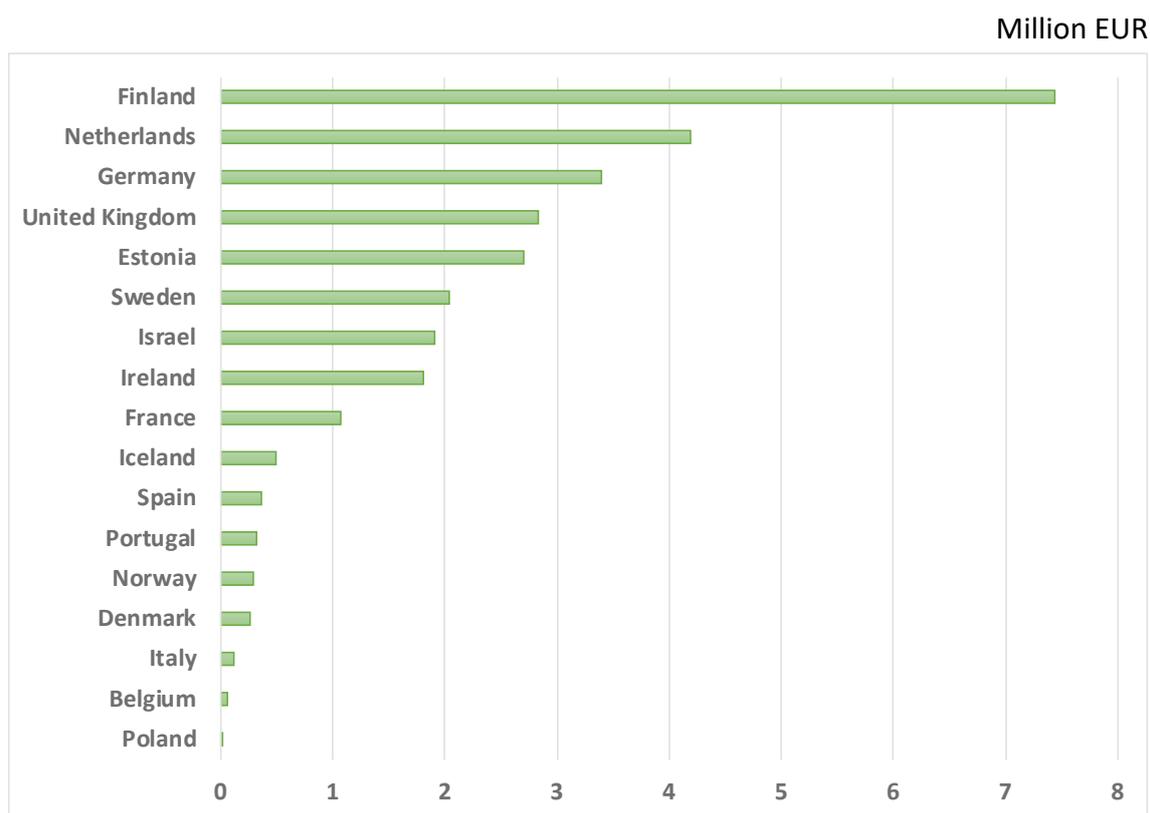
123 A comprehensive set of impact metrics based on reliable data, combined with complete automated profiling of the companies submitting project proposals and selected for a grant, is necessary to develop an effective business intelligence strategy. This could help:

- identify participation patterns and potential imbalances;
- link impact metrics with clusters of participants, providing valuable information on how to maximise the overall impact of the instrument.

124 The SME-I under the Enhanced EIC Pilot has introduced improvements in terms of company profiling, since the new administrative forms collect data on previous rounds of investment, financial data and ownership structure of the proposers. However, to date information has not been systematically collected at proposal submission stage on the gender of shareholders, which is one of the criteria assessed by jury members.

125 Significant differences exist among participating countries, with Phase 2 beneficiaries in the north-west of Europe managing to raise more private resources than SMEs in the south and east (see [Figure 16](#))³⁷. Disparities between the venture capital markets in these countries partially explain such imbalances.

Figure 16 – Average investment raised per Phase 2 beneficiary, by country of beneficiary



Source: ECA based on EASME data.

³⁷ Source: ECA elaboration on EASME data. Countries for which no additional investment captured through web crawling technique do not appear in the chart.

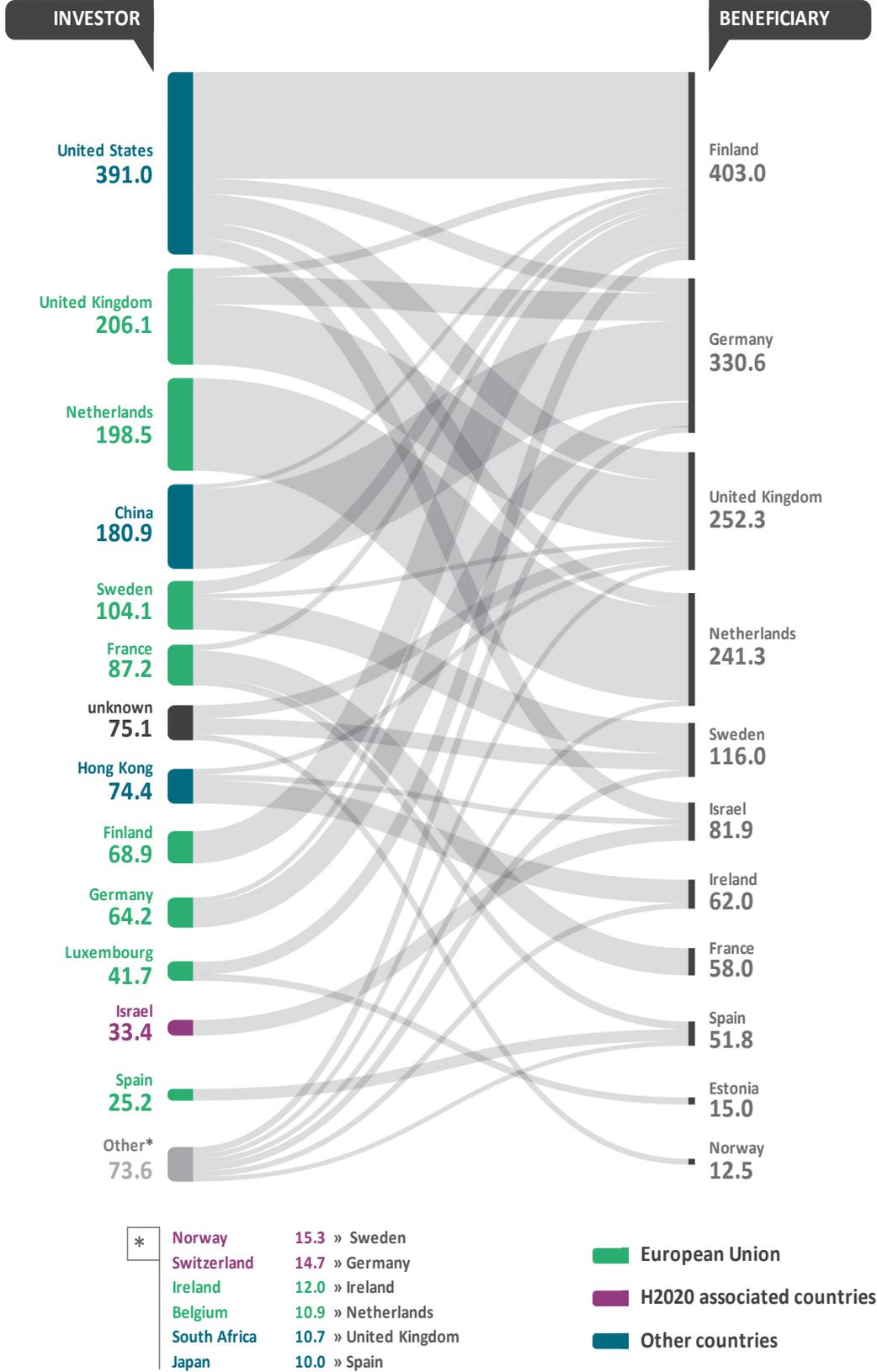
126 The results of our survey among beneficiaries suggest that geographic location is a determining factor affecting a company's propensity to look for equity and/or debt investment. In particular, 84 % of respondents in the Nordic countries and the United Kingdom intend to look for equity injections, compared with 54 % in Spain and 42 % in Italy.

127 The SME-I EAG raised the issue of cross-country variation and differing cultures in the use of market-based instruments and recommended mapping the European landscape “for a better knowledge of potential co-investors and to verify if cross-border operators are able to cover some financial gaps when national systems do not work. Platforms and specific events could help in this process”³⁸.

128 *Picture 3* shows the flows of additional investments above €10 million to beneficiary countries, broken down by country of origin. Of the €1.8 billion in additional investment raised by Phase 2 beneficiaries (see paragraph **119**), approximately €400 million comes from investors headquartered in the United States and €181 million from investors in China. The largest single investor in Phase 2 beneficiaries is based in the United States, and three of the five biggest investments (above €50 million) are from investors outside the EU.

³⁸ H2020 EAG Innovation in SMEs, Consultation on the EU Strategic WP 2018-2020, June 2016.

Picture 3 – Investment raised by country of investor and country of beneficiary in million euro



Source: ECA based on EASME data.

Conclusions and recommendations

129 We found that the SME Instrument provides effective support to SMEs in developing their innovation projects and that having the EU branding helps companies to attract additional investment. However, links have not been established with EU-backed financial instruments that could help beneficiaries scale-up and bring innovation projects to market. Both Phases 1 and 2 of the instrument provide effective support to SMEs, though Phase 1 incurs disproportionately high administrative costs. The instrument is competently managed by the Commission. The high number of resubmissions and the limited resources have hindered the selection procedure and development of the business acceleration services.

130 All recommendations are applicable to the SME Instrument's successor under Horizon Europe.

Targeting the right beneficiaries

131 The instrument's broad objectives and targets, together with the changes introduced during the course of its implementation, have caused uncertainty for stakeholders. The current profile of companies fits the academic model of firms with high growth potential but the instrument funds some SMEs that could have been financed by the market (see paragraphs [28](#) to [39](#)).

Geographical reach

132 Participation in the instrument varies markedly between countries, partly due to factors beyond the control of the Commission but also because of the varying levels of support provided by National Contact Points and the Enterprise Europe Network (see paragraph [43](#) and [45](#) and [Figure 5](#)). With a limited budget, the Commission organised events and communication activities, but its marketing and communication was neither structured nor sufficiently well-targeted to reach the right companies (see paragraphs [40](#) to [58](#)).

Recommendation 1 – Improving communication strategy and support to National Contact Points, in particular for those Member States with the lowest level of participation

The Commission should:

- (a) focus better on marketing and communication strategy to raise awareness among SMEs targeted of the funding opportunities offered by the instrument and its successor under Horizon Europe,
- (b) improve its support to National Contact Points for SMEs and the Enterprise Europe Network by promoting peer-learning projects and the exchange of best practice and ensuring that support to the network of National Contact Points for SMEs is operational at the beginning of the next framework programme.

Target implementation date: 2021

Selection of projects

133 Improvements have been made to evaluation and selection procedures over the lifetime of the instrument, with the presentation to a jury being a particularly useful addition in identifying the best proposals whilst complying with the time-to-grant target (see paragraphs [65](#) to [69](#)).

134 There is variability in scores awarded in the remote evaluation, which can be partially explained by the limited resources and the high number of submissions. Evaluator training is well appreciated, with scope for further feedback at various levels. IT tools used are not fit for purpose, putting the evaluation process at risk (see paragraphs [61](#) to [64](#); [70](#) to [73](#)).

135 The resubmission of unsuccessful proposals is a large and increasing drain on management and evaluation resources, increasing the administrative costs. Moreover, it lowers the success rate thus discouraging participation (see paragraphs [74](#) to [79](#)).

Recommendation 2 – Improving the selection procedure

In order to optimise the use of resources and ensure an efficient selection of the best proposals, the Commission should refine the selection procedure in the following ways:

- (a) provide remote evaluators with additional time to conduct their work;
- (b) set up a two-way information channel between remote evaluators and jury members to allow the latter to access the remote evaluation and provide the former with feedback on the quality of their work;
- (c) develop purpose-built IT tools to reliably manage the evaluation process;
- (d) limit the number of times a proposal can be resubmitted, thereby freeing up resources which are currently used to re-perform evaluations of the same proposal in multiple successive cut-offs;
- (e) In order to encourage the participation of more SMEs with excellent innovation projects, the Commission should publish the success rate per project proposal.

Target implementation date: 2021

Effectiveness of support in the SME Instrument phases

136 Phase 1 provides effective support, thanks to the fast selection process, the EU label for beneficiaries and the access to the business acceleration services. In addition, it has attracted many innovative companies to the EU programme. However, it imposes an excessive burden on the Commission's administration of the instrument and there are countries where similar programmes already exist (see paragraphs [81](#) to [89](#)) Phase 1 was discontinued as from September 2019.

137 Phase 2 of the SME-I provides effective support to beneficiaries and is highly appreciated by all stakeholders in its current form. It provides EU branding that gives visibility to the companies and projects, helps them to raise additional investment, and allows access to the EU network of coaching and business acceleration services (see paragraphs [91](#) to [94](#)).

Recommendation 3 – Replacing Phase 1 and building on Phase 2 support to SMEs

The Commission should:

- (a) propose to the Member States that the Commission manage a scheme similar to Phase 1;
- (b) provide beneficiaries of this scheme with access to coaching and Business Acceleration Services and an EU brand, and
- (c) preserve a scheme similar to Phase 2 within the EIC under Horizon Europe, building on the results from the EIC Pilot.

Target implementation date: 2021

138 Coaching and business acceleration services have the potential to amplify effects of the instrument but, having been launched late, are not sufficiently visible and only a small share of SMEs made use of the services. The resources allocated are limited and the services could be more tailor made and better target the demand side (see paragraphs [95](#) to [103](#)).

Recommendation 4 – Enhancing Business Acceleration Services

The Commission should enhance the business acceleration services by allocating appropriate resources to this area, to:

- (a) deliver more tailor-made business acceleration services;
- (b) increase awareness among beneficiaries employing a targeted communication approach and;
- (c) better address the demand side establishing connections with large private customers and through public procurement for innovative projects.

Target implementation date: 2022

Attracting investment after SME Instrument funding

139 The majority of SME-I beneficiaries still need additional financing to support their innovation endeavours and bring their innovation projects to market. However, the Commission has taken little action to create links with EU-backed financial instruments and has not explored collaboration opportunities with national promotional institutions. Moreover, beneficiaries are largely unaware of EU-backed financial instruments and the Commission's knowledge of beneficiaries' financial needs is limited. The 2018 EIB report on access to finance of beneficiaries confirmed that the available information on financial instruments is fragmented and communication between private and public capital providers is limited (see paragraphs 107 to 116).

Recommendation 5 – Creating links with financial instruments

The Commission should:

- (a) regularly collect information on the amount and type of funding needed by SME-I beneficiaries along the implementation of the innovation project;
- (b) raise awareness among beneficiaries on the existence of different financial instruments at EU and national level and provide advice on those which would best fit their financial needs;
- (c) identify and promote synergies with EU backed financial instruments in order to support SME-I beneficiaries in fund raising;
- (d) collaborate with Member States and national promotional institutions to promote nationally-backed financial instruments that might meet the financial needs of the SME-I beneficiaries.

Target implementation date: 2022

This Report was adopted by Chamber IV, headed by Mr Alex Brenninkmeijer, Member of the Court of Auditors, in Luxembourg at its meeting of 10 December 2019.

For the Court of Auditors

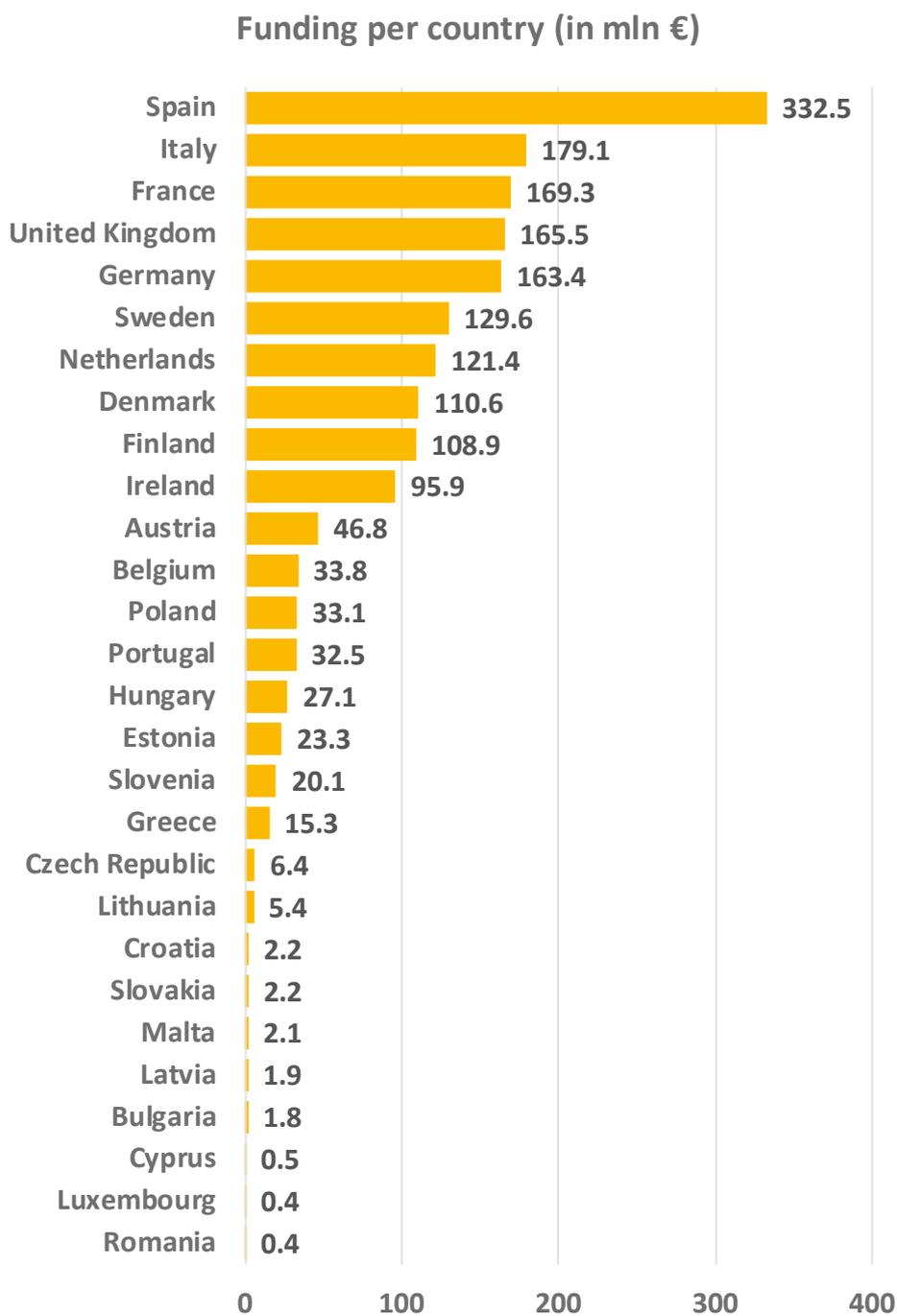
Klaus-Heiner Lehne
President

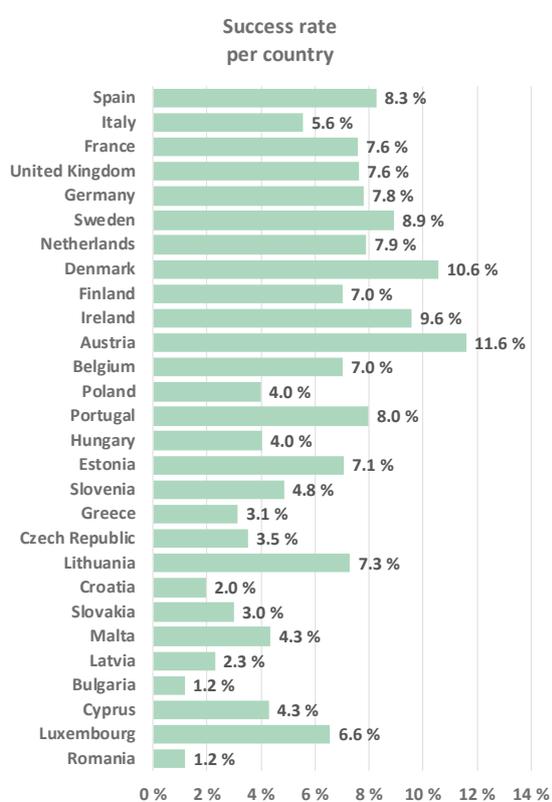
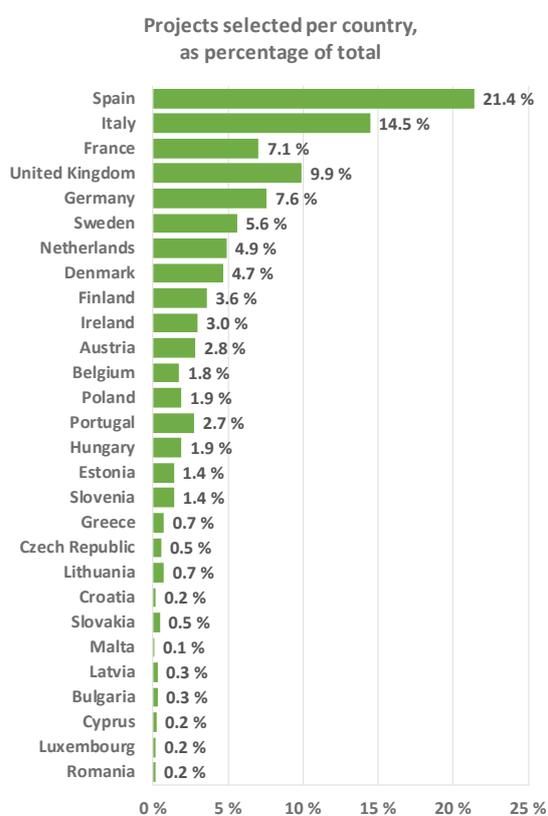
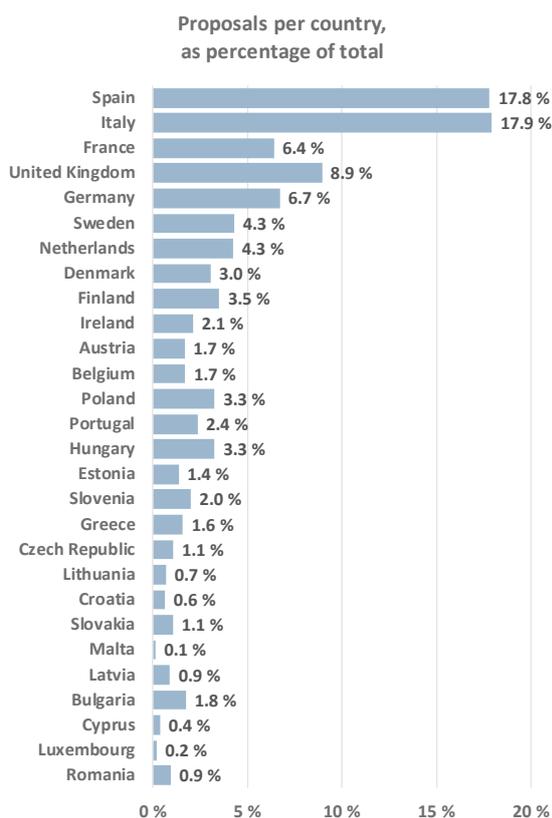
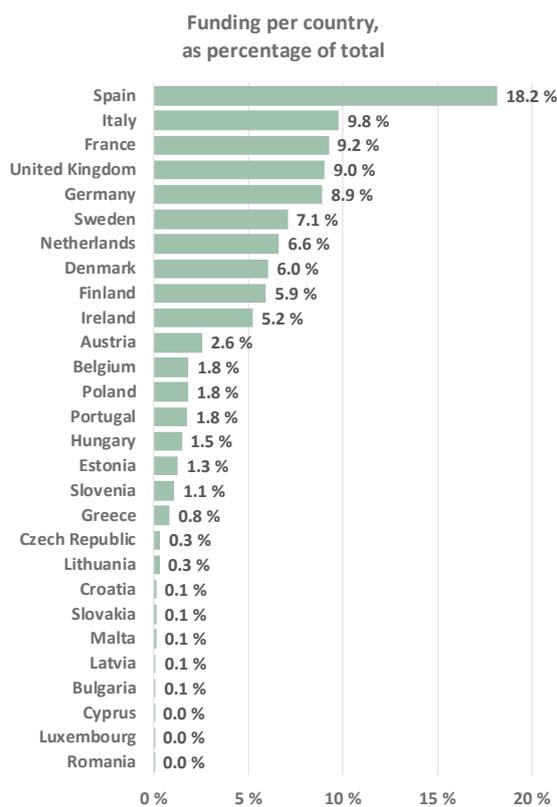
Annexes

Annex I – Methodology

- (1) desk review of public documents and Commission internal documents such as legal bases, guidelines, impact assessments, evaluation and monitoring reports, proposals for legislative acts, communications, position papers and other relevant documents;
- (2) analytical review of data from different sources: CORDA, Business Objects, Innovation Scoreboard, and web-crawling;
- (3) online questionnaires sent in March 2019 to:
 - 390 beneficiaries and unsuccessful applicants receiving Seal of Excellence selected on a random basis, with a 71 % response rate (88 % response rate for Phase 2 beneficiaries);
 - 158 remote evaluators selected on a random basis, with a 96 % response rate;
 - 32 NIAs or similar bodies with a 100 % response rate;
- (4) information visits to ministries, innovations agencies, National Contact Points, EEN, beneficiaries and other relevant stakeholders in Bulgaria, Denmark, France, Romania, Slovenia, Spain and the United Kingdom;
- (5) panel of independent experts in the field of innovation from different domains;
- (6) interviews with different experts in the field of innovation linked to the SME-I such as jury members, members of the H2020 SME EAG, representatives of consulting firms;
- (7) participation as observers in the presentation of projects to juries (second stage of Phase 2 selection process) and in a business acceleration services event;
- (8) interviews with Commission staff from DG RTD, DG CONNECT, EASME and REA as well as with the EIB and the EIF.

Annex II – Statistics





Source: ECA based on EASME data.

Annex III – From the idea to the proposal of the EIC under Horizon Europe

- In June 2015, during the ERA Conference "A new start for Europe: Opening up to an ERA of Innovation", the Commission launched the idea of an EIC.
- The Commission launched a call for ideas in Spring 2016 in order to contribute to the design of the EIC Pilot. Through this public consultation, the Commission gathered “stakeholders' views on disruptive, market-creating innovation, on gaps in the current innovation support landscape and on the potential remit of an EIC”³⁹.
- On 13 July 2016, the Commission organised a workshop with over 100 stakeholders from the private, research and public sectors to discuss the outcome of the call for ideas”⁴⁰.
- In November 2016, the Commission launched the Start-up/Scale-up initiative, aiming to bring together under one umbrella a range of existing and new actions to support start-up companies and companies that want to scale-up their businesses⁴¹.
- The Commission set up the “EIC High Level Group of Innovators” (EIG HLG) in January 2017 with the mandate of providing support in developing the EIC. The group, made up of entrepreneurs, investors and innovation experts, met six times between March 2017 and December 2018 and produced a “Full set of key recommendations” in January 2018⁴².
- The Commission presented a “Proposal for a Regulation of the European Parliament and of the Council establishing Horizon Europe” on the 7th of June 2018⁴³. An impact assessment accompanied the Proposal⁴⁴.

³⁹ Ideas for an EIC, Overview of Responses to the Call for Ideas, 2016.

⁴⁰ Ideas for an EIC - Summary of a validation workshop with stakeholders held on 13 July 2016.

⁴¹ COM(2016) 733 final, Communication, “Europe's next leaders: the Start-up and Scale-up Initiative”, November 2016.

⁴² “Europe is back: Accelerating breakthrough innovation” EIC High-Level Group, January 2018.

⁴³ COM(2018) 435 final, Proposal for a Regulation establishing Horizon Europe, June 2018.

⁴⁴ SWD(2018) 307 final, Commission staff working document, Impact assessment, June 2018.

Acronyms and abbreviations

BAS: Business and acceleration services

DG RTD: Commission's Directorate-General for Research and Innovation

EAG: Small or Medium-sized Enterprises Expert Advisory group

EASME: Executive Agency for Small and Medium-sized Enterprises

EEN: Enterprise Europe Network

EIB: European Investment Bank

EIC: European Innovation Council

EIF: European Investment Fund

EIS: European Innovation Scoreboard

FWP: Framework work programme

GDP: Gross domestic product

H2020: Horizon 2020

IT: Information technology

MFF: Multiannual financial framework

NCP: National Contact Point

NIA: National Innovation Agency

R&D: Research and development

SBIR: Small Business Innovation Research programme (United States)

SME-I: EU instrument for Small and Medium-sized Enterprises

SMEs: Small and medium-sized enterprises

Glossary

Associated country: A third country, which is party to an international agreement with the European Union. Associated countries to the Horizon 2020 Framework Programme participate under the same conditions as legal entities from the EU Member States.

Beneficiary: A natural or legal person receiving a grant or loan from the EU budget.

Blended finance: The combination of grants with loans or equity from public and private sources.

Breakthrough innovation: A product, service or process introducing novel technology or a new business model that results in a paradigm shift, generating significant competitive advantages.

Call for proposals: A document soliciting applications from potential beneficiaries, published by a public entity announcing its intention to finance projects that will meet the specified objectives.

Cut-off: The date by which proposals must be submitted for a particular round of funding.

Disruptive Innovation: A product, service or process that disrupts existing markets by displacing leading firms and technologies and applying a new set of values.

European Innovation Scoreboard: A comparative analysis of the innovation performance of EU Member States, other European countries and regional neighbours.

Financial instrument: Financial support from the EU budget in the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments.

National Contact Point: A national entity established and financed by governments of the EU Member States or states associated with a research framework programme to provide in-country support and guidance to applicants and beneficiaries under Horizon 2020.

Participant Portal: the single online gateway for applicants and beneficiaries in Horizon 2020, for identifying funding opportunities, accessing documents and guidance, submitting proposals and for the paperless management of grants and expert contracts. See <http://ec.europa.eu/research/participants/portal>.

REPLIES OF THE COMMISSION TO THE SPECIAL REPORT OF THE EUROPEAN COURT OF AUDITORS

“THE SME INSTRUMENT IN ACTION: AN EFFECTIVE AND INNOVATIVE PROGRAMME FACING CHALLENGES”

I. The SME Instrument is the first- ever support scheme in the history of Research Framework Programme geared to innovative SMEs individually and implemented through an executive agency. SMEs whose support was lagging behind in previous Framework Programmes have massively subscribed to this new support scheme which, over time, has been fine-tuned in order to better respond to their actual needs. The success of the first cut-off of the European Innovation Council (EIC) Pilot Accelerator demonstrates that the pathway followed by the Commission corresponds to the expectations of innovative SMEs.

INTRODUCTION

20. The Commission has implemented the testing of financial support of projects through equity financing as of October 2019.

OBSERVATIONS

31. Members of the Access to Risk finance and SME Programme Committee - which often are also National Contact Points (NCPs) - have been regularly kept informed of the changes introduced in the SME instrument.

In addition, communication campaigns of such changes were implemented by RTD and EASME in order to widely raise the awareness of the stakeholders involved including NCPs and the Enterprise Europe Network (EEN).

34. The SME instrument is targeted at all types of innovative SMEs showing a strong ambition to develop, grow and internationalize.

In line with the political priorities of the new Commission President elect, it is envisaged to implement a dedicated EIC Accelerator call for 2020 subject to the approval of the Strategic Programme Committee.

36. The Commission points out that this risk has been addressed in the EIC pilot as from 2019.

In addition, it underlines that there is a huge gap between the perception of the SME-I beneficiaries and the reality when it comes to raising money from venture capital (VC) or business angels where the success rate is quite low.

54. The Commission underlines that it made a major effort in promoting the EIC (enhanced) Pilot, organising SME-I workshops at various tech conferences around Europe (including Slush, Wolves Summit, Smart City). The changes introduced by the Enhanced EIC Pilot were communicated through roadshows and dedicated events organised in all Member States.

Since the beginning of Horizon 2020, more than 65 outreach events have been organised in Member States and Associated Countries. The Commission’s information campaign in the Member States, organized together with National Contact Points, was intensified in 2019 with the participation of SME’s. The Commission initiated a one-off series of national and regional stakeholder consultations taking place in the Member States since June 2019 for the co-design of the Horizon Europe implementation modalities where the next policy on the SMEs is going to be defined.

57. The Commission considers that the Access4SME coordination and support action helped raise awareness amongst NCPs and EENs when changes in the design of the SME instrument have been introduced.

64. EASME had indeed to renew 25% of the pool of evaluators on a yearly basis to be in conformity with H2020 rules.

In response to the need for training of newcomers, since 2018, EASME has organised experts day in Brussels inviting both experienced and new experts to train them and to create synergies.

66. On the basis of the feedback received from the jury members, the Commission has put in place a practice in October 2019 whereby the jury members have two full weeks to review thoroughly the proposals.

68. In order to address the issue pointed out by ECA in this paragraph, the Commission has introduced a due diligence process in the EIC enhanced pilot. As from October 2019 - within the enhanced EIC pilot offering blended finance - more detailed information has been requested from the applicants regarding the ownership, intellectual property rights (IPR) and team composition. These aspects are assessed now by the evaluators at remote and interviews steps.

74. Although not foreseen in the legal basis of the SME instrument and subject to approval of the relevant Programme Committee, the Commission might propose a procedure limiting the number of resubmissions.

103. The Commission stresses that the launch of the business acceleration services underwent thorough preparation and was preceded by an open procurement procedure.

107. EASME collects information about additional financial needs of some beneficiaries, during and after the implementation period of the grant, through several channels (application to BAS investor events and company profile in Scaleup EU investor matching tool). Moreover, as from the cut-off of October 2019, the companies need to provide how they intend to finance all needed development activities until market entry, going beyond the requested grant and/or equity. It includes an indication both about amounts needed and sources of potential funding.

111. The Commission has started to address the issue referred to by ECA in this paragraph by the implementation of the EIC enhanced pilot in 2019.

CONCLUSIONS AND RECOMMENDATIONS

132. Outreach and communication with stakeholders is a key priority of the Commission for the sound implementation of the current and future framework programmes. Outreach events on implementation modalities of Horizon 2020 are regularly organised in Member States and Associated Countries. An additional series of events in the MS focuses on Horizon Europe.

Recommendation 1 – Improving communication strategy and support to National Contact Points, in particular for those Member States with the lowest level of participation

The Commission accepts this recommendation.

135. The Commission intends to plan a new approach as recommended as of January 2021 for Horizon Europe.

Recommendation 2 – Improving the selection procedure

The Commission accepts this recommendation.

a) The Commission has implemented this recommendation as from the evaluation process started in October 2019, by sending the proposals two weeks in advance. In addition, from March 2020, the remote experts will have 0,5 day to evaluate one proposal against 0,3 until January 2020.

b) The Commission intends to implement a new approach as recommended as of January 2020.

e) The Commission specifies that it already publishes the success rate per proposal submission and agrees to add as well the success rate per project proposal.

Recommendation 3 – Replacing Phase 1 and building on Phase 2 support to SMEs

The Commission accepts this recommendation.

a) Some Member States under the lead of the Czech Republic have created an informal working group in order to replicate Phase 1 funded at national level but keeping a central EU evaluation. The Commission might propose to support them in their coordination through a dedicated grant.

c) The Horizon Europe Partial General Agreement foresees the continuation of the grant-only scheme in the EIC Accelerator with a budget equivalent to Horizon 2020 while blended finance should be the main use of the EIC Accelerator budget.

Recommendation 4 – Enhancing Business Acceleration Services

The Commission accepts this recommendation, within the resources available for the successor of the SME Instrument under the next MFF.

139. Concerning raising the awareness of beneficiaries, a wide communication campaign has been implemented for the InnovFin financial instruments by the EIB and EIF in all Member States between 2014-2016 developing contacts with many SMEs although SME instrument beneficiaries were not specifically targeted. An Enhanced EIC Pilot communication campaign in Spring 2019 raised awareness of potential beneficiaries on the possible equity financing through the EIC Accelerator.

The Commission has also started to collect data as from the cut-off of October 2019 from the application process on the financial needs, including grants and equity of the companies applying to successfully scale-up.

Recommendation 5 – Creating links with financial instruments

a) The Commission accepts this recommendation.

The Grant and the equity agreements will regularly monitor the financial needs throughout the implementation of the project and the scaling-up phases.

b) The Commission accepts this recommendation.

The Commission will continue its awareness-raising activities.

c) The Commission accepts this recommendation.

The Horizon Europe partial General Agreement foresees the possibility for beneficiaries to apply for equity only as from 2021.

d) The Commission partially accepts this recommendation.

Considering that the recommendation involves also Member States, the Commission can only implement it on a best effort basis.

The Commission will raise the awareness of Member States and national promotional institutions through the channel of the relevant Programme Committee.

The creation of the Seal of Excellence for successful proposals which could not be awarded a SME instrument grant was a first attempt to build synergies with national eco-system supporting innovation.

Audit team

The ECA's special reports set out the results of its audits of EU policies and programmes, or of management-related topics from specific budgetary areas. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was carried out by Audit Chamber IV Regulation of markets and competitive economy, headed by ECA Member Alex Brenninkmeijer, supported by Raphael Debets, Head of Private Office; John Sweeney, Principal Manager; Juan Antonio Vazquez Rivera, Head of Task and Alvaro Garrido-Lestache Angulo, Wayne Codd and Marco Montorio, Auditors.



From left to right: John Sweeney, Marco Montorio, Raphael Debets, Juan Antonio Vazquez Rivera, Wayne Codd , Alex Brenninkmeijer, Alvaro Garrido-Lestache Angulo.

Timeline

Event	Date
Adoption of Audit Planning Memorandum (APM) / Start of audit	22.1.2019
Official sending of draft report to Commission (or other auditee)	6.11.2019
Adoption of the final report after the adversarial procedure	10.12.2019
Commission's (or other auditee's) official replies received in all languages	16.1.2020

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With €3 billion for 2014-2020, the EU's SME instrument strives to support innovation in SMEs and start-ups by filling the gap in funding and increasing commercialisation of research results.

We assessed whether the SME instrument delivers the expected benefits. Overall, we concluded that it provides effective assistance to SMEs in developing their innovation projects and that having the EU branding helps companies to attract additional investment. The Commission competently manages the instrument. However, we recommend improving the targeting of beneficiaries, the geographical outreach and the selection of projects. Also, more can be done to attract additional funding that would help bring innovation projects to market.

As the SME Instrument has been redesigned for 2021-2027 as part of the European Innovation Council (EIC), we make recommendations in particular for preserving aspects of its design, improving project selection, enhancing business acceleration services and creating synergies with other financial instruments.

ECA special report pursuant to Article 287(4), second subparagraph, TFEU.



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